# CHAPTER 4
# FISCAL POLICY AND FISCAL MANAGEMENT

***[****Fiscal policy determines the level of public revenue and public expenditure and directs the measures required to maintain balance between the two. 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 well- 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 collections such as fees, charges, tolls etc. The level of revenue speaks of the stage of economic development of a country. In FY 2001-02, revenue-GDP ratio was 10.2 percent, which slowly 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. Then on the rising trend in revenue collection continued and it rose 12.1 percent in FY2010-11. Table 4.1 below shows tax and non-tax revenue receipts and tax-GDP ratio during the period from FY2001-02 to FY2010-11.

**Table 4.1: Revenue Receipts**

(In Crore Taka)

| Particulars | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenue | 27,893 | 31,120 | 35,400 | 39,200 | 44,868 | 49,472 | 60,539 | 69,180 | 79,484 | 95,187 |
| Tax Revenue | 21,332 | 24,950 | 28,300 | 31,950 | 36,175 | 39,247 | 48,012 | 55,526 | 63,956 | 79,052 |
| Non-tax Revenue | 6,561 | 6,170 | 7,100 | 7,250 | 8,693 | 10,225 | 12,527 | 13,654 | 15,528 | 16,135 |
| As percentage of Gross Domestic Product (GDP) | | | | | | | | | | |
| Total Revenue | 10.21 | 10.35 | 10.63 | 10.57 | 10.79 | 10.58 | 11.17 | 11.24 | 11.5 | 12.1 |
| Tax Revenue | 7.81 | 8.30 | 8.5 | 8.62 | 8.70 | 8.40 | 8.86 | 9.02 | 9.2 | 10.0 |
| Non-tax Revenue | 2.4 | 2.05 | 2.13 | 1.96 | 2.09 | 2.19 | 2.31 | 2.22 | 2.2 | 2.10 |

**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 2010-11, 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 2010-11***

***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 from 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 a 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. Five new fields, namely (1) national level institution set up in memory of liberation war, (2) national level institution set up in memory of the Father of the Nation, (3) Prime Minister's education assistance fund, (4) Shares, Stocks, mutual fund units acquired through Initial Public Offerings (IPO) and Bangladesh Government Treasury Bonds have been include under the investment rebate scheme.*
- *Provision has been introduced in the income tax law to impose surcharge at 10% on those taxpayers having net wealth worth Tk 20 million*
- *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 80 million or 20 percent of the income under CSR- designated fields. Three new fields have been incorporated under CSR, namely, (1) national level institution set up in memory of liberation war, (2) national level institution set up in memory of the Father of the Nation, (3) Prime Minister's education assistance fund*
- *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 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*
- *8$^{th}$ 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 a 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 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 upzilas 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. In FY 2010-11 customs duties on basic raw materials have been reduced to 5 percent from 7 percent. While customs duty on Intermediate goods remain unchanged at 12 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)*
- *Specific duty on raw sugar was first reduced to TK. 4000.00/MT and has been waived fully later on. Specific duty on refined sugar initially has been reduced to Tk. 3,000.00 /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 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*
- *Full exemption of duties and taxes in FY 2010-11 was granted on phosphoric acid, one of the basic raw*

*materials of chemical fertilizer*

- *Raw materials and packaging items have been given duty exemption and other facilities to facilitate import at a concessional rate for the expansion of insecticides industry in Bangladesh.*

***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*
- *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*
- *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, 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 cigarettes has been enhanced*
- *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 2010-11 were under challenge due to the fall out impact of the global financial crisis. The global economy was recovering from the 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 2010-11 made remarkable progress with a 27 percent overall increase compared to the collection of FY 2009-10. Analysis of revenue collection for FY2010-11 by categories shows that the bulk of revenue collection comes from value added tax (VAT, local and import level). Income tax occupies the second place in the row. Next positions are held by supplementary duty, customs 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 gained momentum to become the second largest source for revenue earnings over import duties and supplementary duties respectively.

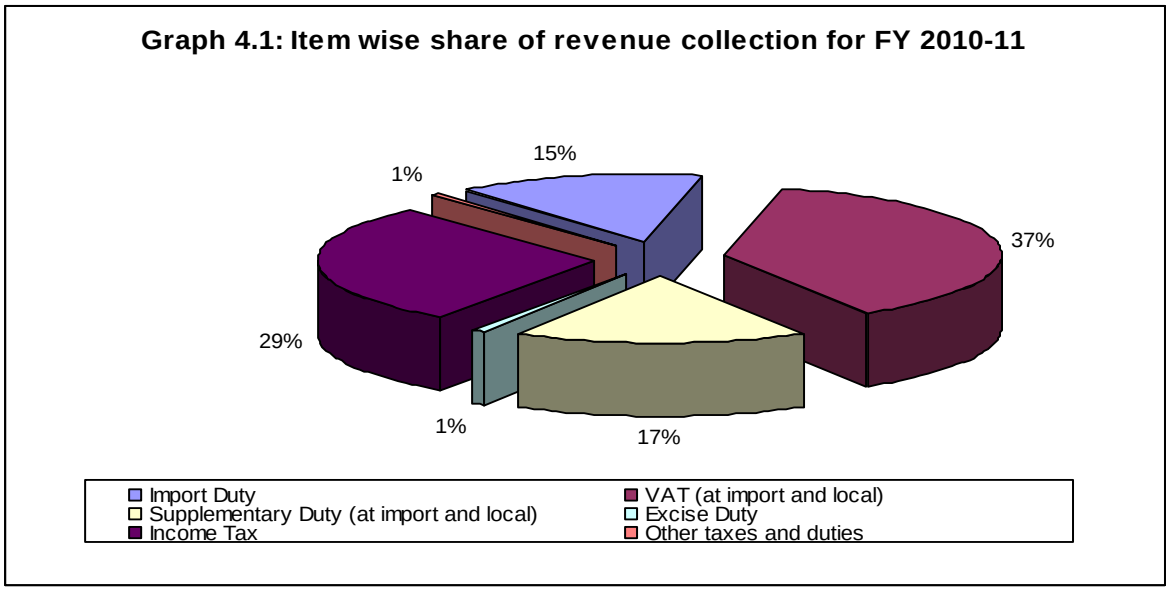
In FY 2010-11, the total revenue collection by NBR sources surpassed the targets of Tk. 79,052 crore and the total NBR revenue collection stood at Tk.79,402.83 crore which was Tk. 17,290.73 crore higher than the collection of the previous fiscal year showing 27 percent growth. In FY 2009-10, total revenue collection stood at Tk 62,112.10 crore which was Tk 5,236.49 crore or 11.06 percent higher than the collection of the previous year. In FY 2008-09, the total revenue collection under NBR amounted to Tk. 52,525.61 crore which was Tk. 3,216.89 crore or 9.46 percent higher than that of the previous year. Item-wise tax collection from FY2007-08 to FY 2010-11 is presented in Table 4.2.

**Table 4.2: Item wise Revenue Collection**

(In Crore Taka)

| **Items of revenue collection** | **2007-08** | **2008-09** | **2009-10** | **2010-11** |
|---|---|---|---|---|
| Import Duty | 9,619.19 | 9,351.92 | 9,515.62 | 11,556.05 |
| VAT (at import level) | 8,474.66 | 9,186.92 | 10,275.83 | 12,375.81 |
| Supplementary Duty (at import level) | 1,752.86 | 2,331.37 | 3,099.04 | 3,998.71 |
| Export Duty (at import level)* | - | - | - | 28.71 |
| **Sub Total** | **19,846.71** | **20,870.21** | **22,890.49** | **27,959.28** |
| Excise Duty | 213.69 | 238.34 | 347.48 | 486.18 |
| VAT (Local) | 9,181.03 | 10,965.40 | 13,811.99 | 17,832.98 |
| Supplementary Duty (Local) | 6,001.07 | 6,173.43 | 7,595.68 | 9701.19 |
| Turn Over Tax | 4.68 | 4.96 | 4.64 | 3.63 |
| **Sub Total** | **15,400.47** | **17,382.13** | **21,759.79** | **28,023.98** |
| **Total of Indirect Tax** | **35,247.18** | **38,252.34** | **44,650.28** | **55,983.26** |
| Income Tax | 11,595.32 | 13,858.09 | 17,075.97 | 23,007.53 |
| Other taxes and duties | 446.62 | 415.18 | 385.85 | 412.04 |
| **Total of Direct Tax** | **12,041.94** | **14,273.27** | **17,461.82** | **23,419.57** |
| **Grand Total** | **47,289.12** | **52,525.61** | **62,112.10** | **79,402.83** |

**Source:** National Board of Revenue (NBR).* Introduced in 2010-11.




## Public Expenditure

The principal objectives of huge public outlays each year are to build physical infrastructure for attracting investment, reducing poverty and developing human resources. Total public expenditure, development expenditure and expenditure-GDP ratio for FY 2010-11 and over the last decade are presented in Table 4.3.

**Table 4.3: Public Expenditure**

(In Crore Taka)

| **Particulars** | **2001-02** | **2002-03** | **2003-04** | **2004-05** | **2005-06** | **2006-07** | **2007-08** | **2008-09** | **2009-10** | **2010-11** |
|---|---|---|---|---|---|---|---|---|---|---|
| Public Expenditure (a+b+c) | 40757 | 42075 | 47184 | 53903 | 59030 | 66836 | 93608 | 94140 | 11052 | 130011 |
| (a) Non-development expenditure | 22700 | 25307 | 28390 | 33324 | 36618 | 45412 | 57425 | 67125 | 77,129 | 83177 |
| (b)Development expenditure (ADP)[1] | 15050 | 15271 | 16817 | 18771 | 19473 | 17206 | 22500 | 23000 | 28500 | 35880 |
| (c) Other expenditure[2] | 3008 | 1497 | 1977 | 1808 | 2940 | 1404 | 13683 | 4015 | 4,894 | 10954 |
| **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 | 16.5 |
| (a) Non-development expenditure | 8.10 | 8.31 | 8.42 | 8.53 | 8.99 | 8.80 | 8.81 | 10.6 | 10.91 | 10.5 |
| (b) Development expenditure | 5.51 | 5.08 | 5.05 | 5.53 | 4.68 | 3.68 | 4.15 | 3.74 | 4.13 | 4.6 |
| (c) Other expenditure | 0.38 | 1.10 | 0.50 | 0.59 | 0.49 | 0.70 | 0.30 | 2.52 | 0.65 | 1.4 |

**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 2005-06, expenditure on pay and allowances was 26.6 percent of total non-development expenditure (Appendix 20.1). In FY 2006-07 it increased to 28.4 percent and after that it continued to decrease to 23.6, 22.4 and 22.3 percent of total non-development expenditure respectively for FY 2007-08, FY 2008-09 and FY 2009-10. In FY 2005-06, the expenditure on subsidy and current transfer accounted for 29.1 percent of total non-development expenditure. In FY 2006-07, 2007-08, 2008-09 and 2009-10, the expenditure on subsidy and current transfer accounted for 31.4, 33.7, 38.3 and 35.8 percent of total non-development expenditure respectively. In FY 2005-06, 2006-07, 2007,-08, 2008-09 and 2009-10 the shares of interest payments on foreign and domestic loans in total non-development outlays were 19.8, 20.2, 20.6, 19.7 and 18.7 percent respectively.

## Expenditure under Annual Development Programme (ADP)

The average actual expenditure against the revised allocation of ADP was around 88 percent during the period from FY2001-02 to FY 2008-09 (Table 4.4). In FY2006-07 and FY 2007-08, the utilisation of ADP declined significantly and it dropped to 83 and 82 percent respectively. The lower utilisation of ADP has serious consequences as it narrows the scope of investment and curtails employment opportunity. The government has taken effective measures to ensure progress in ADP utilisation and it has improved with a 91 percent utilization of revised allocation in FY 2009-10 and a further improvement in FY 2010-11 with 92 percent utilization against a 26 percent larger revised ADP than that of the 2009-10.

**Table 4.4: Implementation of Annual Development Programme (ADP)**

(In Crore Taka)

| Year | Original Allocation | Revised Allocation | Actual Expenditure | Expenditure as % of Revised Allocation |
|---|---|---|---|---|
| 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 |
| 2009-10 | 30500 | 28500 | 25920 | 91.0 |
| 2010-11 | 38,500 | 35,880 | 30007 | 92.0 |

**Source:** IMED, Ministry of Planning. Data are based on revised ADP.

## 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 twin goals of the government: achieving higher

growth and reducing poverty. The Government's highest priority in reducing power shortage is reflected in the largest share (19 %) of ADP expenditure in the power sector in FY 2010-11. 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 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 4.4 | 3.74 | 4.04 | 3.62 | 5.20 | 5.86 | 7.00 | 6.27 | 6.0 | 6.0 |
| Rural Development | 11.1 | 10.09 | 13.83 | 14.27 | 15.83 | 17.14 | 15.00 | 16.6 | 14.0 | 13.0 |
| Water Resources | 5.4 | 4.29 | 4.04 | 2.44 | 3.22 | 2.29 | 4.00 | 4.09 | 4.0 | 3.0 |
| Industries | 1.9 | 1.14 | 2.74 | 2.42 | 1.64 | 1.24 | 1.00 | 2.09 | 2.0 | 1.0 |
| Power | 12.1 | 13.70 | 17.26 | 20.74 | 16.22 | 13.87 | 13.00 | 11.7 | 8.0 | 19.0 |
| Gas, Oil & Natural Resources | 3.1 | 4.00 | 5.19 | 6.04 | 1.62 | 0.74 | 1.00 | 1.07 | 5.0 | 3.0 |
| Transport | 19.9 | 16.15 | 18.04 | 12.27 | 14.30 | 14.40 | 11.00 | 10.10 | 12.0 | 12.0 |
| Communication | 6.1 | 3.63 | 2.23 | 2.93 | 2.82 | 2.72 | 2.00 | 0.93 | 1.0 | 1.0 |
| Physical Planning & Housing | 6.6 | 5.61 | 5.91 | 6.03 | 7.56 | 6.86 | 7.00 | 11.5 | 12.0 | 9.0 |
| Education & Religion | 14.2 | 13.88 | 12.28 | 13.70 | 13.83 | 15.48 | 16.00 | 16.0 | 17.0 | 15.0 |
| Health & Population | 7.9 | 6.72 | 8.27 | 8.17 | 9.59 | 9.97 | 11.00 | 10.7 | 8.0 | 9.0 |
| Others | 7.4 | 17.00 | 6.24 | 7.38 | 8.19 | 9.43 | 12.00 | 8.94 | 11.0 | 9.0 |
| **Total ADP** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.00** | **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. Annual budget is now prepared for achieving targets set in the sixth five year plan. 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 people 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. 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 Table 4.6 below shows data on budget deficit and the mode of its financing during the period from FY 2001-02 to FY 2010-11.

**Table 4.6: Overall Budget Balance**

(As Percent of GDP)

| Budget Deficit/ financing | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|---|---|---|---|
| Overall budget deficit (excluding foreign grants) | -5.1 | -4.4* | -4.2* | -4.2* | -3.9* | -3.7* | -6.1* | 4.0* | 4.5 | 4.4 |
| Overall budget deficit (including foreign grants)[3] | -4.1 | -3.7 | -3.4 | -3.4 | -3.3 | -3.3 | -5.3* | 3.4 | 3.9 | 3.8 |
| Net foreign financing[4] | 2.0 | 1.7 | 2.3 | 2.4 | 1.7 | 1.8 | 2.4 | 0.6 | 2.0 | 1.3 |
| Net domestic financing[5] | 2.7 | 1.3 | 2.2 | 1.8 | 2.2 | 1.9 | 3.7 | 2.8 | 2.5 | 3.1 |

*According to actual out turn, 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.

## 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, the flow of external assistance registered a sharp growth as there was increased flow of resources to carry out rehabilitation work following recurrent floods and devastation of the cyclone Sidr. In FY 2010-11, the share of domestic resources went up to 66.7 percent 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 2001-02 to FY2010-11.

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

(In Crore Taka)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Financing | 16000 | 17100 | 19000 | 20500 | 21500 | 21600 | 22500 | 23000 | 28500 | 35880 |
| Foreign Financing | 8215 | 8241 | 9410 | 10430 | 10700 | 10194 | 14430 | 12990 | 16500 | 23950 |
| Domestic Financing | 7785 | 8859 | 9590 | 10070 | 10800 | 11406 | 8424 | 10011 | 12000 | 11930 |
| Domestic financing as % of Total ADP allocation | 48.66 | 51.81 | 50.47 | 49.12 | 50.23 | 52.81 | 37.44 | 55.65 | 42.1 | 66.7 |

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

## Public Debt Management

[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.

The government resorts to borrowing to create critical infrastructure to crowd in private sector investment, fulfil its commitment for ensuring welfare to the larger community, 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 2001-02 through FY 2010-11. In FY2010-11 Government borrowing has increased as percent of GDP due to financing requirement for a larger ADP. Source-wise government borrowing from domestic sources over the last 10 years is presented in Table 4.8 and in Graph 4.2.

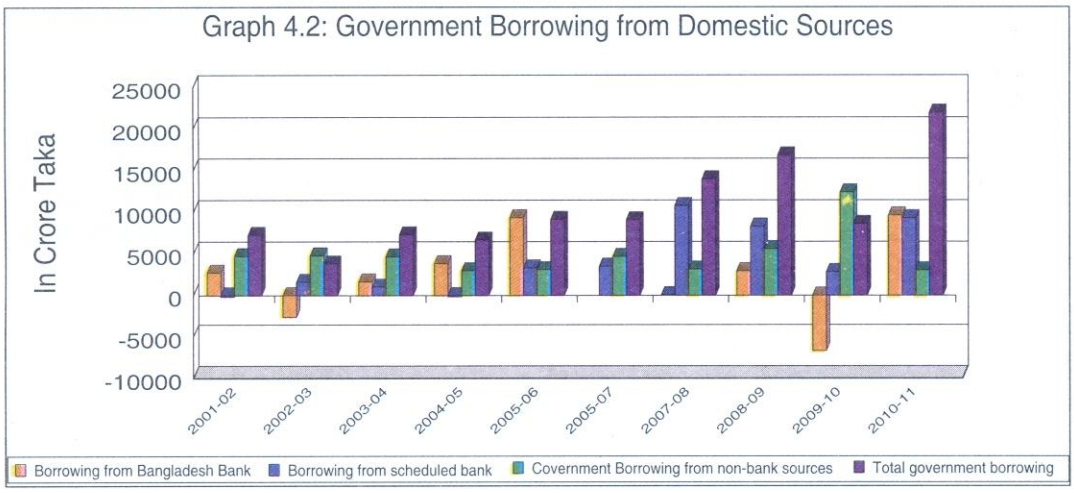
## Domestic Sources

**Table 4.8: Net Government Borrowing from Domestic Sources**

(In Crore 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 |
| 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 |
| 2008-09 | 2958.1 | 8317.9 | 11276.00 | 5596.00 | 16872.00 | 2.7 |
| 2009-10 | -6634.90 | 2842.00 | -3792.90 | 12419.57 | 8626.67 | 1.25 |
| 2010-11 | 9661.40 | 9314.70 | 18976.10 | 3029.05 | 22005.15 | 2.79 |

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



## Government Borrowing from Foreign Sources

Bangladesh is experiencing a clear shift in the mix of foreign assistance. The trend clearly shows that the credit component of such assistance far outweighs the quantum of grants which is on the decline. As a result, outflow of budget 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 foreign sources and its repayment during FY 2000-01 to FY 2010-11. The foreign aid flow situation is shown in Graph 4.3.

**Table 4.9: Government Borrowing from Foreign Sources**

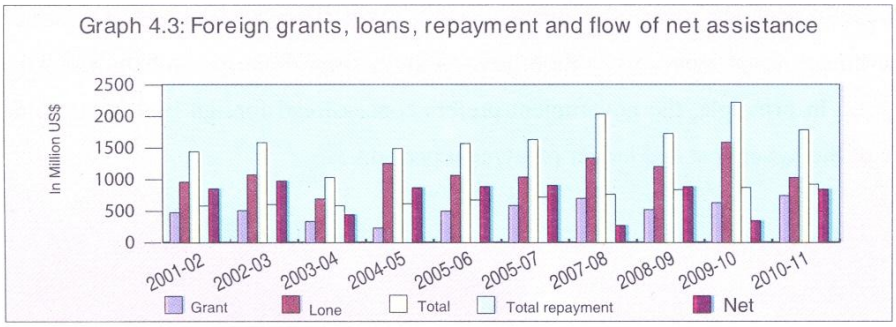
(In Million US$)

| 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 |
| 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 |
| 2009-10 | 634 | 1588 | 2222 | 190 | 685 | 875 | 1537 | 1347 |
| 2010-11p | 745 | 1031 | 1776 | 200 | 729 | 929 | 1047 | 847 |

**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 adopt measures to mobilize resources from domestic sources alongside those from external sources. In principle, the government prefers concessional foreign borrowing to domestic borrowing because of the lower cost and longer repayment period.

**Table 4.10: Budget at a Glance**

(In Crore Taka)

| Description | Budget 2011-12 | Revised 2010-11 | Budget 2010-11 |
|---|---|---|---|
| **Revenue and Foreign Grants** | | | |
| **Revenues** | **1,18,335** | **95,187** | **92847** |
| Tax Revenue | 95,785 | 79,052 | 76042 |
| NBR-Tax Revenue | 91,870 | 75,600 | 72590 |
| Non-NBR Tax Revenue | 3,915 | 3,452 | 3452 |
| Non-Tax Revenue | 22,600 | 16,135 | 16805 |
| **Foreign Grants** | 4,938 | 4,224 | 4809 |
| **Total:** | **1,23,323** | **99,411** | **97656** |
| **Expenditure** | | | |
| **Non-Development Expenditure** | **1,02,903** | **83,177** | **85786** |
| Non-Development Revenue Expenditure | 87,851 | 77,103 | 75230 |
| of which | | | |
| Domestic Interest | 16,519 | 13,156 | 13271 |
| Foreign Interest | 1,478 | 1,422 | 1438 |
| Non-Development Capital Expenditure | 15,052 | 6,074 | 10526 |
| **Net Outlay for Food Account Operation** | 631 | 351 | 241 |
| **Loans & Advances (Net)** | 9,413 | 6,718 | 3223 |
| **Structural Adjustment Expenditure** | 0 | 150 | 150 |
| **Development Expenditure** | **50,642** | **39,615** | **42770** |
| Employment Generation and Development Programmes financed from Non-Development Budget | 3,366 | 2,441 | 3,076 |
| Annual Development Programme | 46,000 | 35,880 | 38500 |
| Non-ADP FFW and Transfer | 1276 | 1,294 | 1194 |
| **Total Expenditure:** | **1,63,589** | **1,30,011** | **132170** |
| **Overall Deficit (including Grants ) :** | -40,266 | -30,600 | -34514 |
| (In Percent of GDP) : | -4.4 | -3.8 | -4.4 |
| **Overall Deficit (Excluding Grants ) :** | -45,204 | 34,824 | -39323 |
| (In Percent of GDP) : | **-5.0** | **-4.4** | **-5.0** |
| **Financing** | | | |
| **Foreign Borrowing-Net** | **13,058** | **5,783** | **10834** |
| Foreign Borrowing | 18,685 | 10,920 | 15968 |
| Amortization | - 5,637 | -5,137 | - 5134 |
| **Domestic Borrowing** | **27,208** | **24,817** | **23680** |
| **Borrowing from Banking System (Net)** | **18,957** | **18,389** | **15680** |
| Long-Term Debt (Net) | 17,878 | 16,062 | 12570 |
| Short-Term Debt (Net) | 1,079 | 2,317 | 3110 |
| **Non-Bank Borrowing** (Net) | **8,251** | **6,438** | **8000** |
| National Saving Schemes (Net) | 6,000 | 5,919 | 7477 |
| Others | 2,251 | 519 | 523 |
| **Total - Financing** | **40,266** | **30,600** | **34514** |
| **Memorandum Item GDP** | **8,99,670** | **7,87,495** | **780290** |