Chapter Four

Revenue Performance and Resource Mobilization Outlook

Introduction

4.1 The development potential of expanding domestic revenue base bears substantial significance for an investment hungry economy like Bangladesh. In fact, Bangladesh recognizes the importance of domestic revenue and the challenges it focuses in improving fiscal space for achieving investment and socio-economic development goals. The efficiency of revenue mobilisation impacts government's expenditure planning quality as well as delivery of quality public services. Therefore, extensive attention should be given to fiscal policy formulation to augment revenue mobilization. At the same time, emphasis should be laid on prudent management of government spending, financing and debt.

4.2 This chapter provides a summary of the country's recent fiscal performance and reviews the financing and debt strategies. At the outset, it highlights overall revenue performance, then moves on to shifts in major revenue components over the years, focusing on National Board of Revenue (NBR) tax receipts and Non-Tax Revenue (NTR) receipts. The revenue performance of the current fiscal year is presented up to March FY14 to understand, inter alia, immediate impacts of on-going reform programmes. The discussion later focuses on the medium term revenue projection followed by the medium term revenue strategies, and prospective reform measure in tax policy and administration. Finally, it sheds some light on the issues related to financing and debt sustainability.

Trends in Revenue Mobilization

Overall Revenue

4.3 In revenue mobilization Bangladesh experienced satisfactory growth momentum over the last few years. Prudent budgetary target accompanied by actual revenue outturns has helped sustain robust economic growth. During this period, actual revenue has increased in line with increase in real GDP as shown in Table 4.1.

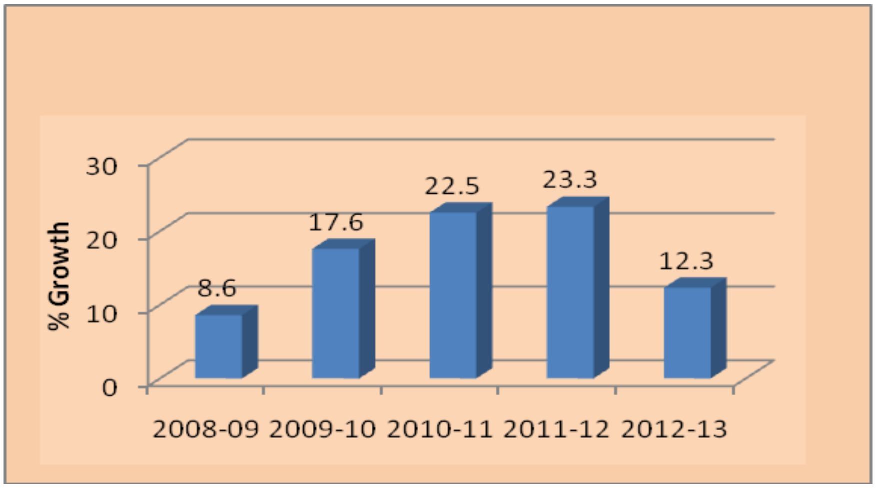
4.4 A trend analysis reveals that in FY09 revenue growth was 8.6 per cent, compared to 22.5 percent growth in the previous year, which was markedly lower and resulted from the impact of global trade contraction. This growth reached 23.3 per cent in FY12 and 12.3 percent in FY13. It is pertinent to note that after FY09 revenue mobilization gathered significant momentum because of implementation of different reform agendas in tax and revenue administration. On the other hand, decline in growth of revenue mobilization in FY13 was mainly due to slower growth in import and disruptions of business activities in the domestic sector prior to the national election. Furthermore, appreciation of Bangladeshi currency against US $ reduced value of tax revenue accrued from import proceeds in terms of domestic currency. However, despite the deceleration, revenue potential of Bangladesh is deemed high enough and capable of boosting revenue mobilization under the prevailing tax and revenue structure through better compliance.

Table 4.1: Revenue Performance for FY09-FY13 (Billion Taka)

	FY09	FY10	FY11	FY12	FY13
Revenue Target as per Original Budget	693.8	794.6	928.5	1183.9	1396.7
Revenue Target as per Revised Budget	691.8	794.8	951.9	1148.9	1396.7
Actual Mobilization	645.7	759.3	929.9	1146.9	1288.3
Growth over the Previous Year (%)	8.6	17.6	22.5	23.3	12.3
Target as % of GDP in the Original Budget	11.3	11.4	11.7	12.9	13.5
Revised Target as % of GDP in the Revised Budget	11.3	11.4	11.9	12.5	13.5
Mobilization as % of Actual GDP	10.5	10.9	11.7	12.5	12.4
GDP* (1995—1996 base year)	6148	6943.2	7967	9181.4	10380

Source: Finance Division; *BBS

Figure 4.1: Total revenue (Year on year growth)



Source: Finance Division, NBR

Revenue Compositions

4.5 NBR Tax, Non-NBR Tax, and Non-Tax receipts are the major sources of revenue in Bangladesh. However, in total revenue, tax-revenue is the largest component. Its contribution to overall revenue collection has been gradually rising posting tax revenue-GDP ratio between 8.6 percent and 10.4 percent over FY09 to FY13 period of time. Although total tax revenue receipts as a percentage of GDP show an increasing trend over the years, it remained static at 10.4 percent both in FY13 and the previous fiscal year. NBR tax revenue constituting approximately 80.2 percent of the total revenue in FY13 increased at a rate of 12.8 percent in FY13 compared to 20 percent in the FY12 (Table 4.2). Non-NBR tax revenue as percentage of GDP also remained similar to that in the same period. Growth of Non-Tax Revenue decreased to 9.7 percent in FY13 from 44.77 percent in the previous year (Table 4.2).

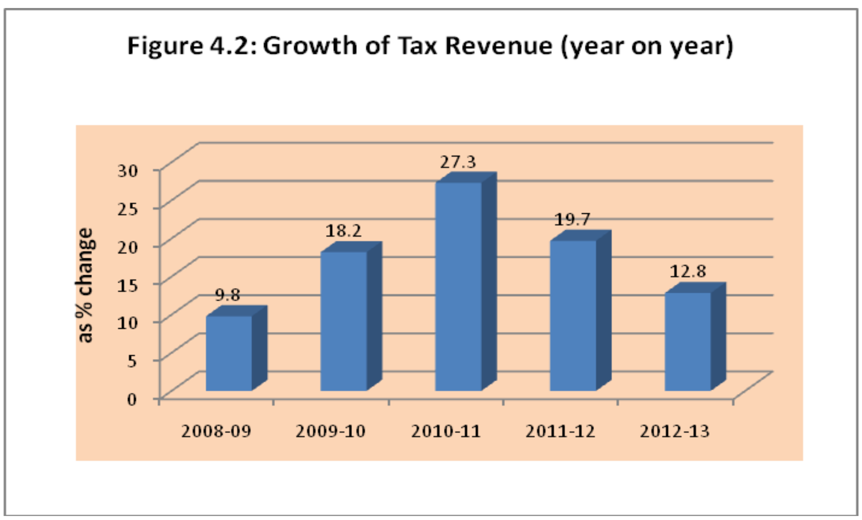
Table 4.2: Government Revenue by Main Sources (Billion Taka)

Revenue Sources	FY09	FY10	FY11	FY12	FY13
Total Revenue	645.7	759.3	929.9	1146.9	1288.3
as % of GDP	10.5	10.9	11.7	12.5	12.4

Revenue Sources	FY09	FY10	FY11	FY12	FY13
(a) Tax Revenue	528.7	624.9	795.5	952.3	1074.6
as % of Total Revenue	81.9	82.3	85.5	83	83.4
as % of GDP	8.6	9	10	10.4	10.4
(a1) NBR Tax Revenue	502.2	597.4	762.2	915.9	1033.4
as % of Total Revenue	77.8	78.7	82	79.9	80.2
as % of GDP	8.2	8.6	9.6	10	10
(a2) Non-NBR Taxes	26.5	27.4	33.2	36.3	41.2
as % of Total Revenue	4.1	3.6	3.6	3.2	3.2
as % of GDP	0.4	0.4	0.4	0.4	0.4
(b) Non-Tax Revenue	117	134.2	134.5	194.7	213.6
as % of Total Revenue	18.1	17.7	14.5	17	16.6
as % of GDP	1.9	1.9	1.7	2.1	2.1

Source: Finance Division; NBR

Figure 4.2: Growth of Tax Revenue (year on year)



Source: Finance Division; NBR

Tax Revenue

NBR Tax-revenue

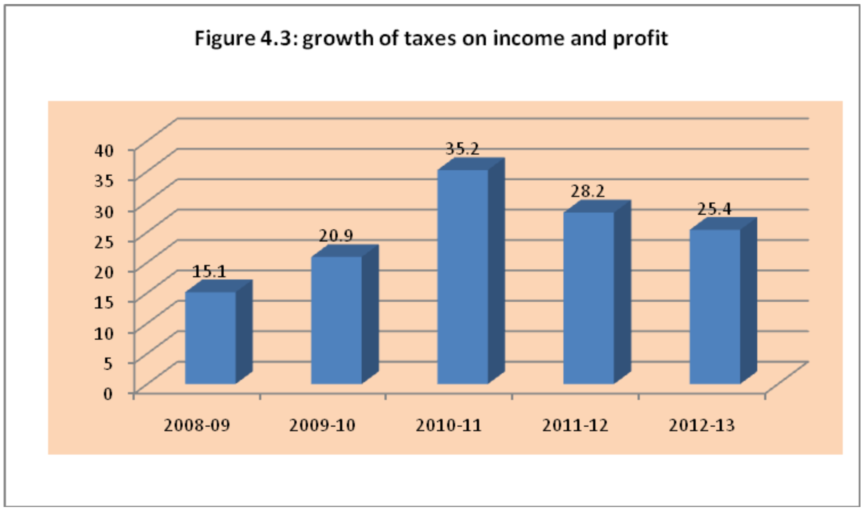
4.6 A noteworthy shift in NBR Tax revenue structure has been witnessed over the years with increase in NBR tax receipts as a percentage of GDP from 8.2 percent in FY 09 to 10.0 percent in FY13. In FY13, VAT share to NBR revenue was the largest which was 30.5 percent of total revenue, followed by 26.7 percent contribution of income and profit taxes and 12.6 percent contribution of import duty. Details of total tax revenue mobilization are provided in the following Tables 4.3 and 4.4.

Table 4.3: Sources of Total Tax Revenue (Billion Taka)

Revenue Sources	FY09	FY10	FY11	FY12	FY13
Total Tax Revenue	**528.7**	**624.8**	**795.5**	952.3	**1074.6**
NBR Tax Revenue	502.2	597.4	762.2	915.9	1033.4
Taxes on Income and Profit	134.3	162.4	219.6	281.6	344
Customs Duties	84.4	88.7	107.6	119.8	126.3
VAT and Suppl. Duties	276.6	338.8	425.9	502.6	549.7
Other NBR Taxes	6.8	7.7	9.2	12	13.4
Non-NBR Taxes	26.5	27.4	33.2	36.3	41.2
As Percent of GDP					
Total Tax Revenue	**8.6**	**9**	**10**	**10.4**	10.4
NBR Tax Revenue	8.2	8.6	9.6	10	10
Taxes on Income and Profit	2.2	2.3	2.8	3.1	3.3
Customs Duties	1.4	1.3	1.4	1.3	1.2
VAT and Suppl. Duties	4.5	4.9	5.3	5.5	5.3
Other NBR Taxes	0.1	0.1	0.1	0.1	0.1
Non-NBR Taxes	0.4	0.4	0.4	0.4	0.4

Source: Finance Division, NBR

Figure 4.3: Growth of Taxes on Income and Profit



Source: Finance Division, NBR

Income and Profit Tax

4.7 As a share of total Tax Revenue, revenue earnings from taxes on income and profit exhibits an increasing trend by moving up from 25.4 per cent in FY09 to 32.0 per cent in FY13. Although growth rate of income and profit taxes demonstrated a declining trend after FY10, its contribution to total tax revenue increased.

Value Added Tax

4.8 Value Added Tax (VAT) is still the single largest source of domestic revenue of Bangladesh. As Table 4.4 shows, in FY09, overall VAT collection, as a percentage of total revenue, was 31.2 per cent which gradually increased to 32.5 percent in FY11. But the share of VAT as percentage of total revenue slightly declined and stood at 30.5 per cent in FY13. This decline, however, can be attributed to disruptions in economic activities and weak imports during this period. In the mix of VAT from imports and local sources, local sources continued to command a higher share; while the ratio of VAT from local and import sources was 54:64 in FY09, it was

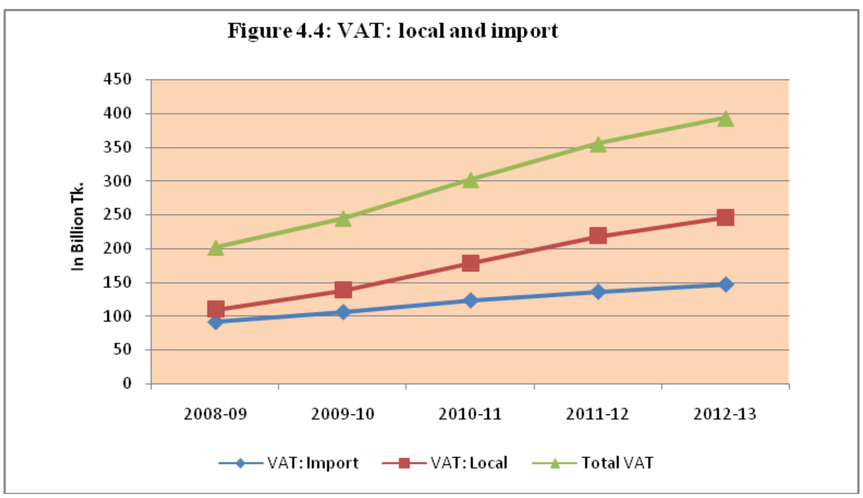
37.63 in FY13. This is a manifestation of relative vibrancy in domestic manufacturing and related economic activities which spurred the growth of VAT from domestic sources. Average growth of VAT in the last five years was 17.44 percent.

Table 4.4: Structure and Trend of Value Added Tax (Billion Taka)

Revenue sources	FY09	FY10	FY11	FY12	FY13
Total Revenue	645.7	759	929.9	1137.8	1288.3
Tax Revenue	528.7	624.8	795.5	952.3	1074.6
VAT: Import*	91.8	106.5	123.6	136.4	147.1
VAT: Local*	109.7	138.2	178.3	218.7	246.3
Total VAT	201.5	244.7	301.9	355.1	393.4
VAT As % of Total Revenue	31.2	32.2	32.5	31	30.5
VAT As % of Tax Revenue	38.1	39.2	38	37.3	36.6
VAT as % of GDP	3.3	3.5	3.8	3.9	3.8
Growth: VAT Import	8.1	16	16	10.4	7.8
Growth: VAT Local	19.5	26	29.1	22.6	12.6
Growth: Total VAT	14	21.4	23.4	17.6	10.8
VAT: Import:% of Total VAT	45.6	43.5	40.9	38.4	37.4
VAT: Local:% of Total VAT	54.4	56.5	59.1	61.6	62.6

Source: Finance Division; National Board of Revenue.

Figure 4.4: VAT: local and import



Source: Finance Division; National Board of Revenue.

Supplementary Duty

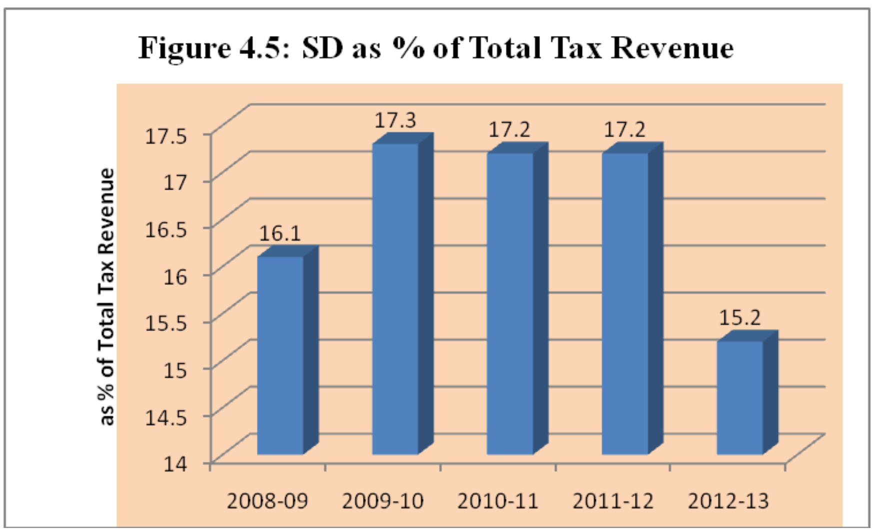
4.9 Supplementary Duty, collected from a number of selected items both at import and domestic stages, accounted for 15.2 per cent of total tax revenue in FY13. In the last five years, average rate of supplementary duty (SD) collection was 16.6 per cent.

Table: 4.5. Composition of Supplementary Duties (Billion Taka)

Revenue sources	FY09	FY10	FY11	FY12	FY13
SD at import stage	23.2	32.0	40.0	43.7	42.01
SD on locally produced goods & services	61.7	75.9	97.0	119.2	119.8
Total Supplementary Duty	84.9	108.0	137.0	162.9	163.0
SD as % of Total Tax Revenue	16.1	17.3	17.2	17.2	15.2

Source: National Board of Revenue

Figure 4.5: Supplementary Duty as % of Total Tax Revenue

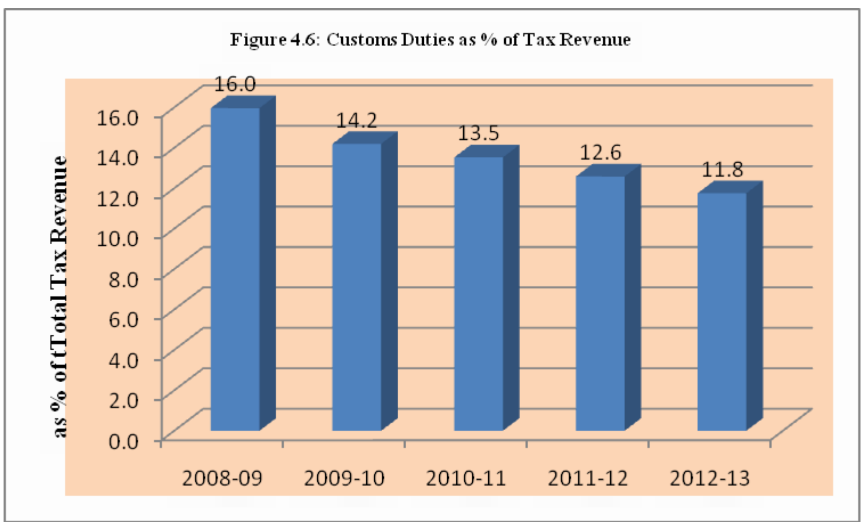


Source: National Board of Revenue

Customs Duties (CD)

4.10 Given Bangladesh's stance on trade liberalization since the 1990s, tariff structure has been rationalized in line with international practice. Presently Bangladesh has only 4 slabs of Custom Duty (0%, 5%, 10%, and 25%) in its tariff structure. Bangladesh's fiscal policy envisages remolding the revenue structure with less dependency on import duty. Import-duty as per cent of the total NBR tax revenue decreased from 16.8 percent to 12.2 per cent in FY12. Primary reason for this decline was the negative growth in import due to global financial crisis.

Figure 4.6: Customs Duties as % of Tax Revenue



Source: National Board of Revenue

4.11 As a member of World Customs Organization (WCO), Bangladesh is committed to formulating and implementing customs rules that ensure business-friendly tax management. NBR follows WCO-standard criteria in classification, valuation and assessment of goods. In order to keep it updated, Bangladesh Customs Tariff (BCT) was amended in the budget of FY14 following WCO's latest practices.

4.12 Direct taxes contribute more than one-third of the total tax revenue. Although it is outweighed by indirect taxes in terms of the amount of collection, it is showing an increasing trend which is a positive development in the tax structure of the country. In Bangladesh, a major portion of direct taxes is paid by a small group of taxpayers with higher marginal tax rates. Like personal income tax, corporate income is taxed under different rates for different types of corporations. The first and major group consists of publicly traded companies or companies listed on the stock markets.

Non-NBR Tax Revenue

4.13 Non-NBR tax revenue comprises primarily four sources namely narcotics and liquor, motor vehicles, land tax and non-judicial stamp. As Table 4.3 shows, this revenue recorded over the years increase commensurate to the growth of GDP.

Non-Tax Revenue

4.14 Non-Tax Revenue (NTR), on an average, accounts for about 16.8 percent of Total Revenue collection during the last five years. Compared to other revenue components, growth trend of NTR was not consistent. Against a high growth rate of 14.7 percent for the period FY10, only 0.2 percent growth was witnessed during FY11 while it soared to 44.8 per cent in FY12. In FY13 NTR recorded a growth of 9.7 percent (Table 4.6). The spike in the growth of NTR in FY12 was attributable to revenue from the license renewal fees of the second-generation mobile phones.

4.15 Despite a sharp decline in growth in FY13 as compared to the previous year, positive growth has been observed in receipts from all the sub-heads except the defense receipts sub-sector under the Non-Tax Revenue head in FY13 compared to FY12. In FY13, revenue from dividend and profit nearly doubled compared to FY12, recording a growth of 88 percent. Administrative fee showed an increase of 35.9 percent in FY12 and 2.2 percent in FY13. Finance Division has taken necessary steps to re-adjust the rates and fees. As a result, revenue collection from this sector is expected to increase significantly.

Table: 4.6: Composition of Non-Tax Revenue (Billion Taka)

	FY09	FY10	FY11	FY12	FY13
Dividend & Profit	30.9	21.3	14.3	25.3	47.58
Growth of Dividend & Profit (%)	46.4	-31.1	-32.9	77	88
Interest	4.7	5	5.7	4.7	6.13
Administrative fees	16.7	18.5	22.9	31.1	31.77
Defense Receipts	9.6	19	13.6	24.4	9.7
Railway	6.4	5.8	6.1	6.2	7.7
Post Offices	1.7	2.4	2.2	2.4	2.4
Telegraph and Telephone Board	0.1	0	-	-	-
BTRC	16.5	31.6	26.9	-	-
Other NTR & Receipts*	46.6	62.2	69.7	79	79.7
Total NTR	117	134.2	134.5	194.7	206.7
As % of Total Revenue	18.1	17.7	14.5	17	16
Growth of NTR	3.2	14.7	0.2	44.8	9.6

Source: IBAS, Finance Division. *includes receipts from BTRC

Overall Revenue Performance up to March FY2013-14

4.16 In FY14, total revenue target was initially set at Tk 1,674.6 billion against which (up to March) FY14 an amount of Tk. 985 billion (62.9 % of the revised budget of 1,566.7 billion Tk.) has been mobilized in FY14. Total revenue target (revised) comprised of NBR Tax revenue of Tk. 1250.00 billion, Non-NBR Tax revenue of Tk. 51.8 billion and NTR of 264.9 billion Tk. revenue has been estimated to grow at 12.2 percent as per revised budget target of FY14.

4.17 During July-March of FY14, VAT (local) recorded a robust growth of 8.5 per cent which was spurred by on-going reform programmers including the adoption of VAT Act 2012. Growth rate of revenue from import has not increased significantly. NBR tax revenue increased by 8.3 percent in the first nine months of the current fiscal year, which was 15 percent during the same period of FY13. During the same period non-NBR tax revenue increased by 8 percent. On the other hand, non-tax revenue (NTR) achieved 10.6 percent growth over the previous year. (Table 4.7).

Table 4.7: Revenue Mobilization Scenario (Crore Taka)

Sector	2012-13		2013-14		July-March		Achievement against the target of FY13-14 (%)
	Revised	**Actual**	**Budget**	**Revised**	**2012-13**	**2013-14**	
Total Revenue	139670	128830	167460	156670	91608	98532	62.9
	|13.5|	|12.5|	|13.4|	[13.3]	(12.4)	(7.6)	
Tax Revenue	116824	107460	141220	130176	75208	80386	61.8
	|11.3 |	|10.4|	|11.9 |	[11.0]	(14.3)	(6.9)	
NBR	112259	103340	136090	125000	72308	79251	63.4
		|10.0|	|10.4|	[10.6]	(15.0)	(8.34)	
Income & profit	35300	34402	48300	44370	23519	25179	56.7
					(25.0)	(7.0)	
Import Duty	14528	12630	14629	13433	9252	9324	69.1
					(0.2)	(0.7)	
VAT	40466	38664	49956	45876	28073	30466	66.4
					(15.0)	(8.5)	
Supplementary duty	19969	16301	19969	20792	11755	12861	61.8
						(9.4)	
Others	1996	1398	2000	1665	1104	1235	74.2
Non-NBR	4565	4121	5130	5177	2899	3132	63.5
	|0.4|	|0.4|	|0.4|	[0.4]	(13.9)	(8.0)	
Non Tax Revenue(NTR)	22846	20674	26240	26493	16400	18145	68.7
	|2.2|	|2.1|	|2.2|	[2.2]	(4.5)	(10.6)	

Source: Finance Division, NBR, numbers within () and [] denote growth and as % of GDP respectively

Medium Term Revenue Strategy

4.18 Sustained robust and inclusive growth, massive investment in infrastructure sector and maintaining macroeconomic stability are vital to establishing Bangladesh as a middle-income country by 2021. Equally important is the role of domestic resource mobilization in supporting inclusive-growth strategy. But the level of efficiency in revenue mobilization in Bangladesh is far behind many other developing countries. Tax-GDP ratio in Bangladesh is closer to the South Asian average. Given undeniable importance sustained development, the government has attached high priority to implementing to appropriate legal and structural reforms in revenue administration, some of which have already become effective while others are underway.

Revenue Reform Activities

4.19 The government is to augment the tax-GDP ratio to an acceptable level by implementing substantial reforms tax policy and tax administration. In line with objectives of the vision of 'Digital Bangladesh', automation of different processes and activities relating to both direct and indirect taxes will receive topmost priority as before. Some of the on-going reforms in tax administration is as follows:

- Use of e-TIN- an Unique Identifier for Income Tax, Customs and VAT to ensure better service delivery and combat tax evasion
- Implementation of Online TIN registration system linked with the National Identity Card Database
- Online VAT registration and Return Submission to start from January 1, 2015 and June 2015 respectively
- Introduction of e-payment for Income Tax, Customs Duty and VAT through debit, credit and other prepaid cards
- Implementation of e-Filing system for income taxes on a limited scales
- e-TDS (Electronic Tax Deduction Source) management system to be implemented soon
- Use of Alternative Dispute Resolution (ADR) to reduce number of revenue-related litigations
- Introduction of systems for submission, assessment and tax refund of VAT and Income Tax centrally and online
- Implementation of ASYCUDA World with a view to processing customs data in major customs stations leading to a paperless management system in near future
- Inclusion of transfer pricing procedures in Customs law
- Provision of higher training to revenue officials at home and abroad to improve their level of efficiency.

4.20 The tax policy and tax administration reform strategies are multipronged. While effective and efficient collection of tax revenue lies at the core of these strategies, the government is also committed to establish a transparent and accountable tax having a focused client oriented service approach. In addition to changes being made to respective laws to this effect, such as curtailing tax officials' discretionary powers, tax administration is also being gradually decentralized to Upazila level to provide services to the taxpayers. The implementation of NBR's modernization plan (2011–2016) to improve revenue administration is also in progress. Steps have been taken to further advance the on-going automation process to different areas of taxes.

VAT Law 2012

4.21 Significant progress has been made in case of Value- Added Tax reforms. Prominent among them is the enactment of Value Added Tax and Supplementary Duty Act 2012 last year to be effective from July 1, 2015. In addition, Value Added Tax and Supplementary Duty Rules 2013 has been drafted. The new VAT law is expected to augment revenue collection significantly while ensuring better compliance and providing better taxpayers service. Some of the on-going reforms in tax administration are given in the following box:

Box 4.1 : Some of the Revenue Reform Initiatives
❖ Tax concessions and exemption in the FY13 Finance Bill were removed equivalent to an estimated 0.3 percent of GDP
❖ A VAT implementation plan and timetable and a new organizational structure of NBR has been approved.
❖ Taxpayer identification number (TIN) issuance has been automated and link has been established with national ID.
❖ Vendor for a tax automated system for VAT will be selected under "VAT & Supplementary Duty Act, 2012 Implementation Project". The DPP of the project has already been approved and it will be submitted for approval of the Cabined Purchase Committee.

Medium-Term Revenue Outlook (FY14-FY17)

4.22 Accordance to the medium term macro-economic outlook, total revenue is forecast to increase to Tk. 2,525.5 billion in FY17 from Tk. 1,566.7 billion in FY14 marking 17.2 per cent increase on an average. Total revenue as a percentage of GDP will rise to 14.6 percent (Table 4.8). Tax revenue is projected to increase from 11 percent of GDP in FY14 to 12.4 percent of GDP in FY17. The sustained implementation of reform initiatives, some of which have been outlined earlier, expected to enhance tax-GDP ratio over the medium term.

Table 4.8: Revenue Projection in the Medium Term

Items	FY12 Actual	FY 13 Actual	FY 14 Budget	FY 14 Revised	FY 15 Budget	FY 16 Projection	FY 17 Projection
Total Revenue	1137.8	1288.3	1674.6	1566.7	**1829.3**	**2164.7**	**2525.5**
Tax Revenue	952.3	1074.6	1412.2	1301.8	1552.7	1830.4	2145.6
NBR	916.9	1033.4	1360.9	1250	1497.2	1765.1	2071.4
Taxes on Income and Profits	281.6	353	483	451.08	510.6	587	735.5
Customs Duties	119.8	145.3	146.3	133.13	168.3	195.2	219.2
VAT & Supplementary Duties	503.3	604.4	708.1	644.36	803.6	966.2	1097.7
Other NBR Taxes	11.29	20	23.6	21.43	14.7	16.7	19.6
Non-NBR Taxes	36.3	41.2	51.3	51.3	55.5	65.3	74.3
NTR	185.5	213.7	262.4	264.9	276.6	334.3	379.9
As % of GDP							
Total Revenue	12.4	12.4	14.1	13.3	13.7	14.2	14.6
Tax Revenue	10.4	10.4	11.9	11	11.6	12.0	12.4
NBR Tax Revenue	10	10	11.4	10.6	11.2	11.6	12
Taxes on Income and Profits	3.1	3.3	4.1	3.8	3.8	3.9	4.3
Customs Duties	1.3	1.2	1.2	1.1	1.3	1.3	1.3
VAT & Supplementary Duties	5.5	5.3	6	5.5	6	6.8	7.2
Other NBR Taxes	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Non-NBR Taxes	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Non-Tax Revenue	2	2.1	2.2	2.2	2.1	2.2	2.2

Source: Finance Division

4.23 It is expected that consistent growth of imports of capital machineries, raw materials and consumer goods will support to import growth to remain robust over the medium term. Based on this assumption, a steady growth of customs duties has been estimated which is likely to be at 1.3 percent of GDP.

4.24 Further, it is expected that with sustained reforms in tax structure and tax administration including implementation of VAT Law and expansion of tax base and tax net, revenue from VAT will significantly increase. VAT will continue to be the most important source of revenue in Bangladesh in the medium term. According to the projection, VAT and Supplementary Duty with annual average growth rate of 20.4 percent will increase from Tk. 644.36 billion in FY14 to Tk. 1280.7 billion in FY17. As percent of GDP, VAT and Supplementary Duties will increase from 5.5 percent in FY14 to 7.2 percent in FY17. Taxes on Income and Profits (as % of GDP), the second largest component of total revenue, are projected to increase from 3.8 percent in FY13 to 4.3 percent in FY17.

4.25 Non-NBR Taxes and NTR will remain stable at 0.4 percent of GDP and at around 2.2 percent of GDP respectively.

Financing and Debt management

Financing

4.26 Appropriate steps will be taken to reduce the gap between government’s income and expenditure by adopting prudent fiscal policy aimed at maintaining budget deficit at a tolerable level. Table 4.9 shows medium-term budget deficit and financing scenario. In FY13, overall budget deficit was 4.4 per cent of GDP while it was 3.9 per cent in previous fiscal year. In FY13, deficit was financed from both domestic (3.1 %) and external sources (1.2 %).

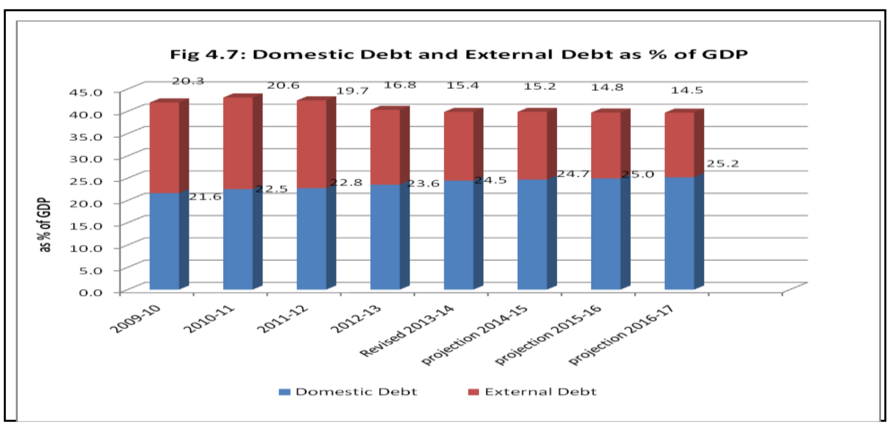
4.27 The Medium Term Macroeconomic Framework (MTMF) forecasts budget deficit to increase from 4.4 percent in FY13 to 5.0 percent in FY17. Of which, 3.2 percent of GDP has been estimated to come from domestic and 1.8 percent from external sources.

Table 4.9: Budget Deficit and Financing (Billion Taka)

	FY12	FY13	FY14	FY14	FY15	FY16	FY17
	Actual	Actual	Budget	Rev.	Budget	Projection	
Total Financing Requirement	361.4	454.5	550.3	595.5	665.6	752.5	861.7
as % of GDP	3.9	4.4	4.6	5.0	5.0	5.0	5.0
External Financing (Net)	59.6	128.2	210.7	185.7	242.2	268.5	303.2
as % of GDP	0.6	1.2	1.8	1.6	1.8	1.8	1.8
Loans	82.9	132.9	237.3	210.6	263.2	303.9	345.5
Grants	35.6	66	66.7	59.6	62.5	78.7	87.7
Amortization	58.9	70.7	93.3	84.5	83.5	114.2	130.0
Domestic Financing	301.8	325.7	339.6	409.8	418.7	484.3	558.9
as % of GDP	3.3	3.1	2.9	3.5	3.1	3.2	3.2
Borrowing from Banks	271.9	274.3	259.9	299.8	298.1	353.5	387.7
Non-Bank Borrowing	29.9	51.4	79.7	110.0	120.6	130.8	171.2

Source: Finance Division, Ministry of Finance.

Figure 4.7: Domestic and Foreign Borrowing as % of GDP



Source: Finance Division, Ministry of Finance.

Debt Sustainability and Debt Management reckoning

4.28 Debt sustainability refers to the capacity to service debt without making significant changes in income and expenditure pattern of the budget. It is expressed through a combination of indicators and sensitivity analysis. Among different ways of measuring a country's debt sustainability, export-GDP ratio or debt-GDP ratio is important. Debt as a percentage of GDP is the most commonly used indicator for this purpose.

4.29 Both high growth and macro-economic stability hinge on prudent debt management as well as debt sustainability. As high borrowing is likely to threaten the macroeconomic balance, the Public Money and Budget Management Act, 2009 requires that budget deficit and government borrowing are kept at a sustainable level. Since the cost of domestic borrowing is relatively higher, borrowing from foreign sources is a preferred option and hence, debt strategy emphasizes borrowing from foreign sources, in particular, mobilizing concessional foreign funds from bilateral and multilateral sources. Challenges and competitiveness of external concessional funds need to be considered in debt management issue. Domestic financing, on the other hand comes from banking and non-banking sources. However, Government is careful that public borrowing does not crowd out the public sector.

4.30 In Bangladesh government debt was approximately 40.3 per cent of GDP in FY13 which is expected to come down a bit lower to 39.9 per cent of GDP in FY14. This level is well below internationally accepted limit. Moreover, government debt as percent of GDP has been gradually declining over the years. This trend is expected to continue over the medium term. In 2016-17, total government debt is expected to be 39.7 per cent of GDP.

4.31 With a view to minimize cost and risk of government debt portfolio, meet timely borrowing requirement and to develop domestic debt market, a draft of Medium Term Debt Management Strategy (MTDS) has been formulated. Moreover preparation of an operational guideline for sovereign guarantee is in progress. Besides, implementation of various public debt management related reform agendas is underway. Considering the declining availability of concessionary loans government is taking necessary steps to explore alternative sources of funding. To this end, an initiative has been taken to make diaspora bonds more attractive to increase their sale proceeds.

Cost of Borrowing

4.32 Bangladesh's debt management strategy always gives priority to reduction or containment of the cost of borrowing in order to maintain comfortable level of debt servicing. Another focus is to look for safeguard measure against external and domestic financial shocks.

4.33 Historically, however, the cost of borrowing in Bangladesh has remained low due to high proportion of concessional external financing. Bangladesh has persistently demonstrated its prudent record in debt repayments by ensuring prompt and timely repayment of its debt obligations. Interest cost is a function of the amount of debt, new borrowing and rate of interest. The share of domestic interest cost has been increasing in recent years as a proportion of total interest payment as compared to external interest cost.

4.34 Although recently the cost of borrowing scaled up but over the medium term it is expected to remain at 2.3 per cent of GDP (table 4.9). In FY14, total interest payment was originally estimated at 2.0 per cent of GDP, which was estimated to 2.3 per cent in the revised budget of FY14. On the other hand, In FY14, interest payments accounted for 12.3 percent of total expenditure against 13.4 percent in the preceding year and projected to decline in the medium term to 11.9 percent in FY17. The interest payment as percent of total revenue is also projected to decrease slightly over the medium term.

Table 4.10: Cost of Borrowing (Billion Taka)

	FY13	FY14	FY14	FY15	FY 16	FY 17
	Actual	Budget	Revised	Budget	Projection	
Interest Payment	233	277.4	266.5	308.1	349.5	397.2
Interest on Domestic Borrowing	225.0	216	249.6	**281.3**	**319.1**	**362.6**
Interest on External Borrowing	14.9	17.4	16.9	**26.8**	**30.4**	**34.5**
Interest as % of GDP	2.2	2	2.3	2.3	2.3	2.3
Interest as % of Total Revenue	18.1	13.9	17.7	17.1	16.5	16
Interest % of Total Expenditure	13.4	12.5	12.3	12.5	12.2	11.9

Source: Finance Division, Ministry of Finance

Contingent Liability

4.35 Contingent liability management is related to the assessment of risk and associated impact on fiscal account in terms of probable future fiscal cost emanating from guarantees given by the Government on borrowing by the SOEs or private organizations etc. Issuance of sovereign guarantee in Bangladesh takes place in the form of guarantees and counter-guarantees in favour of lending organizations (Table 4.11, Annexure-I)(e.g., Bangladesh Bank, State Own Commercial Banks, Private sector banks, suppliers etc.). A monitoring system has been developed to check that these guarantees do not turn into government liabilities. Moreover, Government has placed emphasis on strengthening management of contingent liabilities in order to minimize associated risks.

4.36 Up to May 2014, outstanding contingent liabilities registered a negative growth of 3.5 percent over the previous year to reach 66881.8 crore Tk. Bangladesh Petroleum Corporation (BPC) alone constitutes 52.6 percent of total liabilities followed by Bangladesh Biman (8.1%), Bangladesh Krishi Bank (BKB) (7.9%) and Bangladesh Power Development Board (BPDB) (7.6%) (Table 4.11). Outstanding liabilities to BPC increased by 16.7 percent compared to FY13 followed by Bangladesh Biman at 35.3 percent.

4.37 Total contingent liability of the government moved to 5.6 percent of GDP up to May 2014 from 6.7 percent in previous year and 7.0 percent in FY12 (Table 4.11). Likewise, the outstanding liabilities as percentage of total budgetary revenue slightly decreased to 46.6 percent in FY14 (38.3 percent up to May) from 53.8 percent in FY13 (up to March).

4.38 Lack of financial and operational efficiency of the above institutions negatively organizations affects the repayment of borrowing. In order to reduce potential fiscal risk and enhance institutional strength, the government is, therefore, giving high emphasis on developing capabilities of these organizations through various measures.

Constraints of Fiscal Policy

4.39 The fiscal sector faces many challenges. In order to address this constraint the government has taken necessary steps to improve transparency and credibility of fiscal framework. Some of these constraints or challenges have been elaborated in Chapter V of this document. The following are worth mentioning:

- ❖ Proper implementation of new VAT Law 2012
- ❖ As total expenditure has increased significantly over the years (e.g., 16.2% from FY2012 to FY2013 and 24% from FY2013 to FY2014), timely implementation of programmers/projects (both development and revenue) appears challenging and requires enhanced implementation capacity
- ❖ The prospect of enhancing revenue to GDP ratio depends on tax base, but widening the tax base and increasing tax collection is highly challenging.
- ❖ Lower level of direct tax to GDP ratio indicated continuing dependency on indirect taxes
- ❖ Interest payment is around 2.2 percent of GDP. This costly borrowing is an area of concern
- ❖ Revision and implementation revised NTR rate can also be a challenging task

Table 4.11 Organization-wise Contingent Liabilities 2011-2014 (Crore Taka)

Org.	Up to March 2012	% of total outstanding	% Change over the previous year	Up to March 2013	% of total outstanding	% Change over the previous year	Up to May 2014	% of total outstand ing	% Change over the previous year
Energy & Mineral Res. Division	2591.3	4.0	0.0	1009.6	1.5	-61.04	1009.6	1.4	0
Bangladesh Railway	103.6	0.2	0.0	103.6	0.15	0	103.6	0.1	0
BIWTC	700.0	1.1	0.0	700.0	1.01	0	700	1.0	0
BTTB	2100.0	3.3	0.0	2,100.0	3.029	0	2100.0	2.9	0
BKB	5155.3	8.0	-7.5	5655.2	8.16	9.7	5755.2	7.9	1.8
RAKUB	2720.1	4.2	18.3	3000.1	4.3	10.3	2900.1	4.0	-3.3
BCIC	5080.0	7.9	0.0	5080.0	7.3	0	610	0.8	-88.0
DPDC	526.6	0.8	0.0	2,716.7	3.9	415.8	526.6	0.7	-80.6
BPDB	781.9	1.2	0.0	5,077.5	7.3	549.3	5532.7	7.6	9.0
BPC	34012.1	52.7	170.0	30120.0	43.4	-11.4	35148	52.6	16.7
TCB	644.7	1.0	254.0	613.8	0.8	-4.7	100.0	0.1	-83.7
Ansar VDP Unnayan Bank	20.0	0.0	0.0	20	0.03	0	40	0.1	100.0
BADC	4542.7	7.0	207.3	7156.4	10.33	57.5	307.8	0.4	-95.7
BJMC	1137.5	1.8	0.0	1137.5	1.64	0.00	1137.5	1.6	0.0
BB	3838.1	5.9	383.9	4353.1	6.281	13.417	5891.6	8.1	35.3
BSFIC	608.1	0.9	27.8	495.0	0.71	-18.598	115	0.2	-76.8
APSCL							4904.0	6.7	0.0
Total	64562.0		77.2	69338.7		7.39	66881.8		-5.3

Source: Finance Division.