CHAPTER 4
FISCAL POLICY AND FISCAL MANAGEMENT

[A well balanced fiscal policy plays a very important role in maintaining macroeconomic stability, creating congenial environment for the achieving rapid economic growth and reducing poverty. Revenue-GDP ratio continues to grow though the rate of growth is slow. In FY 2010-11, the total revenue collection by NBR stood at Tk.79,402.83 crore surpassing the targets of Tk. 75,600 crore. In FY 2011-12, the revenue collection grew by 19.33 percent over that of the previous fiscal year. Specially income tax collection witnessed 22.84 percent growth compared to that of the previous fiscal year showing the progress of direct tax collection. Government expenditure as percentage of GDP has been on the increase. The utilisation of ADP increased significantly and it stood to 93 percent in FY 2011-12. Currently, the larger portion of ADP is financed from domestic sources. Aid flow has slightly decreased due to non-utilisation of external resources. Though the Government expenditure has increased, the budget deficit remained below 5 percent of GDP in FY 2011-12.]

Fiscal policy essentially governs the aggregate management of Government's revenue and expenditure. Within the broad premise of the fiscal policy the Government has to (a) prepare estimate of revenue collection (b) prepare expenditure plans and (c) identify the probable sources for financing the budget deficit. The prime objective of the fiscal policy is to maintain the balance between Government's revenue and expenditure programmes. A well balanced fiscal policy plays a very important role in meeting the spending priorities with the available resources, creating congenial environment for achieving rapid economic growth and maintaining macroeconomic stability of the country. Currently, the Government is implementing wide ranging reforms to streamline both revenue and expenditure management to bring about improvements in the delivery of public service.

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 revenues such as fees, charges, tolls etc. The level of revenue collection is considered as an accepted determinant of the stage of economic development of a country. In FY 2002-03, revenue-GDP ratio was 10.35 percent, which slowly rose to 12.09 percent in FY 2010-11. In FY 2011-12, revenue collection stood at 12.79 percent of GDP. It is evident from the trend of tax collection that, revenue-GDP ratio continues to grow though the rate of growth is slow. Table 4.1 below shows tax and non-tax revenue receipts and tax-GDP ratio during the period from FY 2002-03 to FY 2011-12.

Table 4.1: Revenue Receipts

(In Crore Tk.)

Particulars	2002-03	2003-04	2004 -05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Revenue	31,120	35,400	39,200	44,868	49,472	60,539	69,180	79,484	95,188	117033
Tax Revenue	24,950	28,300	31,950	36,1 75	39,247	48,012	55,526	63,956	79,052	94754
Non-tax Revenue	6,170	7,100	7,250	8,693	10,225	12,527	13,654	15,528	16,135	22279
As percentage of Gross Domestic Product (GDP)										
Total Revenue	10.35	10.63	10.57	10.79	10.58	11.30	11.25	11.5	12.09	12.79
Tax Revenue	8.30	8.5	8.62	8.70	8.40	8.96	9.03	9.3	10.04	10.36
Non-tax Revenue	2.05	2.13	1.96	2.09	2.18	2.34	2.22	2.2	2.05	2.43

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

Revenue 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 2011-12, various steps were taken to rationalise direct and indirect taxes with an aim to achieve the economic and social goals set out in Vision 2021 declared by the Government. Box 4.1 below captures the measures taken to improve direct and indirect tax system:

Box 4.1: Measures under Direct and Indirect Tax System for FY 2011-12

Measures under Direct Tax system

- *Tax exemption limit for individual taxpayer has been raised to Tk 1, 80,000 from Tk. 1, 65,000.*
- *The exemption limit for female taxpayers and senior citizens of 65 years and above has been enhanced to Tk 2,00,000 from Tk. 1,80,000 and for the retarded persons it has been enhanced to Tk. 2,50,000 from Tk. 2,00,000*
- *Tax rates remain unchanged at 37.5 percent for private limited companies and at 27.5 percent for public limited companies. 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 the rate of 35 percent*
- *Investment ceiling for individual tax payers to avail investment rebate has been increased from Tk. 1 million to Tk 10 million subject to the limit of 20 percent of the total income that will allow tax rebate at 10 percent on investment.*
- *Provision for minimum tax at 0.50 percent of total receipts of a company has been introduced*
- *The companies now get options to invest up to Tk. 80 million or 20 percent of the income under CSR-designated fields.*
- *Provision has been made to allow investment of undisclosed earnings in Bangladesh Government Treasury Bond and in share market subject to payment of tax at the rate of 10 percent.*
- *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*
- *Income in foreign exchange from ships operating overseas carrying Bangladeshi flag and carrying goods is*

made final on the condition that tax is deducted at source at the 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*
- *A provision has been made in the ordinance to indemnify the business capital shown by a new taxpayer if he/she admits income at the rate of 25 percent of the shown business capital and files under section 82BB (Universal Self)*
- *Section 121A has been inserted in the Ordinance giving revision power to the Commissioner of Taxes for the benefit of taxpayers*
- *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.*
- *A provision to the effect that a person seeking approval of a plan of construction from RAJUK, RDA, CDA and KDA must have a TIN and which has been inserted to broaden the tax base. Similarly, obtaining TIN has been made mandatory before getting drug license*
- *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 boundaries of all city corporations, all cantonment boards, Narayangonj Sadar, Gazipur Sadar and Tongi Sadar upzillas and Pourashabhas of Dhaka district*
- *Income from Pensioners' Sanchaypatra has been exempted from tax*
- *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 percent 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 established 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*
- *e-filing of income tax returns already introduced in Large Taxpayers Unit (LTU) will be rolled out to all taxes zones 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 unchanged and Capital Machinery and ICT sector's duty has been set at 3 percent.*
- *Five tier supplementary duty rates (20 percent, 60 percent, 100 percent, 250 percent and 350 percent) have been readjusted to eight tiers (20 percent, 30 percent, 45 percent, 60 percent, 100 percent, 250 percent ,350 percent and 500 percent). Out of this 250 percent,350 percent and 500 percent Tier supplementary duties are imposed to discourage importing of luxury goods and goods which is detrimental to public health (cigarette, alcoholic products, vehicle over the capacity of 2000 CC)*

- *Specific duty on raw sugar was first reduced to Tk. 2,000.00/MT and has been waived fully later on. Specific duty on refined sugar initially has been reduced to Tk. 4,000.00 /MT. And it was further waived fully.*
- *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) and Tk. 150.00/11.664 gm 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 bulb production in Bangladesh*
- *All duties and taxes were withdrawn from the import of solar panel to encourage the use of solar energy*
- *Tax exempted notification regarding capital machinery has been made up to date and modernised.*
- *10 percent export duty is imposed first time on the export of unmanufactured tobacco to discourage tobacco cultivation.*
- *Withdrawn 20 percent supplementary duty on Medium Density Fibre (MDF) board.*
- *Duty on powder milk has been reduced to 5 percent from 10 percent for bulk import.*

Value Added Tax (VAT)

01. Simplification of Value Added Tax (VAT) system:

- *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*
- *Regulation described in section 55 has been amended to prevent VAT evasion*
- *A provision has been made to allow installment facility for tax evaded amount in addition to the fine penalty.*
- *The threshold for annual turnover of VAT has been increased from Tk. 2.4 million to Tk. 4.0 million for SMEs.*
- *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.*
- *A clarification over the controversy related to Advance Trade VAT (ATV) has been issued*

02. VAT exemption:

- *VAT exemption at import stage covering the import of manganese ores and concentrates, pulp parts of compact energy saving fluorescent lamps and photovoltaic cells has been allowed*
- *VAT exemption at the manufacturing stage has been allowed for photovoltaic cells, handmade 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*

02. Decrease tax incidence:

- *Supplementary duty on skimmed milk powder at the manufacturing stage has been withdrawn*

03. Increase VAT coverage:

- *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.*

Imposition of supplementary Tax:

- *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 cigarettes has been enhanced.*

Source: NBR

Revenue Collection Activities

The revenue targets of FY 2011-12 were set at Tk.96,285 crore as it is evident from the collected data, the beginning of the fiscal year witnessed a strong trend in revenue collection. Analysis of revenue collection for FY 2011-12 by categories shows that the bulk of revenue collection came from income tax. Although import duty and VAT are predominant in the overall revenue collection traditionally, there is a clear directional shift in the previous two years. Value Added Tax (VAT) occupies the second place in the row. Next positions are held by customs duty, supplementary duty, excise duty and other taxes.

In FY 2010-11, the total revenue collection by NBR surpassed the targets of Tk. 75,600 crore and stood at Tk. 79,402.83 crore. Under the impact of global financial recession, achievement of primary targets of revenue collection in the previous FY 2010-11 was under slight pressure. Particularly in the first quarter, due to the impact of downward trend in export-import trade, collection of taxes fell short of targets but in the second quarter, the revenue collection reached its target as the economic activities gathered pace. Actual revenue collection stood at TK.79,402.83 crore which was Tk. 17,290.73 crore higher than the collection of the previous fiscal year showing 27 percent growth. In FY 2009-10, total revenue collection stood at Tk. 62,112.10 crore which was Tk. 9,586.49 crore or 18.25 percent higher than the collection of the previous fiscal year. In FY 2011-12, the total revenue collection under NBR amounted to Tk. 94,754.11 crore which was Tk. 15,351.28 crore or 19.33 percent higher than that of the previous fiscal year. Item-wise tax collection from FY 2008-09 to FY 2011-12 is presented in Table 4.2.

Table 4.2: Item wise Revenue Collection

(In Crore Tk.)

Items of revenue collection	FY 2008-09	FY 2009-10	FY 2010-11	FY2011-12
Import Duty	9,371.23	8997.12	11,556.05	13,268.07
VAT (at import level)	9,181.44	10,651.22	12,375.81	13,769.64
Supplementary Duty (at import level)	2,318.24	3,203.13	3,998.71	4,368.90
Export Duty (at import level)	**0.00**	**0.00**	28.71	38.95
Sub Total	**20,870.91**	**22,851.47**	**27,959.28**	**31445.56**
Excise Duty	238.34	347.49	486.18	660.36
VAT (Local)	10,965.45	13,816.85	17,832.98	21988.72
Supplementary Duty (Local)	6,173.43	7,593.34	9701.19	11920.19
Turn Over Tax	4.91	4.64	3.63	3.45
Sub Total	**17,382.13**	**21,762.35**	**28,023.98**	**34572.72**
Total of Indirect Tax	**38,253.04**	**44,613.82**	**55,983.26**	**66018.28**
Income Tax	13,857.74	17,042.28	23,007.53	28261.87
Other taxes and duties	316.47	386.06	412.04	473.96
Total of Direct Tax	**14,174.21**	**17,428.34**	**23,419.57**	**28735.83**
Grand Total	**52,427.25**	**62,042.16**	**79,402.83**	**94754.11**

Source: National Board of Revenue (NBR).

Chart 4.1: Item wise share of revenue collection for FY 2010-11

Public Expenditure

Public expenditure management is an essential part of fiscal management. While prioritising public expenditure, emphasis is given on allocative efficiency by channeling resources to the development of social and physical infrastructure, delivery of social safety net programmes for employment and income generation intended to reduce poverty and programmes for women empowerment.Total public expenditure including non-development, development , other

expenditure and expenditure-GDP ratios for FY 2011-12 and over the last decade are presented in Table 4.3.

Table 4.3: Public Expenditure

(In Crore Taka.)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Public Expenditure (a+b+c)	42075	47184	53903	59030	66836	93608	94140	110523	1,28,268	1,61,213
(a) Non-development expenditure	25307	28390	33324	36618	45412	57425	67125	77,129	82,859	1,00,985
(b)Development expenditure (ADP)[1]	15271	16817	18771	19473	17206	22500	23000	28500	33,284	41,080
(c) Other expenditure[2]	1497	1977	1808	2940	1404	13683	4015	4,894	12,125	19,148
As percentage of Gross Domestic Products (GDP)										
Public Expenditure as percent of GDP (a+b+c)	14.92	14.00	14.17	15.01	14.18	12.79	17.27	15.30	16.29	17.62
(a) Non-development expenditure	8.31	8.42	8.53	8.99	8.80	8.81	10.6	10.91	10.52	11.04
(b) Development expenditure	5.08	5.05	5.53	4.68	3.68	4.15	3.74	4.13	4.22	4.49
(c) Other expenditure	1.10	0.50	0.59	0.49	0.70	0.30	2.52	0.65	1.54	2.09

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

Expenditure under Annual Development Programme (ADP)

Though the full implementation of annual development programme is essential for the overall development of the national economy, the rate of average actual ADP expenditure hovers around 88 percent during the period from FY 2002-03 to FY 2008-09. However, in FY 2009-10 and FY 2010-11, the national average of ADP utilisation against revised ADP stood at 91 percent and 92 percent respectively. It is to be noted that though the size of the revised ADP in FY 2010-11 was much bigger compared to the previous years, the average rate of ADP utilisation was also higher than those of the previous fiscal years. Following the effective measures taken by the Government to ensure progress in ADP utilisation , it has improved with a 92 percent utilisation of revised allocation in FY 2010-11 and a further improvement in FY 2011-12 with 93 percent utilisation against a 14.50 percent larger revised ADP than that of FY 2010-11.

[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'.

Table 4.4: Implementation of Annual Development Programme (ADP)

(In Crore Tk)

Year	Original Allocation	Revised Allocation	Actual Expenditure	Expenditure as % of Revised Allocation
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	19473	91.0
2006-07	26000	21600	17917	83.0
2007-08	26500	22500	18450	83.8
2008-09	25600	23000	19688	85.5
2009-10	30500	28500	25917	91.0
2010-11	38500	35880	32854	92.0
2011-12*	46000	41080	38019.85	93.0

Source: IMED, Ministry of Planning. * Up to june-2012

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

The increasing trend of allocation and expenditure in physical infrastructure sector and socio-economic infrastructure sector through ADP is consistent with the policy and strategy of the Government. 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	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Agriculture	3.74	4.04	3.62	5.20	5.86	6.64	6.27	6.0	6.6	6.37
Rural Development	10.09	13.83	14.27	15.83	17.14	15.06	16.63	14.0	12.95	12.90
Water Resources	4.29	4.04	2.44	3.22	2.29	3.73	4.09	4.0	3.51	3.34
Industries	1.14	2.74	2.42	1.64	1.24	1.34	2.09	2.0	1.23	2.45
Power	13.70	17.26	20.74	16.22	13.87	13.27	11.67	8.0	14.28	18.88
Gas, Oil & Natural Resources	4.00	5.19	6.04	1.62	0.74	1.40	1.07	5.0	3.05	1.96
Transport	16.15	18.04	12.27	14.30	14.40	10.89	10.14	12.0	14.92	14.11
Communication	3.63	2.23	2.93	2.82	2.72	1.58	0.93	1.0	0.8	2.21
Physical Planning & Housing	5.61	5.91	6.03	7.56	6.86	7.11	11.5	12.0	9.53	10.52
Education & Religion	13.88	12.28	13.70	13.83	15.48	15.56	16.0	17.0	14.39	12.26
Health &	6.72	8.27	8.17	9.59	9.97	11.34	10.7	8.0	9.01	7.80

Sector	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Population										
Others	17.00	6.24	7.38	8.19	9.43	12.02	8.91	11.0	9.74	7.19
Total ADP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.00**	**100.0**	**100.0**	**100.0**	**100.0**

Source: IMED, Ministry of Planning.

Budget Balance and Financing

Budget is the annual action plan for channeling resources in line with the national plans and strategies adopted for economic growth, poverty reduction and social development. A budget deficit occurs when 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 31 percent people of Bangladesh those are still living below the poverty line. Transfer of public resources to the poor and vulnerable section of the population creates purchasing power of the huge population and thus propels growth by increasing aggregate demand though it increases slightly the overall budget deficit. 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. Table 4.6 below shows data on budget deficit and the mode of its financing during the period from FY 2002-03 to FY 2011-12.

Table 4.6: Overall Budget Balance

(As Percent of GDP)

Budget Deficit/ financing	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Overall budget deficit (excluding foreign grants)	-4.4*	-4.2*	-4.2*	-3.9*	-3.7	-6.2*	-4.0	-3.98	-4.52	-5.1
Overall budget deficit (including foreign grants)[3]	-3.7	-3.4	-3.4	-3.3	-3.3	-5.4***	-3.2	-3.5	-3.98	-4.5
Net foreign financing[4]	1.7	2.3	2.4	1.7	1.8	2.5	1.8	2.0	1.2	1.3
Net domestic financing[5]	1.3	2.2	1.8	2.2	1.9	3.7	2.2	2.5	3.3	3.8

*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 , 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.

Domestic Resources for ADP

The contribution of domestic resources towards financing of ADP shows an upward trend and accounts for about 50 percent of the financing of ADP. During the period from FY 2002-03 to 2009-10, only in FY 2007-08, the contribution of domestic resources fell below 40 percent. It is to be noted that during FY 2007-08, there was an increased flow of external resources to carry out rehabilitation work following recurrent floods and devastation of the cyclone Sidr. In FY 2011-12, the share of domestic resources went up to 60.48 percent for financing a larger ADP compared to that of the previous year. Table 4.7 below shows the financing of ADP from domestic sources during the period from FY 2002-03 to FY 2011-12.

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

(In Crore Tk.)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Financing	17100	19000	20500	21500	21600	22500	23000	28500	35,588	41080
Domestic Financing	8859	9590	10070	10800	11480	7973	10011	12000	20850	26080
Domestic financing as % of Total ADP allocation	51.81	50.47	49.12	50.23	53.00	35	44	42	58.59	63.48

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

Public Debt

The Government resorts to borrowing to build critical infrastructure to crowd in private sector investment, fulfill its commitment for balanced development by reducing regional disparity, ensuring supply of essential services to mitigate public hazards, 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 2002-03 through FY 2011-12 and Graph 4.2 shows source-wise Government borrowing from domestic sources over the last 10 years. Borrowing from Bangladesh Bank

Table 4.8: Net Government Borrowing from Domestic Sources

(In Crore Taka)

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
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

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			
2005-06	9351.80	-3310.40	6041.40	3103.23	9144.73	2.2
2006-07	905.00	3510.90	4415.90	4682.30	9098.20	1.9
2007-08	66.20	10893.40	10959.60	3144.80	14104.40	2.6
2008-09	2958.10	8317.9	11276.00	5596.00	16872.00	2.7
2009-10	-6634.90	2842.00	-3792.90	12419.57	8626.67	1.3
2010-11	9729.10	9314.70	19043.80	3029.05	22072.85	2.8
2011-12	6408.30	9174.70	15583.00	780.50	16363.50	1.82

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

Government Borrowing from External Sources

The trend of the inflow of external assistance shows that the credit component of such assistance far outweighs the quantum of grants which is on the decline. As a result, outflow of budgetary resources in the form of amortization is increasing which in fact reduces the net flow of external resources to Bangladesh. Table 4.9 shows the Government borrowing from external sources and its repayment during FY 2002-03 to FY 2011-12. 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
2002-03	510	1075	1585	156	452	608	1133	977
2003-04	338	695	1033	165	423	588	610	445

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
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	658	1403	2061	184	586	770	1475	1291
2008-09	658	1189	1847	200	655	855	1192	992
2009-10	634	1588	2222	190	685	875	1537	1347
2010-11	745	1032	1777	200	729	929	1048	848
2011-12*	452	955	1407	154	557	711	850	696

Source: Economic Relations Division (ERD).* up to march 2012.

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 adopt measures to mobilize resources from domestic sources alongside those from external sources.

Table 4.10: Budget at a Glance

(In Crore Taka)

Description	Revised 2011-12	Budget 2011-12	Revised 2010-11
Revenue and Foreign Grants			
Revenues	**1,14,885**	**1,18,385**	**92,991**
Tax Revenue	96,285	95,785	79,548
NBR-Tax Revenue	92,370	91,870	76,248
Non-NBR Tax Revenue	3,915	3,915	3,300
Non-Tax Revenue	18,600	22,600	13,443
Foreign Grants	4,460	4,938	2058
Total:	**1,19,345**	**1,23,323**	**95,049**
Expenditure			
Non-Development Expenditure	**1,00,985**	**1,02,903**	**82,859**

Non-Development Revenue Expenditure	91,823	87,851	77,469
of which			
Domestic Interest	18,145	16,519	14,200
Foreign Interest	1,651	1,478	1,423
Non-Development Capital Expenditure	9,163	15,052	5,390
Net Outlay for Food Account Operation	384	631	2,385
Loans & Advances (Net)	14,193	9,413	7,254
Structural Adjustment Expenditure	0	0	37
Development Expenditure	**45,650**	**50,642**	**35,733**
Employment Generation and Development Programmes financed from Non-Development Budget	3,286	3,366	1730
Annual Development Program	41,080	46,000	33284
Non-ADP FFW and Transfer	1,284	1276	719
Total Expenditure:	**1,61,213**	**1,63,589**	**1,28,268**
Overall Deficit (including Grants) :	-41,868	-40,266	-33,219
(In Percent of GDP) :	-4.5	-4.4	-4.2
Overall Deficit (Excluding Grants) :	46,328	45,204	35,277
(In Percent of GDP) :	**-5.1**	**-5.0**	**-4.5**
Financing			
Foreign Borrowing-Net	**7,399**	**13,058**	**2,629**
Foreign Borrowing	14,036	18,685	8,056
Amortization	6,637	5,637	5,427
Domestic Borrowing	**34,469**	**27,208**	**30,589**
Borrowing from Banking System (Net)	**29,115**	**18,957**	**25,210**
Long-Term Debt (Net)	21,287	17,878	12,443
Short-Term Debt (Net)	7,828	1,079	12,767
Non-Bank Borrowing (Net)	**5,354**	**8,251**	**5,379**
National Saving Schemes (Net)	3,500	6,000	1,802
Others	1,854	2,251	3,577
Total - Financing	**41,868**	**40,266**	**33,218**
Memorandum Item GDP	**9,14,784**	**8,99,670**	**7,87,495**

Source: Finance Division.