B A N G L A D E S H

National Budget 2015-16

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Budget Highlights

Budget size	**Tk2,951.00b ↑ 17.8%**		**Annual Development Plan**	**Tk970.00b ↑ 20.77%**
Budget deficit	**Tk866.57b ↑ 28.28%**		**Projected GDP growth**	**7.00% ↓ 0.3points**
Revenue collection target	**Tk2,084.43b ↑ 13.93%**		**Inflation**	**6.20% ↓ 0.8points**

Items to get costlier

- SIM cards to be charged with increased supplementary duty (SD) from existing 15% to 20%
- Increase in Value Added Tax (VAT) to 5% from existing 3% for gold and silversmiths, gold and silver jeweler shops and gold refiners.
- Imported tyres for motorcars are imposed with 20% SD, leading to higher prices.
- Supplementary duty on four-stroke complete motorcycle hiked to 60% from 45%
- Motor cars running on electric battery imposed with 20% SD
- VAT of 7.5% will be applicable for private universities, private medical colleges and private engineering colleges as like English medium schools which would push up student tuition fees
- Imported fish prices are to increase with the imposition of 20% SD from the current 15%
- LED lamps and bulb levied with elevated customs duty (CD) rates of 10% from the existing 5%
- Computer software prices with an exception to database, operating systems and development tools are to go up as CD is set at 5% from prevailing 2%.
- Batteries might become costlier due to increased CD rates of 15% from existing 10%.
- Price of Cigarettes might rise as SD on the lowest price slab of cigarette is increased to 48% from existing 43% and SD on the highest price slab hiked to 63% from 61%.

Items to get cheaper

- Medicines for acute liver diseases and hepatitis C is to be exempted from the existing VAT of 15% making it more affordable
- SD rates on imported clothing items such as shirts, suits, blazers, jackets and shorts has been reduced to 45% from the prevailing rate of 60%
- Raw materials in the form of sleeves for local tyre manufacturers are to be reduced due to lowering of CD to 15% from the existing 25%.
- Solar powered lantern or lamps having no provision for electrical power has been given exemption from CD which previously was 25%.
- ATM machines are likely to get less costly due to reduction in CD from 10% to 5%.
- Price of imports of goods used for defense against natural disasters might make a downturn as VAT and CD on such safety products are reduced
- Racks used in pharmaceutical laboratories are to be charged with lower SD at 10% from 25%
- SD rates on all kinds of tissue paper are set at 30% from 45%
- Textile fabrics made of polyurethane, polyvinyl chloride and other knitted and crocheted fabrics of a width not exceeding 30 cm is to get cheaper as SD rates are brought down to 20% from 30%.
- Power bank for charging mobile phones and camera products are to get cheaper due to fall in CD from 25% to 10%
- Printed books, brochures, leaflets, similar printed matter in single sheets (whether or not folded) and other printed matter, including printed pictures and photographs will become less expensive as CD rates go down by 5%.
- Price of onion may fall as CD has been exempted on import of onion in the budget
- Gypsum and zinc salt imported as fertilizer has been exempted from CD.
- Various sorts of chocolate products, sweet biscuits, waffles & wafers, toasted breads and similar products are to get cheap as SD rates are set to decrease.
- VAT on Unani, Ayurvedic and herbal medicines has been withdrawn which should make these cheaper

Big budget with high hopes

The budget for the fiscal year 2015-16 is presented at a time when most of the macroeconomic factors are in a favorable situation. Inflation rate is in control, remittance is swelling, bank interest rate spread has been restrained within the prescribed limit and foreign exchange reserve is going up. Amid all these positive factors, the sluggishness observed in the private sector investment had major impacts on tying GDP within the 6% growth tap. Only 13.6% credit growth was observed in the private sector during July-March of the preceding fiscal year as it had to hurdle with underdeveloped infrastructure, high bank interest rate, political instability, limited access to financing and so on. The private sector investment rate has been somehow stagnant between 21%-22% during the last 10 years. Though the budget size has been getting bigger during the last few fiscal years, the GDP growth rate has been moving downwards. The government failed to reach its highly ambitious GDP growth targets for the last seven years in a row.

NATIONAL BUDGET AT A GLANCE: FY2015-16			
			Taka in Billion
	Budget 2015-16	Revised 2014-15	Budget 2014-15
Revenue:			
NBR Tax Revenue	1763.7	1350.28	1497.2
Non NBR Tax Revenue	58.74	56.48	55.72
Non Tax Receiept Revenue	261.99	226.95	276.62
Total Revenue	**2084.43**	**1633.71**	**1829.54**
Expenditures:			
Non Development Revenue Expenditure	1645.71	1273.71	1282.31
Development Expenditure excluding ADP	55.59	54.76	60.3
ADP	970	750	803.15
Other Expenditure	279.7	318.21	359.3
Total Expenditure	**2951**	**2396.68**	**2505.06**
Net Deficit	866.57	762.97	675.52
Deficit as % of GDP	**0.05%**	**0.05%**	**0.05%**
Deficit Financing:			
External Sources	301.34	215.83	242.75
Domestic Sources other than local banks	180	230	120.56
Local Banks	385.23	317.14	312.21
Total Deficit Financing	**866.57**	**762.97**	**675.52**

Source: Ministry of Finance

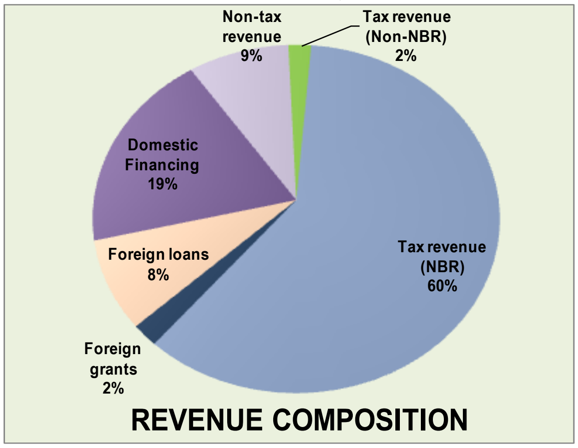
The budget size has been set with a total outlay of Tk2.95 trillion with Tk866.57b or 5% deficit. The net foreign financing has been estimated to be Tk301.34b (1.8% of deficit) while the rest Tk565.23b (3.3% of deficit) will be financed from domestic sources. Of the Tk565.23b from domestic sources, Tk385.23b and Tk180b will be financed from the banking and non-banking sources respectively. The Annual Development Program (ADP) has been approved with a size of TK970b for FY16 out of which internal financing would be Tk625b and external financing would be Tk345b. The ADP utilization rate during the first 11 months of the immediate past fiscal year has only been 67%. Low ADP utilization rate overawes the foreign donors from making additional foreign aid commitments and as a consequence it plunged by 26% during the first 10 months of FY2014-15. The revenue target of Tk1763.7b set for the National Board of Revenue in the budget of FY16 seems highly ambitious as the target is 31% higher than that of the past fiscal year. A rather staggering amount of Tk450b will be used for the payment of salary and allowances of government employees keeping doubts about quality performance and productivity alive. This amount consists 22% of non-development expenditure and swallows the largest chunk of the revenue budget followed by interest payment expenditure on savings certificates. Cut in the corporate tax rate of most publicly traded companies by 2.5% raised the bar even further to achieve this challenging revenue target. In addition, the rate of inflation is marked at 6.2%. Regardless of the doubt of the economists about the provisional GDP growth rate at 6.51%, the target GDP has again been set at 7%. While manpower development got the highest priority in the budget, introduction of "Budget for Children" nevertheless attests the forethought and concern of government for the children.

Budgetary incentives for capital market

Aiming to lure investment and to bring respite for businesses; the government unveiled several incentives for the capital market in the budget which includes corporate tax cuts for listed companies. Under the new proposal; banks, insurers and other NBFIs listed with the stock exchanges will pay 40% income tax rate, slashed from 42.5% in the previous fiscal year. The solitary listed tobacco company, British American Tobacco Bangladesh (BATBC) has been slapped with an enhanced tax rate of 45% from 40%, in line with non-listed cigarette makers. The government has also reduced tax rate from 27.5% to 25% for publicly traded companies. The tax rate for non-listed companies though remains unchanged at 35%. The provision of 35% tax on publicly traded companies introduced last year for those which failed to declare dividend above 10% has been withdrawn. There were also some cheers for primary market as companies in line to go public will continue to enjoy 10% tax rebate, provided they offload 20% shares of total paid-up capital. Investors also welcomed the move to augment threshold of tax exemption for dividend income distributed only by listed companies to Tk25,000 from the existing Tk20,000 limit. The finance minister also scraped 10% source tax deduction from income generated through sale of shares by institutional investors. The move is expected to reduce complexities surrounding the process allowing institutions to pay the taxes during their submission of yearly tax return. Meanwhile Bangladesh Bank has extended the time frame for the fifth instance for banks to bring down the loan exposure limit of their brokerage houses and merchant banks within the prescribed limit till December 2015.

Challenging revenue target

In the budget for FY16, an ambitious revenue collection target has been set at Tk2087.7b where the target for NBR stands at Tk1763.7b. Dependence on uniform direct tax rate has been focused as it will comprise 36.58% of total collection by NBR. However the budget lacks specific directions for attaining the target. The revenue target would be highly challenging as it is 30.62% higher than the revenue target of the previous fiscal year while only 56.4% of the target was achieved as on March 2015. Extending the tax net might not be the only panacea for this low collection. Due to lack of proper reform in the revenue collection policy, NBR had to incur Tk300b as revenue shortfall during FY15. The original target for FY15 was Tk1829.45b which had to be revised down to Tk1633.71b in the supplementary budget. Failure to reach the target will ultimately end up pushing for heavy domestic borrowing that will render crowding out effect in the private sector inducing lower supply of loanable funds. Apart from that it can also leave no other option but to cut down the allocation for expenditure previously set.



Source: Ministry of Finance

Spending continues to bulge

The total expenditure has been projected an amount of Tk2951b which is 23% higher than that of revised budget of FY2014-15. A total of Tk1645.71b has been earmarked for non-development expenditure while the projected allocation for development expenditure stood at Tk1025.59b.

Total Budget Expenditure (Taka in Billion)

Particulars	2015-16		2014-15	
	Allocation	Share (%)	Allocation	Share (%)
Public Administration	419.61	14.2	187.97	7.5
Interest	351.09	11.9	310.43	12.4
Education & technologies	321.33	10.9	309.97	12.4
Transport & Communication	279.49	9.5	237.86	9.5
Local Govt. & Rural Dev.	207.96	7.0	175.94	7.0
Energy & Power	185.31	6.3	115.33	4.6
Miscellaneous Expenditures	175.65	6.0	247.65	9.9
Subsidies	157.72	5.3	166.53	6.6
Social Security & Welfare	155.70	5.3	139.74	5.6
Defense	155.44	5.3	146.23	5.8
Public Order & Safety	123.83	4.2	112.67	4.5
Health	120.60	4.1	104.70	4.2
Pension	115.84	3.9	84.83	3.4
Agriculture	103.98	3.5	96.43	3.8
Housing	28.10	1.0	19.52	0.8
Industrial & Economic Services	27.10	0.9	29.76	1.2
Recreation, Culture & Religious Affairs	22.25	0.8	19.50	0.8
Total Budget Expenditure	**2,951.00**	**100**	**2,505.06**	**100**

Source: Ministry of Finance

Public administration expenditure took pole position surpassing cost allocated for interest payment on the back drop of increased allocation for government sector salary. However experts expressed their concerns on growing trend of higher attention to the unproductive sectors trading off priority sectors like agriculture, infrastructure and health which may stifle both economic and social growth.

Trapped again in deficit

Always not bad but fiscal budgets of Bangladesh have been trapped in deficit financing over the last few years & this year it is no different. Instead of attempts to cutback, the fiscal deficits are increasing consistently. The budget deficit for the ongoing fiscal year has been projected at Tk866.57b which is 5.0% of the projected Tk17167b GDP. Of this total amount of deficit financing, Tk301.34b (1.8% of GDP) will come from external sources while the rest Tk565.23b (3.3% of GDP) will be financed from the domestic sources. The budget deficit amount is 14% higher than that of the revised amount of FY15. If the gap between the government's revenue target and its collection grows larger then the budget deficit will hike up leading towards the option of heavy reliance on domestic borrowing. Considering the falling trend of foreign loans and grants, heavy bank borrowing will shrink private sector credit flow. A total of Tk385.23b out of the domestic financing will come from the banking system which is 21% higher than the revised amount of the last fiscal year. The fiscal deficit was set at Tk675.52b in the original outlay of FY15 which had to be revised up to Tk762.97b later. Apart from the crowding out effects, the interest payments of the government against savings instruments will accumulate gradually and a time will indisputably come when paying borrowing costs would be a daunting task itself. If the borrowed funds under budget deficit are not used properly in the productive sectors, the country will be left in a cycle of long-term debts and economic growth achievement will be a dreadful desire.

Bloated ADP albeit poor implementation

A hefty allocation of Tk970b has been set for the Annual Development Program (ADP) in FY2015-16. Out of the Tk970b, Tk625b will be financed from internal resources and the rest Tk345b from external sources. Transport and communications sector got the highest priority in the ADP of FY16 with an allocation of Tk216.59b or 22.3% of the total ADP outlay. Power and energy sector was allocated the second highest amount of Tk184.79b including implementation plans for 66 new power sector projects. Although poor project execution under ADP forces the government to cut the outlay every year but bigger ADP size is placed in each year's budget proposal. Such problems have been dragging on while no example of full ADP utilization was observed during the last 10 fiscal years. Only 67% of ADP utilization rate was observed during the first 11 months of the last fiscal year. The original ADP size of the previous fiscal year was TK803.15b which was later slashed down to Tk750b due to poor utilization. On a realistic note, speaking in terms of low ADP utilization rate, it will involve a Herculean task to achieve a more than 95% utilization rate on the original ADP outlay of FY16. The utilization rates on revised and original ADP outlays was 95% and 86% for FY14, 93% and 88% for FY13 and 93% and 82% for FY12 respectively. Economists have always been criticizing the trend of slow ADP utilization throughout the fiscal year. Trimming down ADP allocations in the third quarter of every financial year

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has now become a common phenomenon and raising doubt on proper monitoring capacity and accountability of the concerned implementing agencies.

	Sector wise ADP Allocation			
	FY15-16	%	FY14-15	%
	Taka in Bn		Taka in Bn	
Human Resource				
Primary and Mass Education	55.42	5.7	57.78	7.2
Health and Family Planning affairs	53.31	5.5	43.49	5.4
Education	41.97	4.3	36.47	4.5
Others	62.38	6.4	57.45	7.2
Total	**213.08**	**21.9**	**195.19**	**24.3**
Agriculture and Rural Development				
Local Government	166.5	17.2	134.67	16.8
Ministry of Water Resources	30.62	3.2	28.31	3.5
Ministry of Agriculture	18.24	1.9	15.24	1.9
Others	29.85	3.1	29.24	3.6
Total	**245.21**	**25.4**	**207.46**	**25.8**
Energy Infrastructure				
Power Division	164.85	17	92.73	11.5
Energy and Mineral Resources	19.94	2.1	22.23	2.8
Total	**184.79**	**19.1**	**114.96**	**14.3**
Communication Infrastructure				
Railway Minstry	56.5	5.8	44.85	5.6
Road Division	56.75	5.9	46.08	5.7
Bridge Division	89.21	9.2	87.35	10.9
Others	14.13	1.5	8.84	1.1
Total	**216.59**	**22.4**	**187.12**	**23.3**
Others	110.33	11.4	98.41	12.2
Total ADP	**970.00**		**803.14**	

Source: Ministry of Finance

GDP growth boxed in 6%

The government has set the GDP growth rate at 7% for FY2015-16, which is a bit lower than the targets set for the previous few fiscal years with an aim of breaking the 6% growth trajectory. On the backdrop of continuous failure to meet the GDP growth targets, the topic has always been a case of controversy down the years with experts and international lending agencies have been divided on their views regarding the matter. Amid a year full of political instabilities and sluggish private sector investment, the GDP growth rate has been estimated at 6.51% as per the provisional estimates of Bangladesh Bureau of Statistics (BBS) for the first 9 months of the last fiscal year against the target of 7.2%. This is however much higher than the estimates of 5.6% and 6.1% forecasted by World Bank and Asian Development Bank. According to provisional figures of BBS, the sector wise contributions to GDP by agriculture, manufacturing and service industry for FY2014-15 are 15.59%, 27.99% and 56.42% as against 16.11%, 27.71% and 56.18% respectively of the previous fiscal year. The per capita income has increased from $1,190 to $1,314, - a level that under the Atlas method of the World Bank's ranking of economies, makes Bangladesh now a low middle income country. If the GPD growth target is to be met, the government should focus on issues such as sluggish private investment, low ADP utilization rate, falling trend of foreign assistance and political distresses. The investment-GDP ratio of Bangladesh continues to be very low from the perspective of economic growth if it is to achieve the middle income country status. The World Bank has outlined that for Bangladesh to attain a mid income status by 2021, the country has to achieve a GDP growth rate of 7.5% to 8% on average.

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	22.0	6.5
2014-15*	22.1	6.9

Source: BBS

Inflation target at par

Inflation finally has been curbed within the target set for the just concluded fiscal year. The point-to-point inflation rate was 6.19% in May of FY15 which was 7.48% in the same period of the previous fiscal. An inflation target of 7% was set for FY2014-15 within which the rate was finally contained from the spiraling trend especially because of global oil price slump and prosperous domestic food production. Industry experts opined that when the new pay scale of the government employees will be implemented, it might create inflationary pressure in the overall economy; hitting hard the wallets of the low and fixed-income group. If that happens, controlling inflation within the target of 6.2% for FY16 might be quite challenging. According to Bangladesh Bank, the twelve month average general inflation rate stood at 6.46% as of May 2015.

	P-to-P Inflation	Food Inflation	Non-Food Inflation	Rural Inflation	Urban Inflation
Jul	7.04	7.94	5.71	6.93	7.24
Aug	6.91	7.67	5.76	6.83	7.08
Sep	6.84	7.63	5.63	6.75	7.02
Oct	6.6	7.16	5.74	6.49	6.79
Nov	6.21	6.44	5.84	6.05	6.51
Dec	6.11	5.86	6.48	5.89	6.5
Jan	6.04	6.07	6.01	5.81	6.48
Feb	6.14	6.11	6.2	5.89	6.62
Mar	6.27	6.37	6.12	6.01	6.77
Apr	6.32	6.48	6.08	6.03	6.88

Source: BBS

Money whitening provision continues

The much talked about money whitening provision is to be continued for the FY2015-16 with few amendments made to the regulations even though many influential bodies and experts wanted this provision to be discontinued. The government has taken some initiatives to encourage undisclosed or black money to be invested in apartments and buildings in district and upazila areas. Through amendments in Tax Ordinance Act 1984, the tax rate on building and apartments in district areas have been reduced to Tk600 or Tk800 from previously set Tk1,000 or Tk1,500 per square metre of floor space and in upazila areas to Tk400 and Tk600 from Tk700 or Tk1,000 per square metre of floor space, depending on location. For voluntary disclosure of black money, a new provision has been introduced, which has eliminated the use of the sectors or industries enjoying tax exemption or reduced tax rates as many people take advantage of this as a means of paying lower taxes while whitening black money. This provision has been implemented through different mechanisms by various governments since the mid 1970s but failed to lure people to whiten their illegal money to a great extent. According to NBR, up to FY2013-14, a total amount of Tk138.08b black money has been whitened with the exchequer receiving merely Tk14.56b in revenue.

Extending tax net to foster revenue

- For the FY15-16, tax exemption threshold for individual taxpayers has been set at Tk250,000 while that for women & senior citizens, physically challenged people and war wounded freedom fighters at Tk300,000, Tk375,000 and Tk425,000 respectively.
- Minimum tax for individual taxpayers in Dhaka and Chittagong City Corporation areas, other City Corporation areas and other areas has been fixed at Tk5000, Tk4000 and Tk3000 respectively.
- Minimum net wealth exemption limit has been revised upward to Tk22,500,000 with minimum surcharge of Tk3000 for the amount surpassing the aforementioned limit.

Threshold of Taxable Income of Individual Tax Payers		
Status	Threshold of Taxable Income	
	Existing	Proposed
General Taxpayers	Tk220,000	Tk250,000
Women and senior citizen aging 65 years and above	Tk275,000	Tk300,000
Physically challenged	Tk350,000	Tk375,000
War-wounded gazette freedom fighters	Tk400,000	Tk425,000
Individual Tax Rate		
Tax rate	Total Income	
	Existing	Proposed
0%	The First Tk220,000	The First Tk250,000
10%	On Next Tk300,000	On Next Tk400,000
15%	On Next Tk400,000	On Next Tk500,000
20%	On Next Tk500,000	On Next Tk600,000
25%	On Next Tk3,000,000	On Next Tk3,000,000
30%	On the balance of total income	On the balance of total income

Source: Ministry of Finance

- Persons who employ unauthorized foreign nationals will be levied 50% additional tax or Tk500,000 (whichever is higher) and penalized by withdrawing the tax holiday and other tax exemption facilities.
- For the very first time, government employee's basic salary, bonuses and festival allowances have been brought under similar tax net to those of the non government employees.
- VAT on tuition fees of all private universities, medical colleges and engineering colleges has been fixed at 7.5%
- Provision for 5% tax at source on interest income of T-bill and T-bond has been withdrawn in a bid to boost the sector while 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 is declared as tax exempted.
- In either of issuance or replacement of mobile SIM Card, Government has fixed SIM tax at TK100 down from the existing Tk300 and Tk100 respectively.
- Companies having annual turnover of more than Tk10,000,000 will now enjoy similar VAT deduction treatment at source on the purchase of products and services like the Government organizations, semi Government organizations, Autonomous Bodies, NGO's , Banks, Insurances, Financial institution, Limited Companies and Educational Institutions.
- Credit Rating and financial analysis related activity will now be taxed at the rate of 15% on their services while the rate is 4% for the companies selling goods and services through e-commerce.
- For apparel exports, 0.6% tax at source has been levied which was initially proposed at 1% from 0.3%
- Government has made revision to the tax provision of non-resident individual and company in accordance with their sources of income.
- All taxes has been withdrawn on the materials used for cancer medications
- 3% Supplementary duty on mobile internet usage has been imposed but the proposal to charge 4% VAT on e-commerce has been dropped
- The VAT rate has been restructured to 1.5% for purchase of flats having floor space up to 1100 sq. feet, 2.5% for flats having floor space between 1101 sq. feet to 1600 sq. feet and 4.5% for flats having floor space of more than 1600 sq. feet from the existing single rate of 3%.
- Trade VAT on super shops has been increased to 4% from the existing rate of 2% and VAT-free annual turnover limit for traders has been hiked to Tk3m from the existing limit of Tk2.4m
- Corporate Tax rates:

Corporate Tax Rate		
	Existing	Proposed
Publicly Traded Company	27.50%	25.00%
Non-Publicly Traded Company	35.00%	35.00%
Publicly Traded-Bank, Insurance and Financial Institution(other than Merchant Bank)	42.50%	40.00%
Non-Publicly Traded.-Bank, Insurance and Financial Institution	42.50%	42.50%
Merchant Bank	37.50%	37.50%
Cigarette Manufacturer		
Publicly Traded Company	40.00%	45.00%
Non-Publicly Traded Company	45.00%	45.00%
Mobile Phone		
Publicly Traded Company	40.00%	40.00%
Non-Publicly Traded Company	45.00%	45.00%
Dividend Income	20.00%	20.00%
Minimum Turnover Tax	0.30%	0.30% *

Source: Ministry of Finance

*(0.10% in first 3 assessment years of commencement of commercial productions)

- Along with 30 listed banks, the non-listed new 9 banks will enjoy reduced corporate tax rate of 40% though.
- The last minute withdrawal of proposed VAT on concrete ready-mix, e-commerce, Unani & Ayurvedic medicine and reduction in prices of the lowest segment of cigarette, supplementary duty on mobile services and tax at source on export will slash the projected revenue target by Tk42b. However, no specific deduction from the outlay has been proposed featuring the reduction in the proposed revenue.