

2.0 Fiscal Sector

2.1 Domestic Resource Mobilisation

2.1.1 Revenue-GDP Ratio

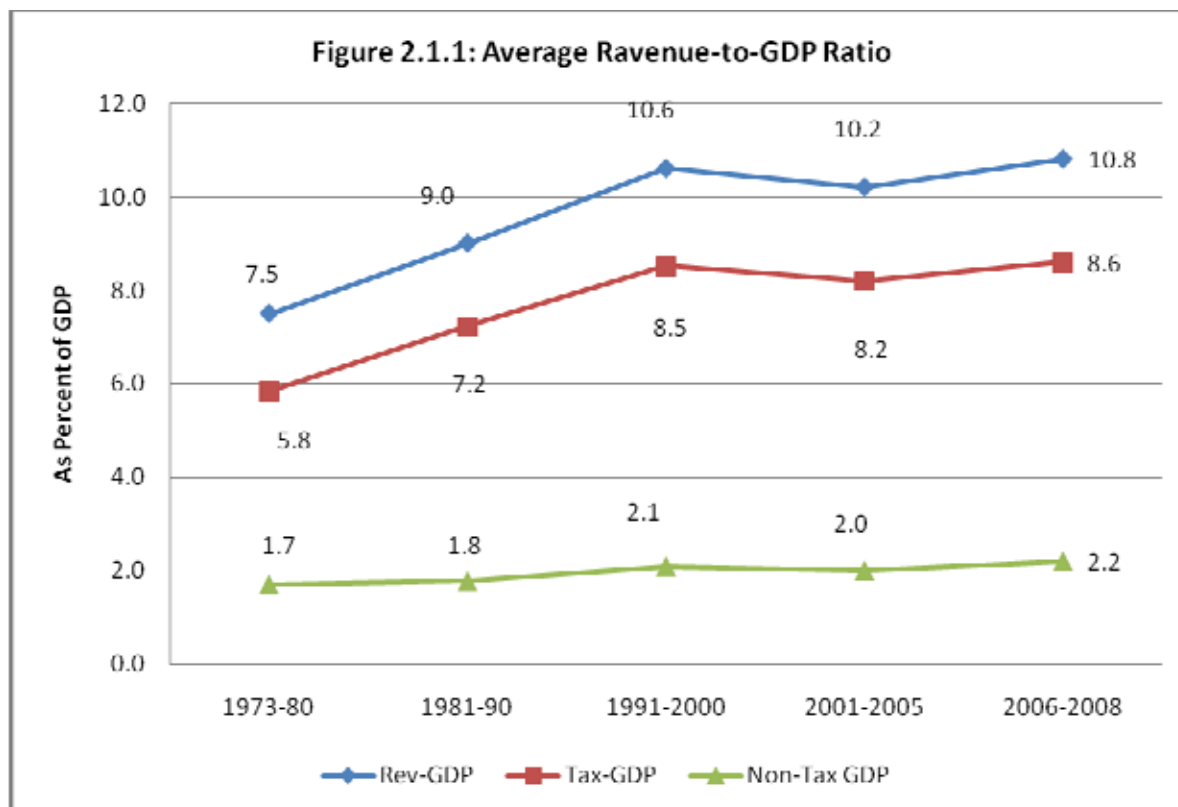


Figure 2.1.1 shows that:

- The revenue-to-GDP ratio during the 1970s increased steadily with the exception of the period from 2001-2005. It has increased by more than 3 percentage points from 7.5% during 1973-1980 to 10.8% during 2006-2008.
- About 80% of public revenues in Bangladesh are derived from tax sources and the rest 20% from non-tax sources.
- The total tax-to-GDP ratio has increased by 2.8% during this period.
- In contrast, the non-tax-to-GDP ratio has relatively stable between 1973-1980 to 2006-2008.
- However, Bangladesh's revenue-GDP ratio still remains one of the lowest in the world and it is even lower than the revenue-GDP ratio of Nepal.

For details please see Appendix 2.1.1.

2.1.2 Tax-GDP Ratio

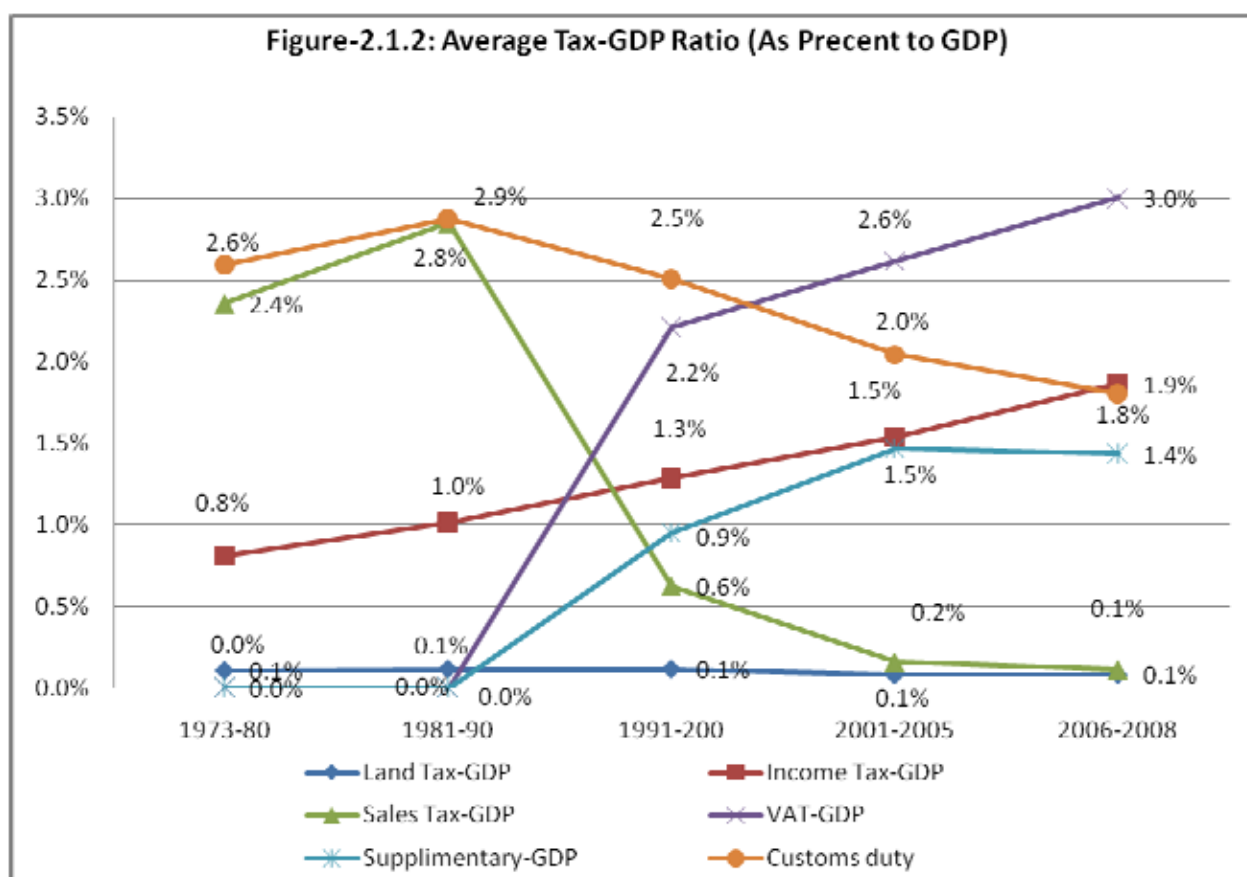


Figure 2.1.2 shows the structural changes that took place in Bangladesh's revenue structure with

- Secular decline in customs duty, from 2.6% in 1973-1980 to 1.8% of GDP in 2006-08, due to openness of trade regime and the reduction in tariffs.
- In 1991, the VAT largely replaced the sales tax. The sales tax was 2.8% of GDP during 1981-90. Since then VAT increased gradually and stood on an average at 3% of GDP in 2006-08.
- Average income tax-to-GDP ratio has increased from 0.8% in 1973-1980 to 1.9 % in 2006-2008.
- The supplementary-to-GDP has increased from 0.9% from its introduction in 1991 to average around 1.5%.
- Increasing contribution of income tax and VAT would enable Bangladesh to meet the demand for increased domestic resources for larger investment to achieve higher growth.

For details please see Appendix 2.1.2

2.1.3 Direct and Indirect Tax Ratio to Total Tax Revenue

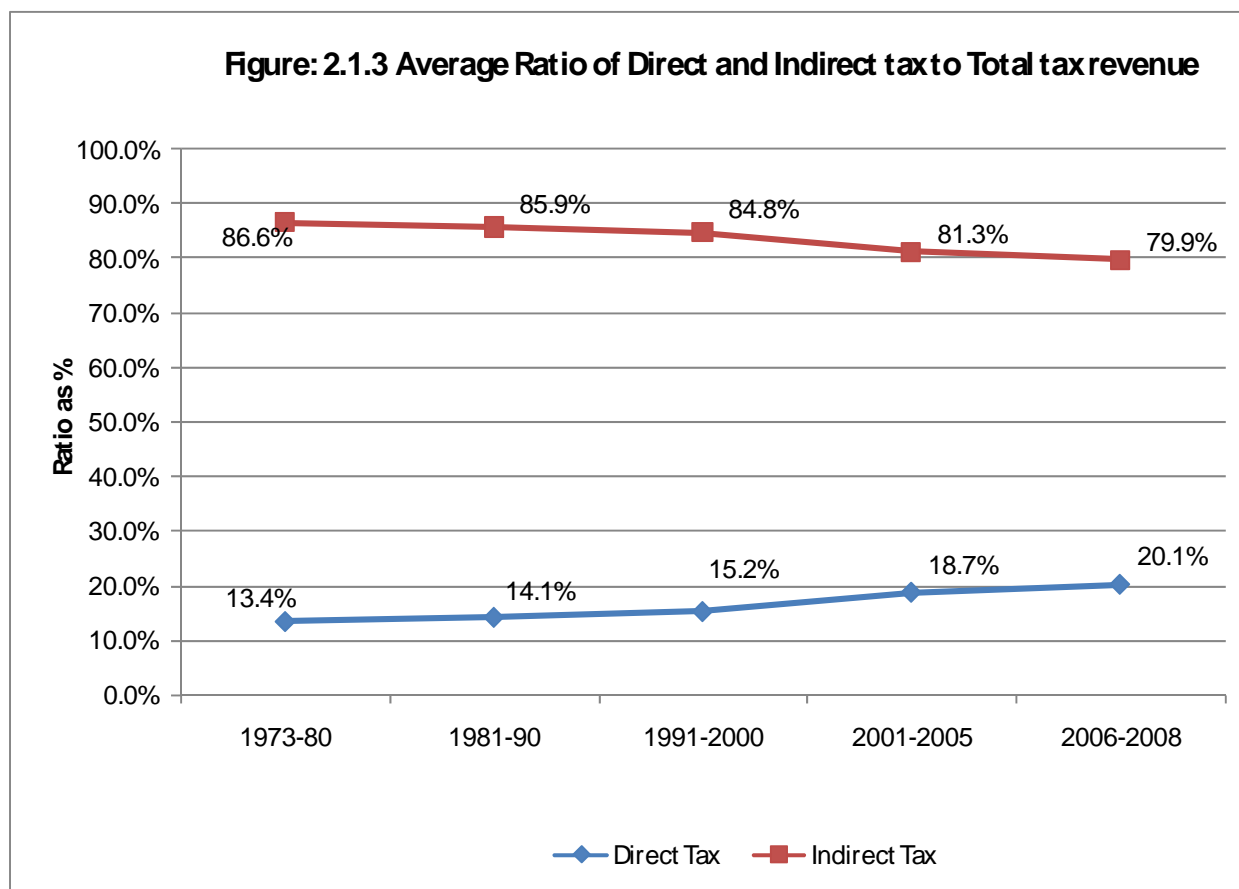


Figure 2.1.3 shows that:

- Indirect taxes (VAT, customs) represent the largest components of tax revenues. It averaged around 85% until the 2001-2005 period and currently represents about 80% of the total tax revenues.
- Up to the 1990s, the share of direct taxes, i.e. income tax was below 15% of total tax revenues. It started to increase and crossed 20% mark during 2006-2008 period. However, it remains the lowest in the south Asian region.
- In the developed countries the share between direct to indirect tax is the reverse of what it is in Bangladesh.
- For generating desired level of domestic revenue to support economic growth, the share of direct taxes should increased.

For details please see Appendix 2.1.3.

2.1.4 Major Components of Direct Tax

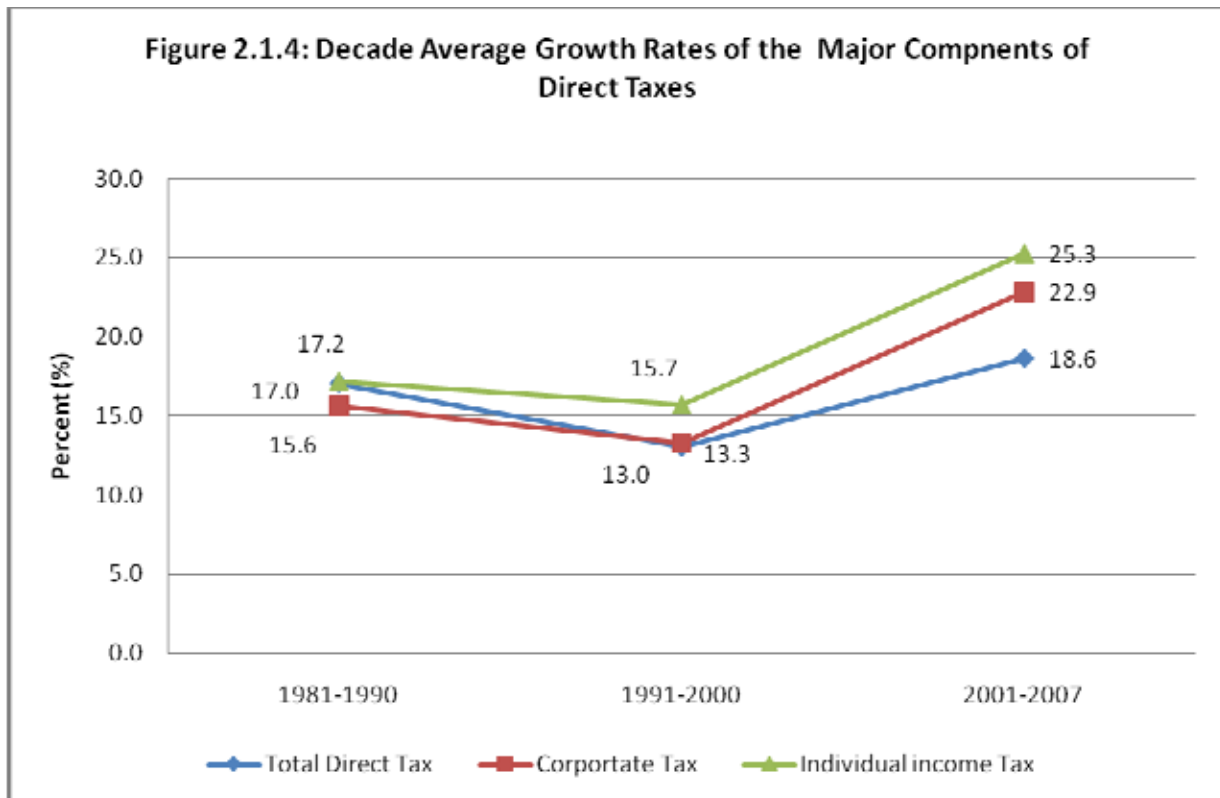


Figure 2.1.4 shows the share of individual and corporate taxes of the total direct tax. Other types of direct taxes such as travel tax, electricity tax etc are not shown here. The key findings are:

- The growth of both individual and corporate taxes declined during 1991-2000 period compared to the previous decade, but increased for 2000-01 period.
- However, during 2000-07 period growth in the individual income tax is higher than the corporate tax amid the expansion of the private sector business.

For details please see Appendix 2.1.4.

2.2 Public Expenditure

2.2.1 Trend of Total Public Expenditure

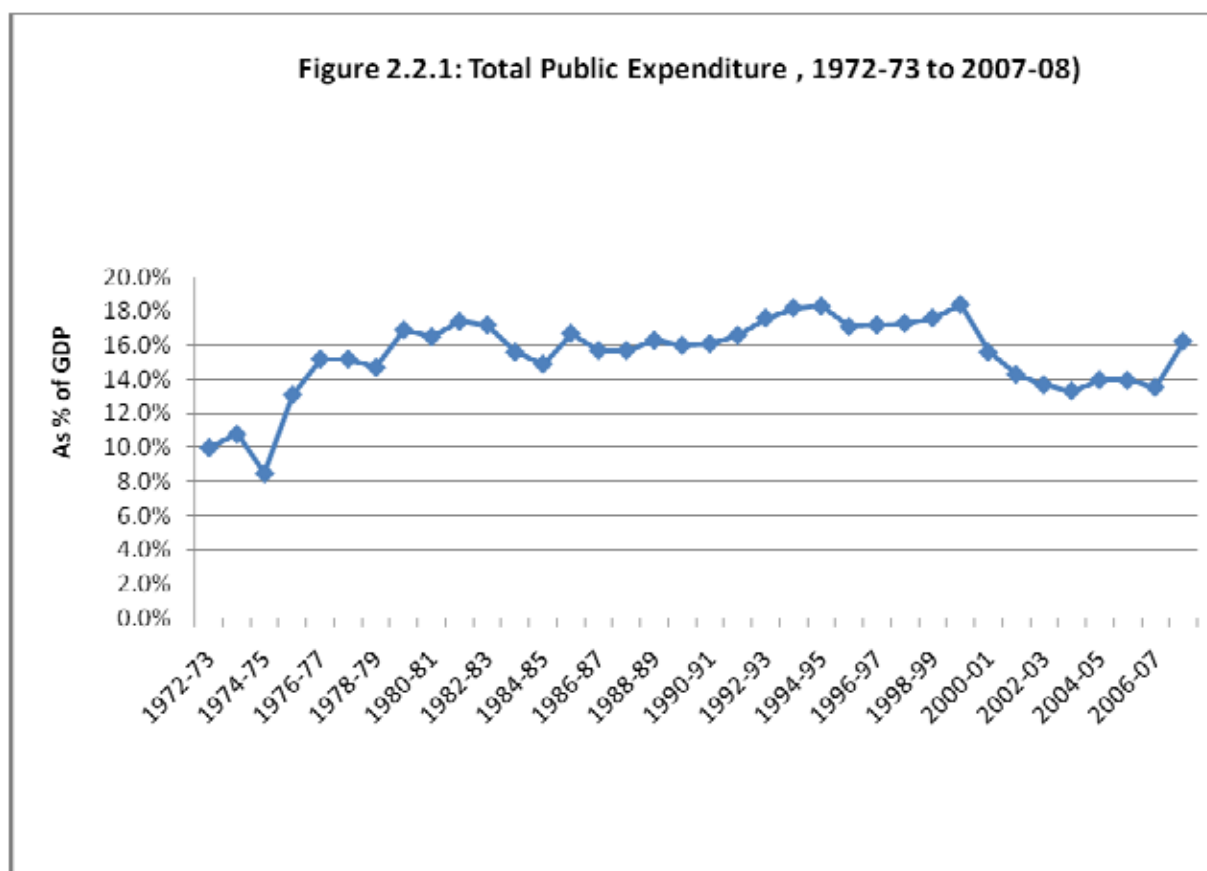


Figure 2.2.1 shows that:

- During 1972-73, total public expenditure as percent of GDP was 10%. It started picking up after 1975-76 and grew at a steady rate till 1999-00 when it reached at its maximum of 18.4%. Total public expenditure as percent of GDP then fell continuously reaching its lowest in 2003-04. However, since 2006-07, the ratio has again increased.
- In terms of expenditure-GDP ratio, Bangladesh is still lagging behind compared to other developing countries
- To tackle the negative impact of global economic shocks arising from sharp increase of fuel, fertilizer and food prices during the later part of 2007-08 and the recession due to financial meltdown in the early part of current fiscal year, the government resorted to expansionary public expenditure programme.

For details please see Appendix 2.2.1

2.2.2 Trend of ADP and Revenue Expenditure

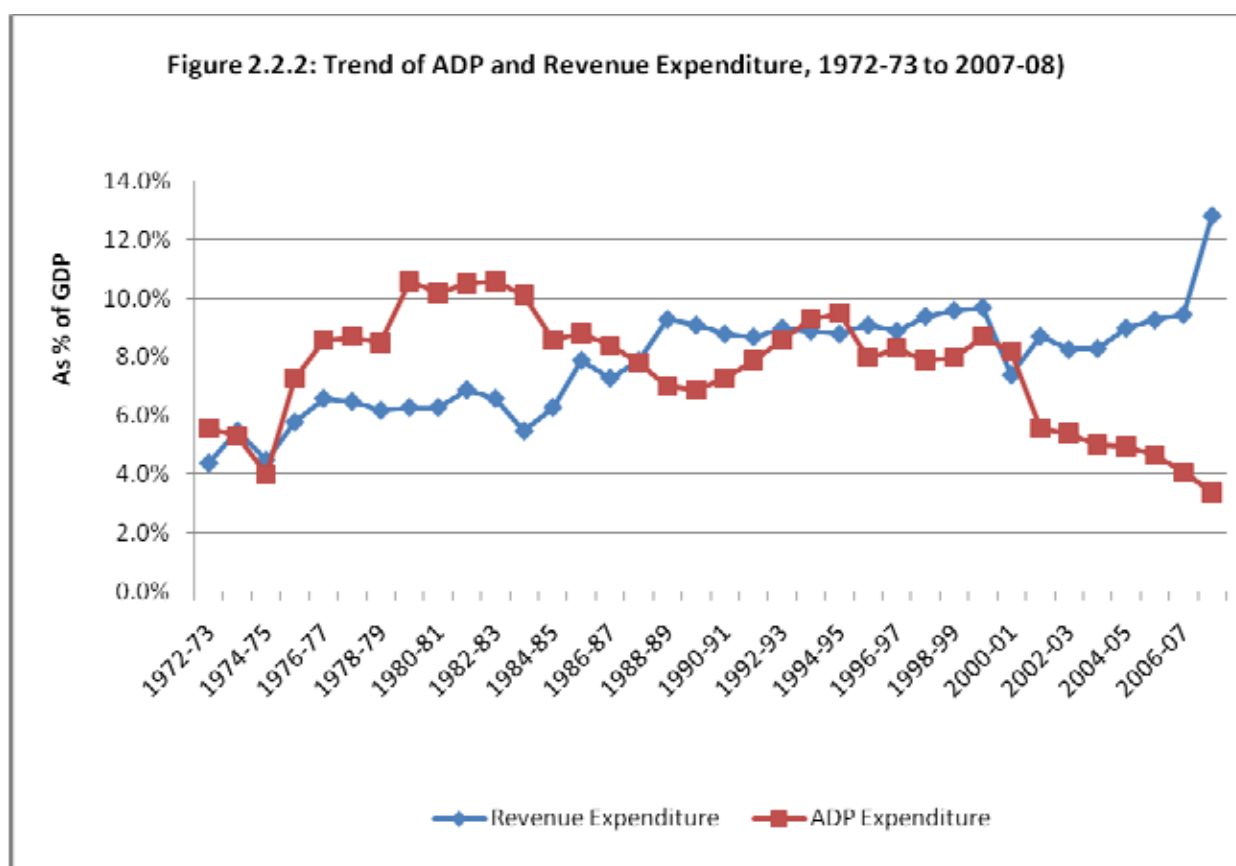


Figure 2.2.2 depicts that:

- Over the period 1975-76 to 1986-87, the ADP expenditure as percent of GDP was higher than the revenue expenditure share. Since then, revenue expenditure as a share of GDP have been about equaled or greater than the ADP expenditure share. In 2001-02, the difference began to widen, reflecting both higher growth in the revenue expenditure and a falling of in ADP expenditure.
- The increase in revenue expenditures as percent of GDP since the early 1990s was due to increases in interest payments, pay and allowances, supply and services, expanded coverage of social safety net programmes, increased expenditure on operation and maintenances due to transfer of physical items from development projects into revenue setup etc.

For details please see Appendix 2.2.1.

2.2.3 Structure of Non-Development Expenditure

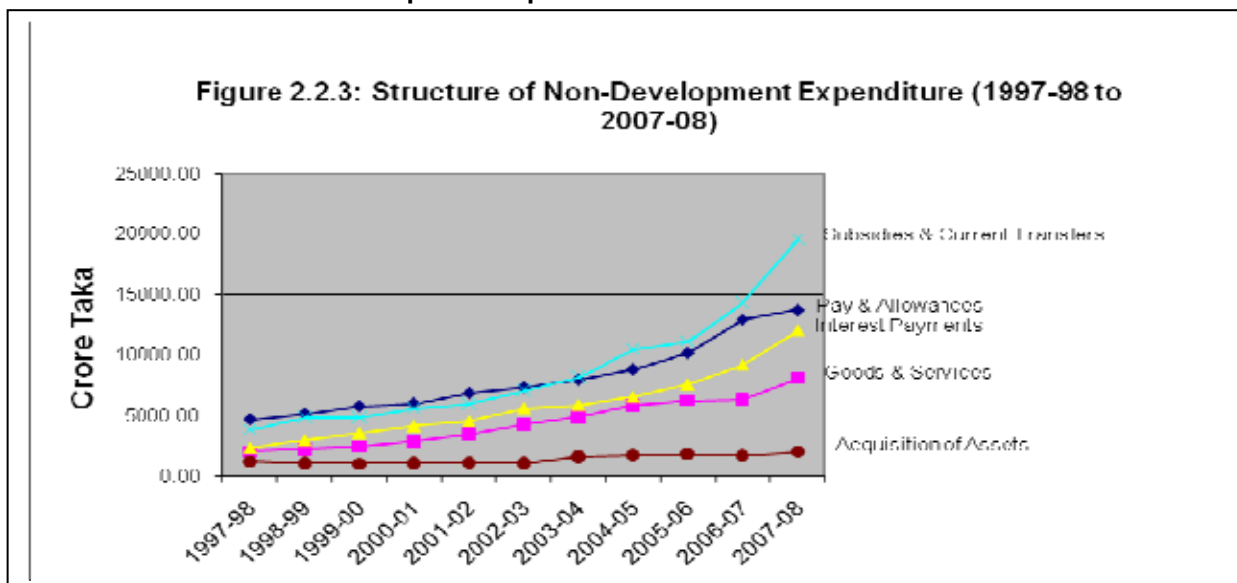


Figure 2.2.3 shows that:

- Over the years, expenditures on subsidies and current transfers, pay and allowances, interest payments and goods and services has increased gradually. However, the rate of increase in expenditures on subsidies and current transfers, interest payments and goods and services is much higher than others particularly after 2005-06 and onwards (Appendix 2.2.2).
- One important reason behind higher rate of increase in pay and allowances, goods and services and acquisition of assets may be higher allocation for maintenance of infrastructure and equipment, transfer of manpower into revenue setup after the completion of a good number of development projects.
- Domestic share of interest payments is much higher than that of international share of interest payments. This is due to excessive domestic borrowing by the government over the past decades.

2.2.4 Trend of Subsidy

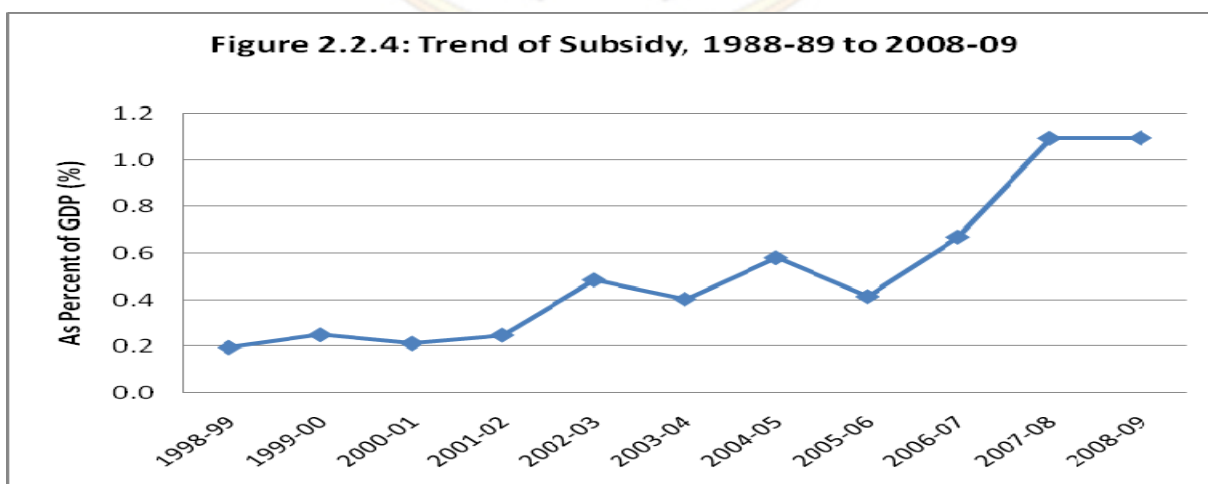
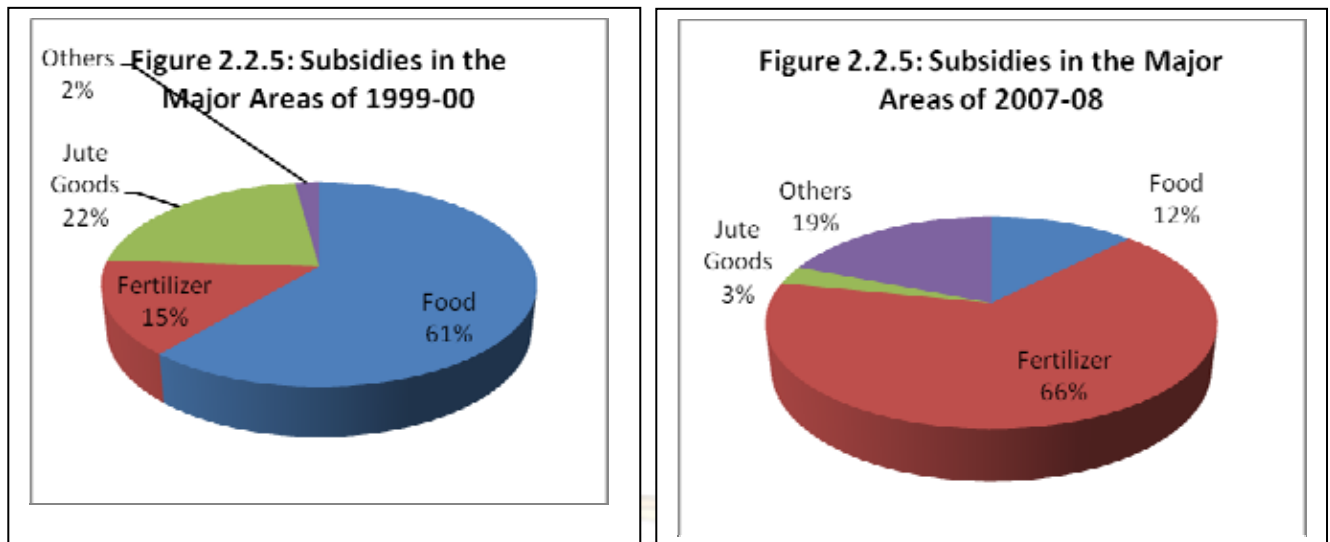


Figure 2.2.4 shows that:

- Up to 2002-03, total subsidies as percent of GDP experienced a steady growth rate, but between 2005-06 and 2007-08 it grew substantially (Appendix 2.2.3).

2.2.5 Growth of Subsidies in some Major Areas



The above figures show that:

- Share of subsidy in fertilizer was 15% of total subsidy in 1999-00 but has increased to 66% in 2007-08.
- In contrast, the food subsidy has from 61% to 12% over the period.
- The share of jute subsidy falling by 19 percentage points over the same period.

2.2.6 Public Expenditure by Major Sectors

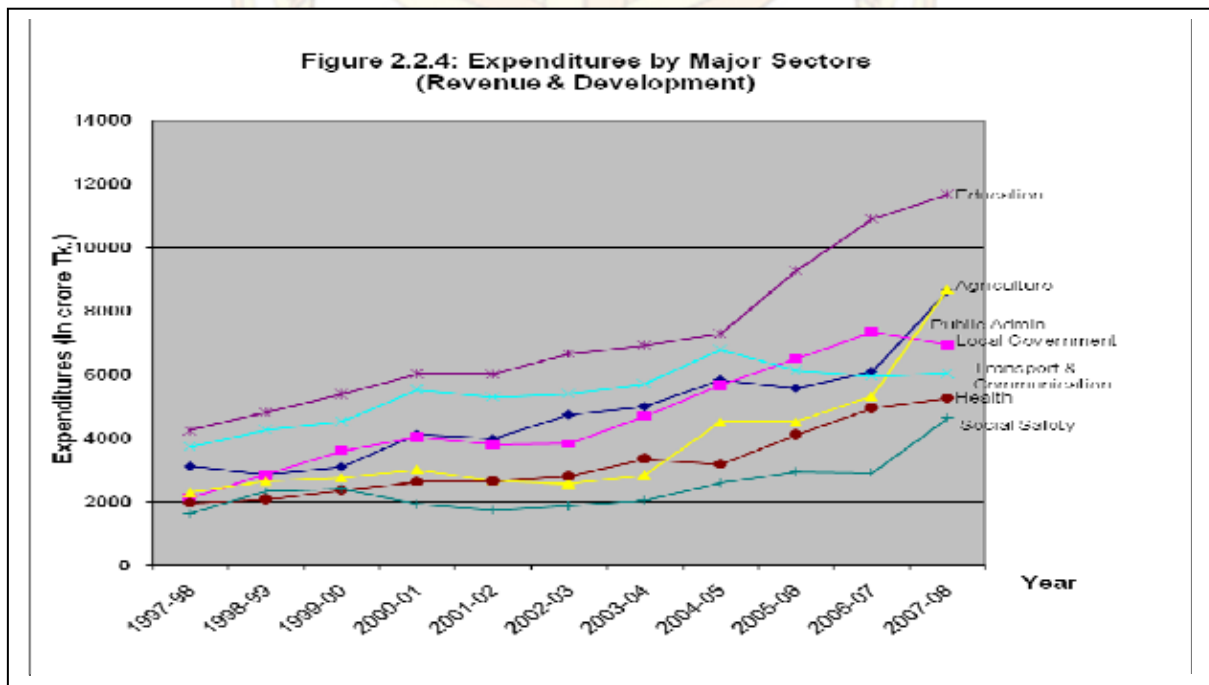


Figure 2.2.6 shows that:

- During the period from 1997-98 to 2007-08, all the major sectors of the public expenditure recorded increases. However, the rate of increases is much higher for agriculture, public administration, education and social safety sector especially after 2005-06 (Appendix 2.2.4).

2.2.7 Budget Allocation for Social Safety Net Programmes

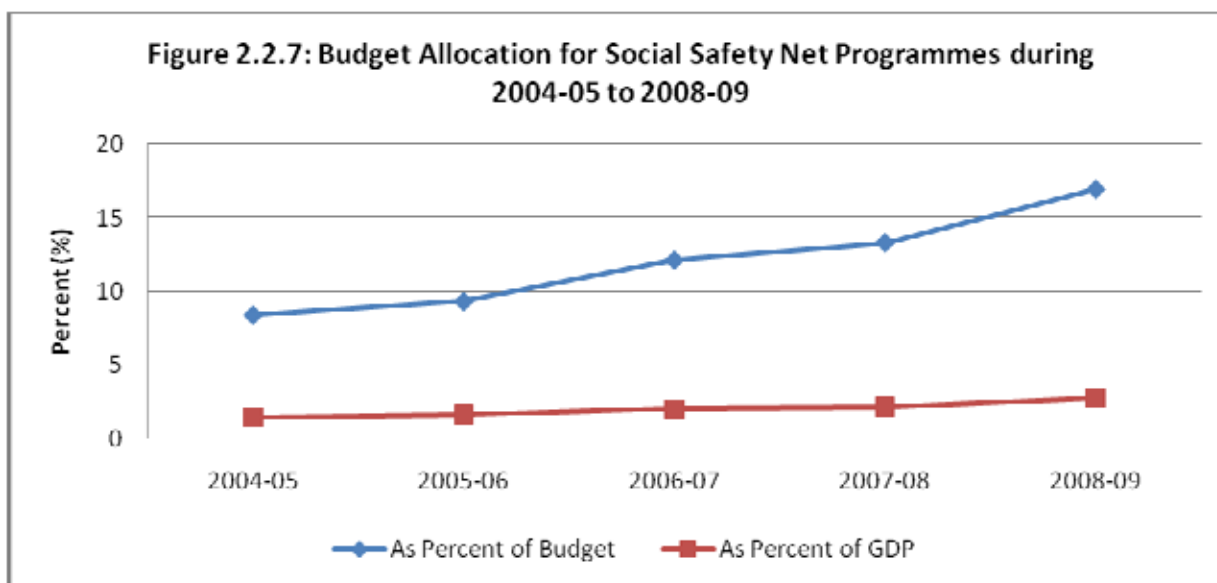


Figure 2.2.7 shows that:

- Allocation for the safety net programme increased from 8.4% to 16.9% during the period 2004-05 to 2008-09, which is 1.5% and 2.8% of GDP respectively.

For details please see Appendix 2.2.5.

2.3 Foreign Assistance (5-Year Average as Percent of GDP)

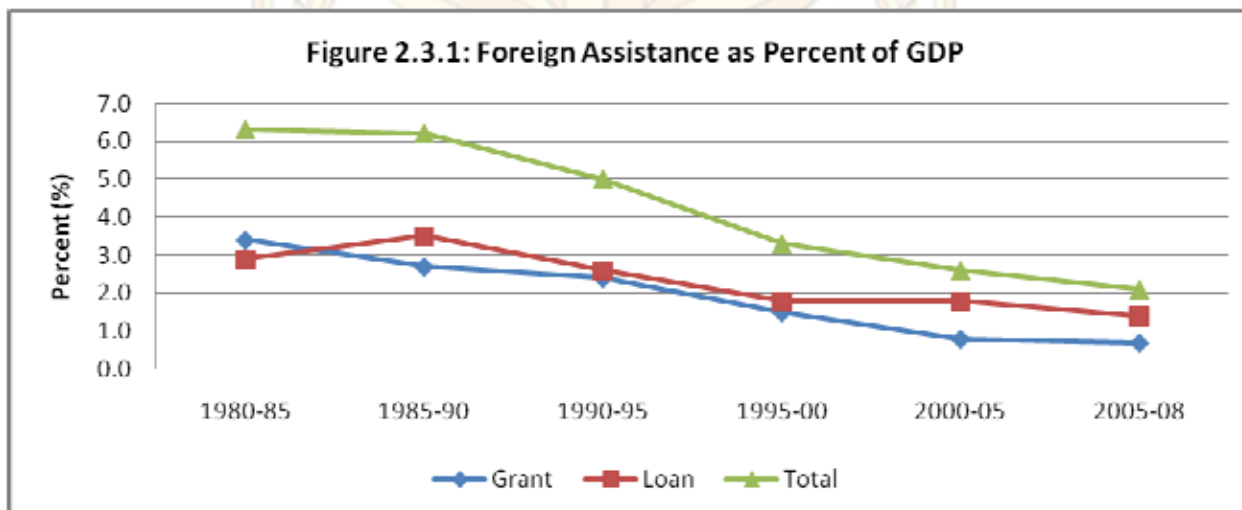


Figure 2.3 shows that:

- As percentage of GDP the amount of both Loans and Grants is sliding down.

For details please see Appendix 2.3.

2.4 Budget Deficit and Deficit Financing (As Percent of GDP)

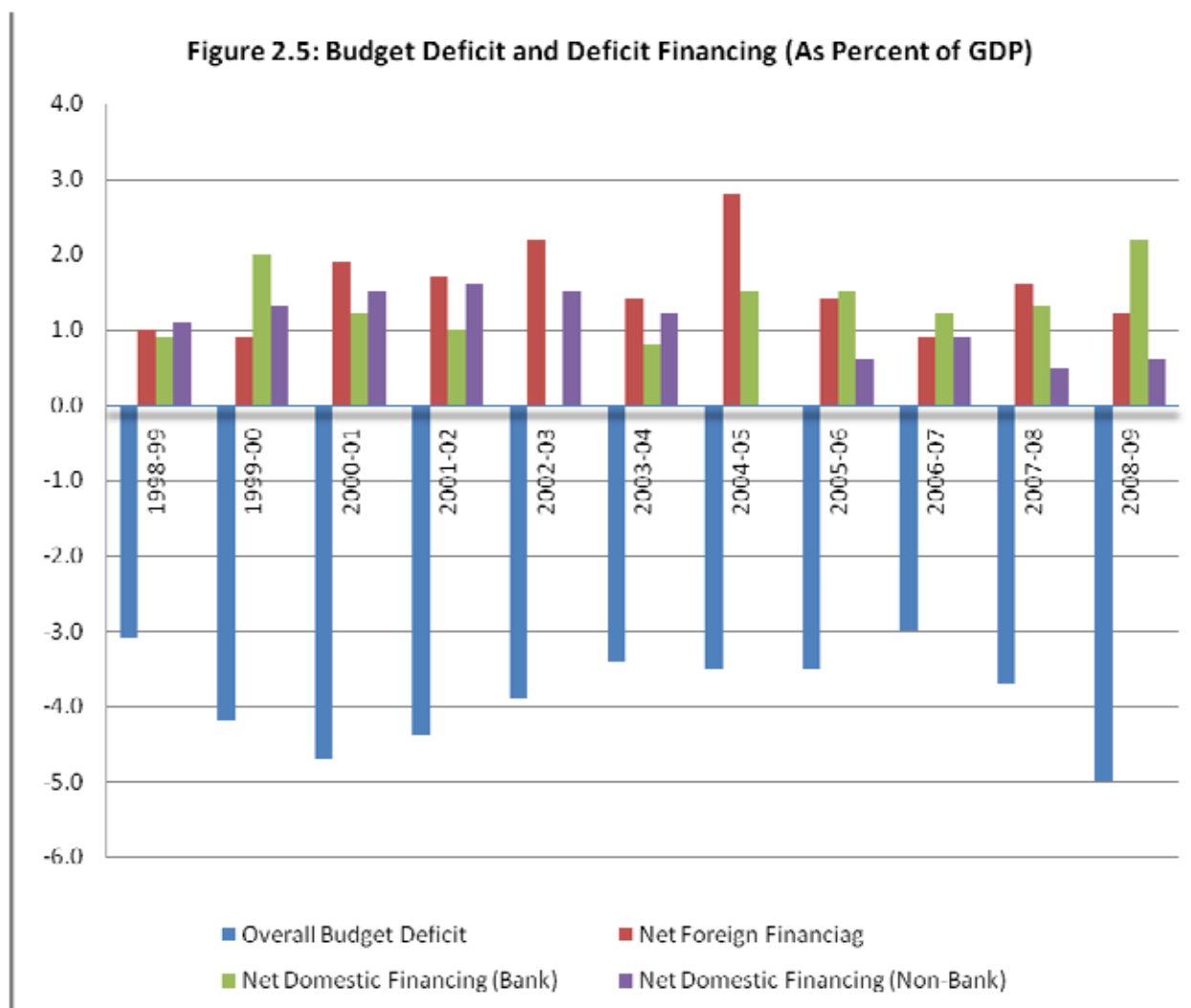


Figure 2.5 depicts that:

- The figures from 1998-99 to 2007-08 (except 2008-09) are actuals. The figure of FY 2008-09 represents budget figure.
- Budget deficit shows a sustainable trend as it never rose over 5% of GDP.
- In 2007-08 the budget deficit was 3.7% of GDP. The figure excluded the government's borrowing from domestic source (banking) to meet the liabilities of Bangladesh Petroleum Corporation (BPC) of Tk. 7523 crore which was 1.4 % of GDP.
- External financing rose to 2.8% of GDP in FY 2004-05.
- In FY 2002-03 the bank borrowing was negative i.e. government paid back more to the banking system than it borrowed from it.
- The non-bank borrowing was lowest (6 crore) in FY 2004-05.

For details please see Appendix 2.4 and 2.5.

2.6 Debt Sustainability

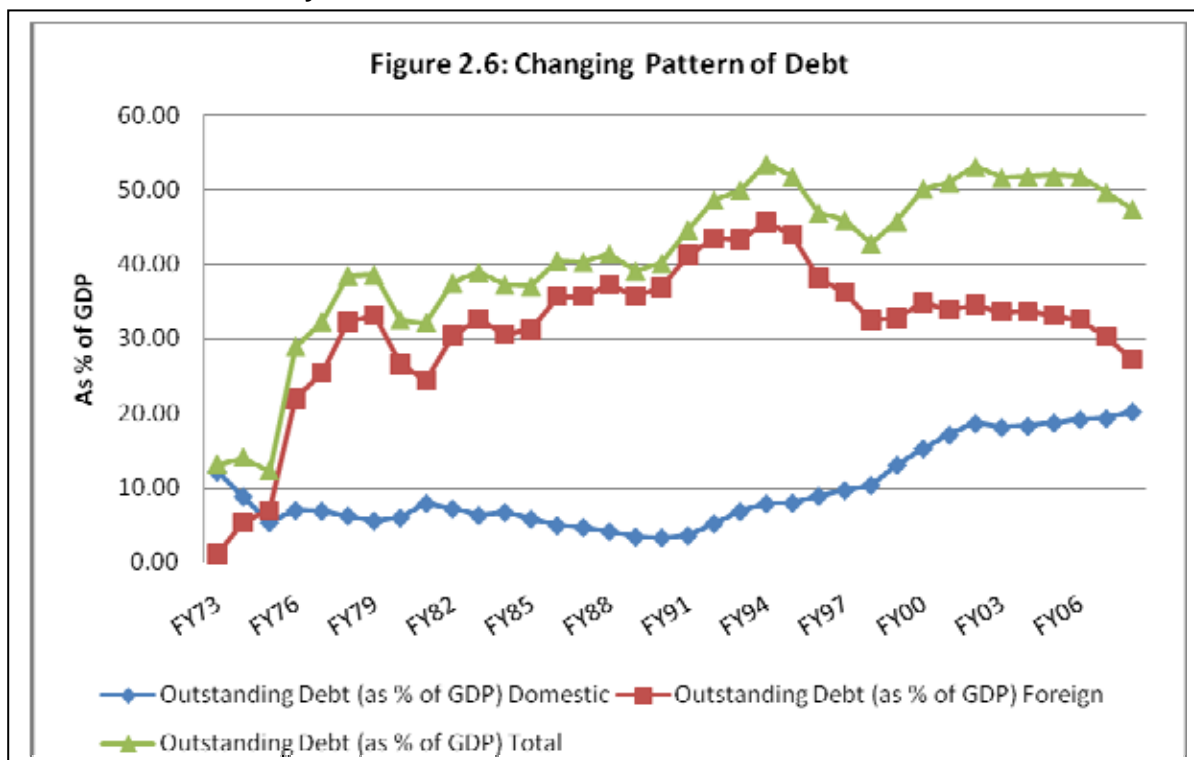


Figure 2.6 shows that:

- Total debt as percent of GDP has been on a relatively continuous upward track until 1993-94, when it reached a peak of 53.5% of GDP. It fell to 42.8% in 1997-98, but increased in the following year to average around 50%.
- Foreign debt as percent of GDP closely mirrored the developments in total debt until the mid 1990s. Since then, an increasing share of the total debt has been finance by domestic debt. From a low of about 3% of GDP in the early 1990s, it has increased to 20% of the GDP in 2007-08.
- In recent years, the share of foreign assistance was been shrinking while that of domestic debt is on the increase.

For more details please see Appendix 2.6

2.7 Development of Government Bond Market

Noted that the government has initiated reforms program in the area of debt management since 2005. It has enacted The Bangladesh Government Treasury Bonds (BGTB) Rules, 2003 under which T. Bonds are being marketed on a regular basis. Development of a primary market for buying and selling of government bonds of varying maturity (5 year, 10-year, 15-year and 20-year) to raise fund from the domestic market is one of the significant achievements of such reforms initiatives. Treasury Bills and Treasury Bonds auctions are being held on the basis of a pre-announced Auction Calendar. This ensures higher degree of competition resulting a steady decline in the cost of borrowing for the government from domestic source.