CHAPTER 4

FISCAL POLICY AND FISCAL MANAGEMENT

Fiscal policy governs the public revenue generating and spending activities. It is meant to maintain balance between public income and expenditure. Formulation and implementation of a sound fiscal policy is one of the most important functions of the government. It lays emphasis on maintaining macroeconomic stability through harmonizing public expenditure management. Sound fiscal policy is also fundamental to fostering economic growth. Currently, a number of reform programmes are in progress to update and streamline public expenditure and revenue management. These reform programmes have a direct bearing on the outcome of fiscal policy.

There is no alternative to sound fiscal management in overall economic governance as a balanced public income and expenditure regime assures the private sector a stable macroeconomic environment.

Government Receipts

The main source of government revenue is tax revenue. Public revenue principally consists of direct and indirect taxes and they account for more than 80 percent of the total receipts. The rest comes from different non-tax collection such as fee, charge, toll etc. The level of revenue collection is an important indicator to determine the stage of economic development of a country. In FY 2000-01, revenue-GDP ratio was 9.6 percent, which gradually rose to 10.79 percent in FY2005-06. But it slid down slightly to 10.58 in FY 2006-07. In FY 2007-08, revenue collection stood at 11.17 percent of GDP. The rising trend in revenue collection continued and it further enhanced to 11.5 percent in FY2009-10. Table 4.1 shows tax and non-tax revenue receipts and tax-GDP ratio during the period from FY2000-10 to FY2009-10.

Table 4.1: Revenue Receipts

(In crore Tk.)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Total Revenue	24,342	27,893	31,120	35,400	39,200	44,868	49,472	60,539	69,180	79,484
Tax Revenue	19,778	21,332	24,950	28,300	31,950	36,175	39,247	48,012	55,526	63,956
Non-tax Revenue	4,564	6,561	6,170	7,100	7,250	8,693	10,225	12,527	13,654	15,528
As percentage of Gross Domestic Product (GDP)										
Total Revenue	9.6	10.21	10.35	10.63	10.57	10.79	10.58	11.17	11.24	11.5
Tax Revenue	7.8	7.81	8.30	8.5	8.62	8.70	8.40	8.86	9.02	9.2
Non-tax Revenue	1.8	2.4	2.05	2.13	1.96	2.09	2.19	2.31	2.22	2.2

Source: National Board of Revenue, Finance Division and BBS. Figures are based on revised budget.

Tax Management

National Board of Revenue (NBR) under the Internal Resource Division is dispensing with the twin responsibilities of formulation of tax policy and its implementation. During FY 2009-010, various steps were taken to rationalise direct and indirect taxes with an aim to mobilize adequate domestic resources for investing in infrastructure development. This will help attain higher growth to reduce poverty at a faster rate, achieve self sufficiency in food production and ensure food security, expand export-oriented industries, develop domestic industries, enhance industrial productivity and create employment opportunities (Box 4.1).

Box 4.1: Measures under Direct and Indirect Tax System for FY 2009-10

Measures under Direct Tax system

- Tax exemption limit remains unchanged at Tk. 1, 65,000/-. for individual taxpayers
- A separate exemption limits of Tk. 1,80,000/- has been introduced for female taxpayers, senior citizens of 65 years and above and a new limit of Tk. 2,00,000/- has been introduced for retarded taxpayers.
- Tax rates remain unchanged at 37.5 percent for private limited company and at 27.5 percent for public limited company. However, tax rate has been reduced to 42.5 percent from 45 percent for bank, insurance and financial institutions. Tax rate for Mobile Phone Operators remains unchanged but publicly traded mobile operators would pay tax at a rate of 35 percent
- Investment ceiling for individual tax payers to avail investment rebate has been increased from Tk. 5,00,000/- to Tk. 10,00,000/-
- In case of compensation money accruing from land acquisition, the rate for tax deduction at source has been reduced to 2 percent from 6 percent
- Foreign income of ships carrying Bangladeshi flag operating overseas and carrying goods is made final on the condition that tax is deducted at source at a rate of 3 percent and the money is remitted to Bangladesh through banking channel
- Provision for tax deduction on export cash subsidy is cancelled
- 8th schedule containing different tax deduction rates in a tabular form is inserted in the Income Tax Ordinance in order to simplify the ordinance
- To encourage new taxpayers, provision has been made in the ordinance to indemnify the business capital shown by a new taxpayer if he/she admits income at a rate of 25 percent of the shown business capital and files under section 82BB (Universal Self)
- For the benefit of taxpayers, section 121A has been inserted in the Ordinance giving revision power to the Commissioner of Taxes
- New provision has been inserted in the Ordinance making payment of tax at the rate of 10 percent of the total tax demand mandatory before filing reference case to the Hon'ble High Court. However, a provision for waiver still remains.
- The provision regarding a person seeking approval of a plan of construction from RAJUK, RDA, CDA and KDA must have a TIN has been inserted to broaden the tax base. Similarly, obtaining TIN has been made mandatory before getting drug license
- With a view to developing the local software industry, Bangladeshi users of locally developed software will enjoy 50 percent allowance of depreciation
- Income accruing from high-rise buildings (four storied or above) with 10 or more flats are exempted from tax on the conditions that the house property is constructed between July 1, 2009 and June 30, 2014 and outside the limits of all city corporations, all cantonment boards, Narayangonj *Sadar*, Gajipur *Sadar* and Tongi *Sadar upzillas* and *pourashabhas* of Dhaka district
- Income from Pensioners' *Sanchaypatra* has been exempted from tax
- With a view to realizing the vision of a Digital Bangladesh, individual taxpayers are allowed investment rebate on the purchase of computer or laptop worth up to Tk. 1,00,000/-
- Tax rate for deduction at source from capital gain arising from land sale has been reduced to 2 percent from 5% due to re-fixation of land value by the government
- Taxpayers can now pay tax of up to Tk. 10,000/- instead of the previous amount of Tk.5,000/- through *challan*
- Owners of private vehicles are to pay taxes at the time of registration and renewal of fitness of the vehicles based on engine CC
- Existing presumptive tax rate on AC Coach, minibus, microbus, truck, bus, covered van carrying goods, water vessels carrying passengers/goods, cargo, coaster, dump barge etc. plying on hire is re-fixed
- Certain industries to be establish between July 1, 2009 and June 30. 2012, have to pay taxes at a reduced rate for a period of five to seven years depending on the location of the industrial set-up
- As a pre-condition to availing tax holiday status, private power generation plants have to commence its commercial production before June 30,2012
- As a step forward towards a Digital Bangladesh, Large Taxpayers Unit (LTU) has already introduced e-filing of income tax returns to facilitate the process. This facility will be introduced in all taxes zone in Bangladesh in phases

Measures under Indirect Tax System

Customs duty

- The five tier customs duty structure has been kept unchanged. The highest duty rate of 25 percent remained unchanged and Capital Machinery and ICT sector's duty has set at 3 percent. In FY 2009-10 customs duties on basic raw materials have been reduced to 5% from 7%. While customs duty on Intermediate goods remain unchanged at 12 percent.
- Five tier supplementary duty rates (20%, 60%, 100%, 250% and 350%) has been readjusted to eight tiers (20%, 30%, 45%, 60%, 100%, 250% ,350% and 500%)
- Specific duty on raw sugar was first reduced to TK. 4000.00/MT and has waived fully later on. Specific duty on refined sugar initially reduced to Tk. 3,000.oo/MT from TK. 7,000.00/MT. And it was further reduced to Tk. 2,000.00/MT
- Specific duty of Meltable scrap and MS Billet/ingot has been set at TK. 1,500.00/MT and 2,500.00/MT respectively while those of Silver bullion and Gold Bullion has been set at TK. 6/11.664 gm (1*vori*) and TK. 150.00/11.664 gm (1*vori*) respectively.
- Regulatory duty at the rate of 5 percent has been imposed on finished goods and luxury items
- All import duties and value added tax were withdrawn from the parts of energy saving lamps in order to encourage energy efficient lights and bulbs production in Bangladesh
- To encourage the use of solar energy, all duties and taxes were withdrawn from the import of solar panel
- Full exemption of duties and taxes in FY 2009-10 was granted on phosphoric acid, one of the basic raw materials of chemical fertilizer
- For the expansion of insecticides industry in Bangladesh, raw materials and packaging items have been given duty exemption and other facilities to facilitate import at a concessional rate.

Value Added Tax (VAT)

- Definition of export has been included in the VAT law
- Procedure for appeal against any adjudication order (section 42) has been simplified
- Definition of a Divisional Officer has been amended
- To prevent VAT evasion, regulation described in section 55 has been amended
- Inclusion of the provision is made to allow installment facility for tax evaded amount in addition to the fine penalty.
- In order to facilitate SMEs, the threshold for annual turnover of VAT has been increased from Tk. 2.4 million to Tk. 4.0 million.
- The use of Electronic Cash Registers (ECR) by medium and large traders and service providers in all the city corporation areas and districts has been made mandatory from the July 01, 2009
- Updated compilations of all the SROs related to explanation of services are in place
- Scope and area of *Izaradar* and survey agency have been redefined.
- Issuance of a new explanation letter in order to clarify the controversy related to Advance Trade VAT (ATV)
- VAT exemption at import stage covering the import of manganese ores and concentrates, pulp parts of compact energy saving fluorescent lamps and photovoltaic cells
- VAT exemption at the manufacturing stage has been allowed for Photovoltaic cells, Hand made cake, Electricity, Fabrics made by power loom, Hard board, Drugs for cancer, Electric generator, Trailer for carrying goods and Refrigerator, Freezer, Motor cycle manufacturing plan for FY 2009-10 only
- VAT exemption has been introduced for internet service providers and specialist doctors at the service stage
- Maize seed enjoys VAT exemption facility
- Supplementary duty on skimmed milk powder at the manufacturing stage has been withdrawn
- Supplementary duty has been imposed on *Jarda* and *Gul* at the manufacturing stage at the rate of 10 percent
- Supplementary duty increased to 10 percent from 5 percent on ceramic tiles and mosaic, ceramic bath tub, sink, basin and other bath room fittings at the manufacturing stage
- Supplementary duty on soft drinks at the manufacturing stage has been increased to 15 percent from 10 percent
- The price slab and supplementary duty of cigarette has been increased
- VAT exemption facility has been withdrawn from plastic made furniture (manufacturing stage) indenting service (service stage) and travel agency (service stage)
- Turnover tax exemption facility has been withdrawn on goods such as candy, energy drink, juice, *chanachur*, hair care products and biscuits
- VAT collection at source has been made mandatory for services like decorators and caterers, travel agencies, auctioneers, courier and express mail service providers, architects, interior designers and graphic designers, chartered plane or helicopter renters

Source: NBR

Revenue Collection Activities

The revenue targets of FY 2009-10 were under challenge due to the fall out impact of the global financial crisis. The global economy was recovering from the backlash of a recession with varying degrees in different parts of the world. The emerging and developing economies were showing steady recovery compared to the slow pace in the developed economies. The revenue collection during FY 2009-10 gained substantial success with an 18 percent overall increase compared to the collection of FY 2008-9. Analysis of revenue collection activities for FY2009-10 by categories shows that the bulk of revenue collection comes from value added tax (VAT). Income tax occupies the second place in the row. Next positions are held by customs duty, supplementary duty, other taxes and excise duty. Overall, the share of VAT in the total revenue collection is gradually increasing. It is noteworthy that, over the last couple of years income tax collection activities got momentum to become the second largest source for revenue earnings over import duties.

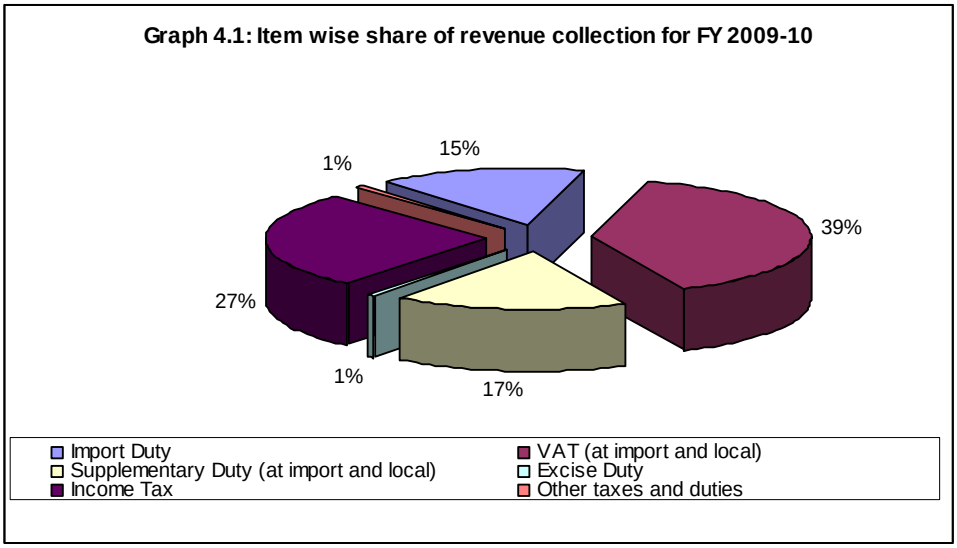
In FY 2009-10, the total revenue collection by NBR sources surpassed the targets of Tk. 61,000 crore and total NBR revenue collection stood at Tk.62,112.1 crore which was Tk. 9,584.84 crore higher than the collection of the previous fiscal year showing an 18.25 percent growth. In FY 2008-09, total revenue collection stood at Tk 52,525.61 crore which was Tk 5,236.49 crore or 11.06 percent higher than the collection of the previous year. In FY 2007-08, the total revenue collection under NBR amounted to Tk. 47,289.12 crore which was Tk. 3,216.89 crore or 9.46 percent higher than that of the previous year. Item-wise tax collection from FY2006-07 to FY 2009-10 is presented in Table 4.2.

Table 4.2: Item wise Revenue Collection

(In crore Tk.)

Items of revenue collection	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**
Import Duty	8,154.76	9,619.19	9,351.92	9,515.62
VAT (at import level)	6,311.17	8,474.66	9,186.92	10,275.83
Supplementary Duty (at import level)	1,196.63	1,752.86	2,331.37	3,099.04
Sub Total	**15,662.56**	**19,846.71**	**20,870.21**	**22,890.49**
Excise Duty	183.49	213.69	238.34	347.48
VAT (Local)	7,471.13	9,181.03	10,965.40	13,811.99
Supplementary Duty (Local)	4,846.09	6,001.07	6,173.43	7,595.68
Turn Over Tax	6.00	4.68	4.96	4.64
Sub Total	**12,506.71**	**15,400.47**	**17,382.13**	**21,759.79**
Total of Indirect Tax	**28,169.27**	**35,247.18**	**38,252.34**	**44,650.28**
Income Tax	8,721.24	11,595.32	13,858.09	17,075.97
Other taxes and duties	328.81	446.62	415.18	385.85
Total of Direct Tax	**9,050.05**	**12,041.94**	**14,273.27**	**17,461.82**
Grand Total	**37,219.32**	**47,289.12**	**52,525.61**	**62,112.10**

Source: National Board of Revenue (NBR).



Public Expenditure

Ensuring a sound public expenditure management system is an important responsibility of the government. The principal objectives of public expenditure management are to encourage expenditure in productive sector, exercise austerity in public expenditure and restrain unproductive outlays. The key aspects of huge public outlays in each year are to build physical infrastructure for channelling investment, reducing poverty and developing human resources. Total public expenditure, development expenditure and expenditure-GDP ratio for FY 2009-010 and over the last decade are presented in Table 4.3.

Table 4.3: Public Expenditure

(In crore Tk.)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Public Expenditure (a+b+c)	37399	40757	42075	47184	53903	59030	66836	93608	94140	110523
(a) Non-development expenditure	20536	22700	25307	28390	33324	36618	45412	57425	67125	77,129
(b) Development expenditure (ADP)[1]	15901	15050	15271	16817	18771	19473	17206	22500	23000	28500
(c) Other expenditure[2]	962	3008	1497	1977	1808	2940	1404	13683	4015	4,894
As percentage of Gross Domestic Products (GDP)										
Public Expenditure as percent of GDP (a+b+c)	14.75	14.92	14.00	14.17	15.01	14.18	12.79	17.27	15.30	16.0
(a) Non-development expenditure	8.10	8.31	8.42	8.53	8.99	8.80	8.81	10.6	10.91	11.17
(b) Development expenditure	6.27	5.51	5.08	5.05	5.53	4.68	3.68	4.15	3.74	4.13
(c) Other expenditure	0.38	1.10	0.50	0.59	0.49	0.70	0.30	2.52	0.65	0.70

Source: ADP from IMED, M/O Planning and Non-development and other expenditure are revised from Finance Division, M/O Finance.

[1] 'Actual expenditure' of Annual Development Programme (ADP) except financing from 'own source'.
[2] Capital expenditure, food expenditure, net lending and other development expenditures are included in 'other expenditure'.

Composition of Non-development Expenditure

Analysis of total non-development expenditure shows that in FY 2003-04, expenditure on pay and allowances was 27.4 percent of total non-development expenditure (Appendix Table 20). In FY 2004-05 and FY 2005-06 these ratios went down to 25.3 and 27.6 respectively, but increased to 28.5 percent in FY 2006-07 and again went down to 23.6 percent in FY 2008-09. In FY 2003-04, the expenditure on subsidy and current transfer accounted for 28.4 percent of total non-development expenditure. In FY 2004-05, FY 2005-06, FY 2006-07 and FY 2008-09, the expenditure on subsidy and current transfer accounted for 30.1, 29.1, 31.4 and 40.5 percent of total non-development expenditure respectively. In FY 2004-05, FY 2005-06, FY 2006-07 and FY 2008-09 the shares of interest payments on foreign and domestic loans in total non-development outlay were 18.8, 19.8, 20.2 and 20.8 percent respectively.

Expenditure under Annual Development Programme (ADP)

The average actual expenditure against the revised allocation of ADP was around 90 percent during the period from FY2000-01 to FY 2005-06 (Table 4.4). In FY2006-07 and FY 2007-08, the utilization of ADP declined significantly and it dropped to 83 and 82 percent respectively. The lower utilization of ADP has serious consequences as it narrows the scope of investment and curtails employment opportunity. The government has endeavoured to make headway in ADP utilization and it is showing improvement with a 91 percent utilization of revised allocation in FY 2009-10 and it is 31 percent higher than the actual utilization of FY 2008-09.

Table 4.4: Implementation of Annual Development Programme (ADP)

(In crore Tk)

Year	Original Allocation	Revised Allocation	Actual Expenditure	Expenditure as % of Revised Allocation
2000-01	17,500	18,200	16240	89.2
2001-02	19000	16000	14090	88.1
2002-03	19200	17100	15434	90.0
2003-04	20300	19000	16817	89.0
2004-05	22000	20500	18771	91.6
2005-06	24500	21500	19472	91.0
2006-07	26000	21600	17917	83.0
2007-08	26500	22500	18455	82.0
2008-09	25600	23000	19707	85.7
2009-10p	30500	28500	25920	91.0

Source: IMED, Ministry of Planning. Data are based on revised ADP. Provisional figure has provided by IMED for FY 2009-10

Composition of Annual Development Programme (ADP) Expenditure by Major Sectors

The increasing trend of allocation and expenditure in socio-economic and physical infrastructure sectors through ADP is consistent with the twin goals of the government achieving higher growth and reducing poverty. ADP expenditure and its composition by major sectors are presented in Table 4.5.

Table 4.5: ADP Expenditure and its Composition by Major Sectors (%)

Sector	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Agriculture	4.5	4.4	3.74	4.04	3.62	5.20	5.86	7.00	6.27	6.0
Rural Development	12.2	11.1	10.09	13.83	14.27	15.83	17.14	15.00	16.6	14.0
Water Resources	6.1	5.4	4.29	4.04	2.44	3.22	2.29	4.00	4.09	4.0
Industries	3.3	1.9	1.14	2.74	2.42	1.64	1.24	1.00	2.09	2.0
Power	12.2	12.1	13.70	17.26	20.74	16.22	13.87	13.00	11.7	8.0
Gas, Oil & Natural Resources	2.5	3.1	4.00	5.19	6.04	1.62	0.74	1.00	1.07	5.0
Transport	20.4	19.9	16.15	18.04	12.27	14.30	14.40	11.00	10.10	12.0
Communication	2.8	6.1	3.63	2.23	2.93	2.82	2.72	2.00	0.93	1.0
Physical Planning & Housing	7.5	6.6	5.61	5.91	6.03	7.56	6.86	7.00	11.5	12.0
Education & Religion	13.3	14.2	13.88	12.28	13.70	13.83	15.48	16.00	16.0	17.0
Health & Population	7.3	7.9	6.72	8.27	8.17	9.59	9.97	11.00	10.7	8.0
Others	7.8	7.4	17.00	6.24	7.38	8.19	9.43	12.00	8.94	11.0
Total ADP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.00	100.0	100.0

Source: IMED, Ministry of Planning.

Budget Balance and Financing

Budget is prepared in line with the national plans and strategies adopted for economic growth, poverty reduction and social development. A budget deficit occurs when there is a gap between government revenue and expenditure, where expenditure outweighs the revenue income. Successive governments in Bangladesh have been taking initiatives to channel resources and transfer income at an enhanced rate to the poor people of the country as 40 percent of population still live below poverty line. The increasing trend of transferring public resources to the poor and vulnerable section of the population raises budget deficit a little further, but it creates purchasing power of the huge population and thus propels growth by increasing aggregate demand. It also helps a large part of the population to maintain minimum standards of living. The trend of budget deficit in Bangladesh clearly shows that deficit remains below 5 percent of GDP except those years when there were natural calamities. This is a sign of prudence in overall fiscal management. Table 4.6 below shows data on budget deficit and the mode of its financing during the period from FY1999-00 to FY2008-09.

Table 4.6: Overall Budget Balance

(As percent of GDP)

Budget Deficit/ financing	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Overall budget deficit (excluding foreign grants)	-6.1	-5.1	-4.4*	-4.2*	-4.2*	-3.9*	-3.7*	-6.1*	4.0*	4.5
Overall budget deficit (including foreign grants)[3]	-4.5	-4.1	-3.7	-3.4	-3.4	-3.3	-3.3	-5.3*	3.4	3.9
Net foreign financing[4]	2.5	2.0	1.7	2.3	2.4	1.7	1.8	2.4	0.6	2.0
Net domestic financing[5]	2.8	2.7	1.3	2.2	1.8	2.2	1.9	3.7	2.8	2.5

*According to actual outturn, the overall budget deficit in FY 2002-03, FY 2003-04, FY 2004-05, FY 2005-06, FY 2007-08 and FY 2008-09 stood at 3.5, 3.4, 3.5 and 3.7, 4.9 percent and 3.4 percent of GDP respectively.

Source: Finance Division, M/O Finance, BBS and Bangladesh Bank.

[3] According to IMF, foreign grants are net receipts to Government, because it does not carry any liabilities to the government.

[4] Net foreign financing = (foreign borrowing + grants) - principal payment of foreign borrowing.

[5] Net domestic financing = Net borrowing from public + borrowing from banking system. {Net borrowing from public = Total sale of saving certificates - principal payments for saving certificates}. There exists difference between budget deficit and financing for check float and other errors & omission.

Resources for ADP

The contribution of domestic resources towards financing of ADP shows an upward trend and accounts for about 50 percent of the resources for ADP during FY 2000-01 to 2008-09. Only in FY 2007-08, the contribution of domestic resources fell below 40 percent. During FY2007-08 external assistance registered a sharp growth for arresting losses due to recurrent floods and devastation of cyclone Sidr. In FY 2009-10, the share of domestic resources went down to 42.1 percent because of the increase of foreign resources for financing a larger ADP compared to that of the previous year. Table 4.7 below shows the financing of ADP from external and domestic sources during the period from FY 2000-01 to FY2009-10.

Table 4.7: Quantum of Resources (Domestic and foreign) in financing revised ADP

(In crore Tk.)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Total Financing	18200	16000	17100	19000	20500	21500	21600	22500	23000	28500
Foreign Financing	8670	8215	8241	9410	10430	10700	10194	14430	12990	16500
Domestic Financing	9530	7785	8859	9590	10070	10800	11406	8424	10011	12000
Domestic financing as % of Total ADP allocation	52.36	48.66	51.81	50.47	49.12	50.23	52.81	37.44	55.65	42.1

Source: IMED, M/O. Planning, Finance Division, ERD, Ministry of Finance and Planning Commission.

Public Debt Management

The government resorts to borrowing to fulfil its commitment of social welfare expenditure, meet unexpected expenditure in emergencies, increase investment, and defray development plan outlays. The government borrows both from domestic and external sources. Table 4.8 shows year-wise government borrowing (net) from domestic sources covering the period from FY 2000-01 through FY 2009-10. Source-wise government borrowing from domestic sources over the last 10 years is presented in Table 4.8 and in Graph 4.2.

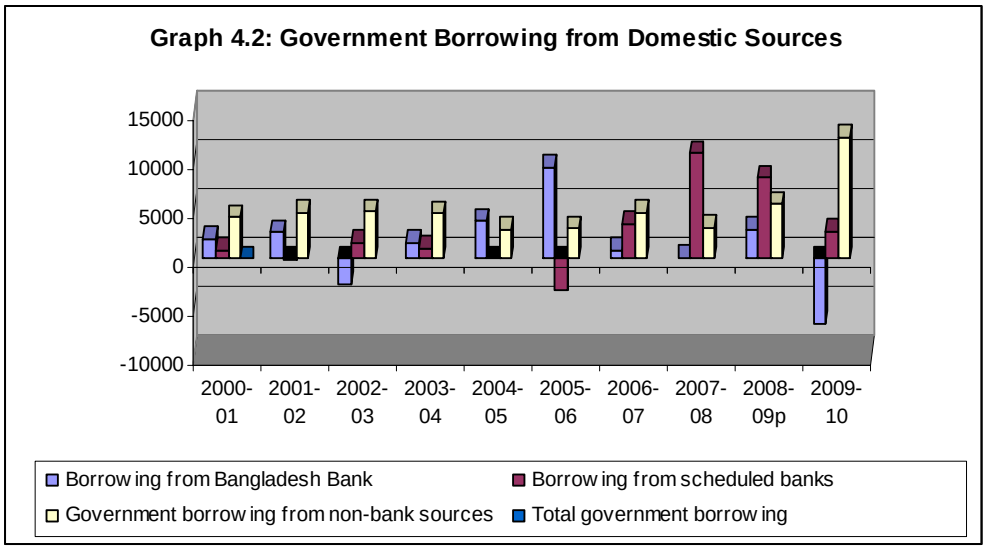
Domestic Sources

Table 4.8: Net Government Borrowing from Domestic Sources

(In crore Tk)

Fiscal Year	Net Government borrowing from the banking system			Government borrowing from non-bank sources	Total government borrowing	Percentage of GDP
	Borrowing from Bangladesh Bank	Borrowing from scheduled banks	Total borrowing			
1	**2**	**3**	**4=2+3**	**5**	**6=4+5**	**7**
2000-01	2009.30	895.10	2904.30	4208.42	7112.82	2.8
2001-02	2727.00	-158.60	2568.40	4711.47	7279.87	2.7
2002-03	-2589.70	1607.20	-982.50	4795.22	3812.72	1.3
2003-04	1653.00	1016.10	2669.10	4658.90	7328.00	2.2
2004-05	3826.70	-142.80	3683.90	2972.57	6656.47	1.8
2005-06	9351.80	-3310.40	6041.40	3103.23	9144.63	2.2
2006-07	905.00	3510.90	4415.90	4682.30	9098.20	1.9
2007-08	66.20	10802.90	10869.10	3144.80	14013.90	2.6
2008-9p	2958.1	8317.9	11276.00	5596.00	16872.00	2.7
2009-10	-6634.90	2824.0	-3792.90	12419.57	8626.67	1.25

Sources: National Savings Directorate (NSD) and Bangladesh Bank (BB). P = Provisional



Government Borrowing from Foreign Sources

Bangladesh is experiencing a paradigm shift in the field of foreign assistance from grants to credits. The trend of external resources flow clearly shows that grants to Bangladesh are decreasing and the receipts of credit from foreign sources are increasing. As a result amortization of principal and interest payment by Bangladesh is increasing which in fact reduces the net flow of external resources to Bangladesh. The net flow of foreign assistance increases during the years of natural calamities. In FY 2009-10, Bangladesh received higher foreign assistance compared to previous year's receipts. The statement of foreign interest and principal repayment clearly reveals that, Bangladesh never defaulted in repaying foreign debt. Table 4.9 shows the government borrowing from foreign sources and its repayment during FY 2000-01 to FY2009-10. The foreign aid flow situation is shown in Graph 4.3.

Table 4.9: Government Borrowing from Foreign Sources

(In million US$)

Financial year	Disbursement of Loans and Grants			Principal and Interest Payment			Net Foreign Aid Flow	
	Grant	Loans	Sub-Total	Interest	Principal	Sub-Total	After Principal Payment	After Principal & Interest Payment
1	2	3	4=2+3	5	6	7=5+6	8=4-6	9=4-7
2000-01	504	865	1369	159	438	597	931	772
2001-02	479	963	1442	151	435	586	1007	856
2002-03	510	1075	1585	156	452	608	1133	977
2003-04	338	695	1033	165	423	588	610	445
2004-05	234	1257	1491	185	434	619	1057	872
2005-06	501	1067	1568	176	502	678	1066	890
2006-07	590	1040	1630	182	540	722	1090	908
2007-08	702	1337	2039	184	582	766	1457	1273
2008-09	523	1204	1727	193	647	840	1079	887
2009-10p	634	1588	2222	190	685	875	1537	1347

Source: Economic Relations Division (ERD). P=Provisional

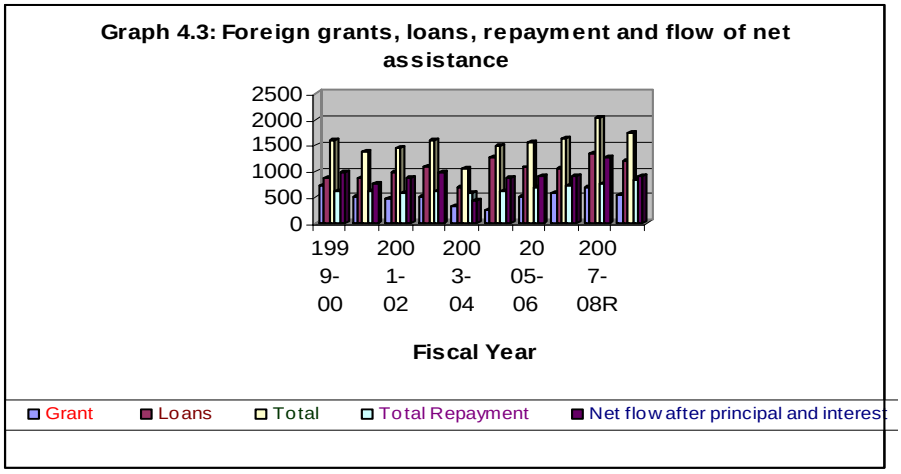
Currently, the debt obligation of the government is at a tolerable level. Financing through grant and credit from external sources is gradually narrowing due to shift in the policies of development partners. This prompted the government to take various reform initiatives and to adopt motivational measures to mobilize resources from domestic sources alongside from external sources. In principle, the government prefers concessional foreign borrowing to domestic borrowing because of the lower cost of foreign borrowing and longer repayment period.

Table 4.10: Budget at a Glance

(In crore Tk.)

Description	Budget 2010-11	Revised 2009-10	Budget 2009-10
Revenue and Foreign Grants			
Revenues	**92847**	**79484**	**79461**
Tax Revenue	76042	63956	63955
NBR-Tax Revenue	72590	61000	61000
Non-NBR Tax Revenue	3452	2956	2955
Non-Tax Revenue	16805	15528	15506
Foreign Grants	4809	3742	5130
Total:	**97656**	**83226**	**84591**
Expenditure			
Non-Development Expenditure	**85786**	**77129**	**77243**
Non-Development Revenue Expenditure	75230	68711	69504
of which			
Domestic Interest	13271	13255	14471
Foreign Interest	1438	1391	1337
Non-Development Capital Expenditure	10526	8416	7739
Net Outlay for Food Account Operation	241	60	326
Loans & Advances (Net)	3223	1188	1631
Structural Adjustment Expenditure	150	332	332
Development Expenditure	**42770**	**31817**	**33059**
Employment Generation and Development Programmes financed from Non-Development Budget	1498	1009	1420
Annual Development Program	38500	28500	30500
Non-ADP FFW and Transfer	1194	1127	1139
Total Expenditure:	**132170**	**110523**	**113819**
Overall Deficit (including Grants) :	-34514	-27297	-29228
(In Percent of GDP) :	-4.4	-3.9	-4.2
Overall Deficit (Excluding Grants) :	-39323	-31039	-34358
(In Percent of GDP) :	**-5.0**	**-4.5**	**-5.0**
Financing			
Foreign Borrowing-Net	**10834**	**9972**	**8673**
Foreign Borrowing	15968	14492	13215
Amortization	- 5134	- 4520	-4542
Domestic Borrowing	**23680**	**17325**	**20555**
Borrowing from Banking System (Net)	**15680**	**8661**	**16755**
Long-Term Debt (Net)	12570	6511	12577
Short-Term Debt (Net)	3110	2150	4178
Non-Bank Borrowing (Net)	**8000**	**8664**	**3800**
National Saving Schemes (Net)	7477	8407	3277
Others	523	257	523
Total - Financing	**34514**	**27297**	**29228**
Memorandum Item GDP	**780290**	**690571**	**686730**

Source: Finance Division.


Graph 4.3: Foreign grants, loans, repayment and flow of net assistance
2500
2000
1500
1000
500
0
1999-00
2001-02
2003-04
2005-06
2007-08R
Fiscal Year
Grant
Loans
Total
Total Repayment
Net flow after principal and interest