

## CHAPTER 4

### FISCAL POLICY AND FISCAL MANAGEMENT

Sound fiscal policy is fundamental to maintaining macroeconomic stability and fostering economic growth. The present government has continued its reform programmes to streamline revenue administration and public expenditure management. These reform programmes have direct bearing on the fiscal policy.

Formulation and implementation of sound fiscal policy is one of the most important functions of the government. Fiscal policy is formulated in line with the government's National Strategy for Accelerated Poverty Reduction (NSAPR). Excess expenditure over revenue collection (fiscal deficit) may have adverse impact on the other sectors of the economy. Prudent fiscal management is, therefore, of immense importance in the overall economic management of the government.

#### Government Receipts

Tax revenue is the main source of the government revenue. Tax revenue accounts for about 80 percent of total government revenue. In FY 1996-97, revenue/GDP ratio was 9.62 percent, which rose to 10.21 percent in FY2001-02. In FY 2006-07 the revenue/GDP rose to 10.58 percent. Table 4.1 shows tax and non-tax revenue receipts and tax-GDP ratio during the period from FY1996-97 to FY2006-07.

**Table 4.1: Revenue Receipts**

(In crore Tk.)

| Particulars   | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total Revenue   | 17385   | 19020   | 19767   | 20074   | 24342   | 27893   | 31120   | 35400   | 39200   | 44868   | 49472   |
| Tax Revenue   | 14261   | 15390   | 16167   | 16079   | 19778   | 21332   | 24950   | 28300   | 31950   | 36175   | 39247   |
| Non-tax Revenue                                       | 3124    | 3630    | 3600    | 3995    | 4564    | 6561    | 6170    | 7100    | 7250    | 8693    | 10225   |
| <b>As percentage of Gross Domestic Products (GDP)</b> |         |         |         |         |         |         |         |         |         |         |         |
| Total Revenue   | 9.62    | 9.5     | 9.0     | 8.47    | 9.6     | 10.21   | 10.35   | 10.63   | 10.57   | 10.79   | 10.58   |
| Tax Revenue   | 7.89    | 7.69    | 7.36    | 6.78    | 7.8     | 7.81    | 8.30    | 8.5     | 8.62    | 8.70    | 8.40    |
| Non-tax Revenue                                       | 1.73    | 1.81    | 1.64    | 1.69    | 1.8     | 2.4     | 2.05    | 2.13    | 1.96    | 2.09    | 2.19    |

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

#### Tax Management

Determination of tax policy of the government and its implementation are reposed on the National Board of Revenue (NBR). During FY 2006-07, various steps were taken to rationalise direct and indirect taxes to achieve accelerated economic growth aimed at reducing poverty, infusing more dynamism in the agriculture sector, expansion of export-oriented industries and exports, development of domestic industries, enhancing industrial productivity and creation of employment opportunities (Box 4.1).

**Box 4.1: Measures under Direct and Indirect Tax System for FY 2006-07****Measures under Direct Tax system**

- Limit for tax exempt-income for individual assesses has been increased from Tk. 1,20,000.00 to 1,50,000.00
- For self occupied housing property, interest expense against house building loan up to Tk. 20,00,000.00 is to be treated as deductible expenses
- Collection of Advance Income Tax (AIT) from credit card bill abolished
- Introduction of Universal Self-Assessment System
- Deduction of the amount of penalty for non-submission of income tax return.
- Income tax investment rebate for non-resident Bangladeshis introduced
- Deadline for depositing of AIT extended from 1 week to 3 weeks
- Like woven and knit garments, collection of AIT at the rate of 0.25% from the sale proceeds of any good or commodity exported at source level
- Tax exemption on Zero Coupon Bonds
- Abolition of upfront AIT from the Treasury bill and Treasury bond issued by the government
- Threshold limit for paying AIT increased from Tk. 2,00,000.00 to 3,00,000.00
- Deduction of AIT at the rate of 10% from trustee fee and deduction of AIT at the rate of 7.5% from freight forward agency commission
- Tax Holiday for Solar Energy Plants
- Introduction of Unified Taxpayers' Identification Number (UTIN) for assesseees having Taxpayers Identification Number (TIN) & Business Identification Number (BIN)
- Tax exemption period for agricultural industries extended up to 30 June 2008
- Exemption facilities for inward remittances in Bangladesh for foreign nationals withdrawn
- In case of jute and textile industries rebated tax at the rate of 15% extended up to 30 June 2008
- Special tax rate of 15% for diamond cutting & polishing industries introduced
- Transfer of capital for new assesseees availing and self-assessment system restricted to prevent tax evasion
- 10% tax rebate allowed in case of assesseees paying tax at the highest rate of 25% and showing 10% higher income than the previous year
- Minimum tax rate for companies introduced by inserting a new section 16cc
- New sections of laws introduced for courier services, cash incentives for exports and credit card
- Bangladesh has so far signed agreements with 25 countries to avoid double taxation

**Measures under Indirect Tax System****Customs duty**

- Four tier duty structure and the highest duty rate of 25% of last fiscal year (FY06) remained unchanged in fiscal year 2006-07. However, customs duty on intermediate goods and basic raw materials reduced from 13% to 12% and from 6% to 5% in fiscal year 2006-07
- Six-tier supplementary duty rates of 20%, 35%, 65%, 100%, 250% and 350% prevailing in the last fiscal year reviewed. Number of tiers remained unchanged, while two slabs @ 20% and 35% reduced to 15% and 25% respectively
- Tax incidence on sugar in FY2006-07 reduced. Specific duty at the rate of Tk. 2250.00/MT imposed on raw-sugar, while Tk. 5000.00/MT imposed on refined sugar in FY 2006-07
- Specific duty on mobile phone reduced from Tk. 300.00 to Tk. 200.00 per set
- Import duty and taxes exempted from capital machinery and raw materials for poultry industries
- Customs duty rate reduced in some raw materials for plastic, melamine and electronics industries in FY 2006-07
- Some reforms initiated in the Customs Act to mitigate container congestion at port

**Value Added Tax (VAT)**

- (a) In order to ensure quicker disposal of appeal cases, the time limit reduced from one year to nine months for Commissioner, Customs, Excise & VAT (Appeal) and VAT Appellate Tribunal
- (b) A provision introduced for taxpayers to get any VAT documents by providing certain fees
- (c) The time limit for submitting challan/invoice (musuk- 11) extended from 72 hours to 3 (three) working days.
- (d) In the VAT Act, there is a provision for imposition of a minimum fine ranging from an amount equal to the amount of tax evaded to a maximum of two and a half times of tax evaded. It is binding for VAT officials to impose a minimum penalty equal to the amount of tax evaded even for minor offences. In order to remove this inconsistency, the amount of fine and penalty reduced in FY2006-07 to a minimum of half and maximum of the twice evaded tax. On the other hand, in case of relative minor irregularities the amount of fine and penalty reduced to a minimum of Tk. 5,000 from Tk. 10,000 and for minor offences to Tk. 20,000.00 from Tk. 25,000.00
- VAT exempted on some new items at import and production stages. The items include sugar, petroleum bitumen (in drum and bulk), waste paper, synthetic staple fiber, synthetic filament tow at the import stage and chimney for using kerosene lantern at the production stage

- With a view to increasing domestic revenue, VAT network expanded in FY2006-07 by introducing some new goods and services under the VAT. These are as follows:
  - (a) VAT on smart card and infusion set at import stage withdrawn
  - (b) VAT exemption on land development agencies withdrawn and imposed @1.5%
- VAT imposed on some services for expanding VAT base. These are: (1) black and white photo studios, (2) graphic designers, (3) cellular fixed wireless telephone (a portable telephone set with antenna, which can be connected with mobile and land telephone system)
- To encourage the development of telecommunication sector, tax reduced from Tk 900 to Tk 800 for each cellular mobile phone connection to ensure availability of telecommunication facilities to the people at an affordable price
- To encourage the development of local dairy industries, supplementary duty withdrawn from local production on packed powder milk sold in packs of 2.5kg and over
- To remove distortion and to ensure equity among taxpayers, exemptions were withdrawn from turnover tax on some services, such as,- residential hotel, decorator and caterer, community center, beauty parlour, shipping agent, air-conditioned bus and railway service and transmitting advertisement through satellite channels under VAT system

Source: NBR

### Revenue Collection Activities

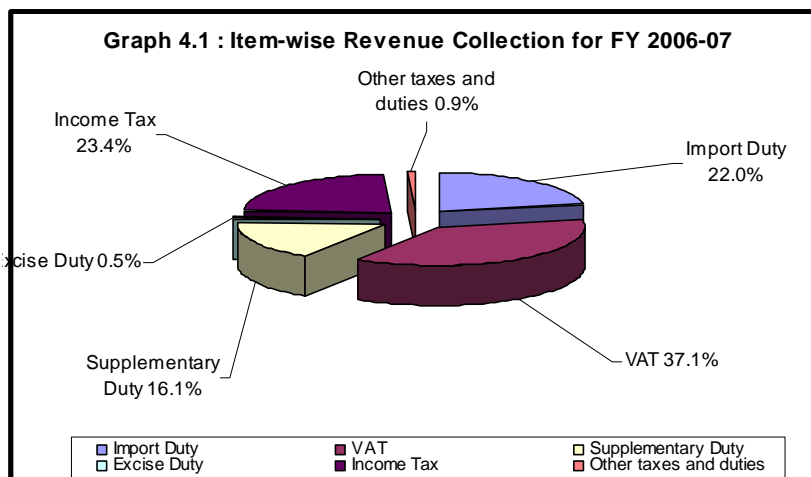
Analysis of revenue collection activities for FY2006-07 by categories shows that the bulk of revenue collection comes from value added tax (VAT). Income tax occupies the second place in the row. Next positions are held by import duties, supplementary duty, other taxes and excise duty. Overall, the share of VAT in the total revenue collection is gradually increasing. It may be mention that for the first time, income tax occupies second position over import duties.

In FY 2004-05, the total revenue collection under NBR amounted to Tk. 29988.66 crore. The collection was Tk. 3795.76 crore higher than that of the previous fiscal year showing 14.49 percent growth. In FY 2005-06, total revenue collection stood at Tk.33987.04 crore, which was Tk. 3998.38 crore or 13.33 percent higher than that of the previous year. In FY 2006-07, total revenue collection stood at Tk. 37030.79 crore, which was Tk. 3043.75 crore or 8.96 percent higher than the collection of the previous year. Item-wise tax collection from FY2004-05 to FY 2006-07 is presented in Table 4.2.

**Table 4.2: Item wise Revenue Collection**

| Items of revenue collection          | (In crore Taka) |                 |                 |
|--------------------------------------|-----------------|-----------------|-----------------|
|                                      | FY 2004-05      | FY 2005-06      | FY 2006-07      |
| Import Duty                          | 7910.04         | 7825.43         | 8161.02         |
| VAT (at import level)                | 5347.06         | 5885.65         | 6292.65         |
| Supplementary Duty (at import level) | 1853.50         | 1563.42         | 1188            |
| <b>Total</b>                         | <b>15110.60</b> | <b>15274.50</b> | <b>15641.67</b> |
| Excise Duty                          | 143.91          | 161.15          | 183.78          |
| VAT (Local)                          | 5106.35         | 6472.52         | 7445.83         |
| Supplementary Duty (Local)           | 3702.94         | 4665.77         | 4775.58         |
| <b>Total</b>                         | <b>8953.20</b>  | <b>11299.44</b> | <b>12405.19</b> |
| Income Tax                           | 5672.30         | 7141.56         | 8668.91         |
| Other taxes and duties               | 252.56          | 271.54          | 315.02          |
| <b>Grand Total</b>                   | <b>29988.66</b> | <b>33987.04</b> | <b>37030.79</b> |

Source: National Board of Revenue (NBR).



## Public Expenditure

Public expenditure management is an important segment of the fiscal management of the government. One important aspect of public expenditure management is to encourage the outlays on productive sector and restrain over unproductive outlays. The main objectives of public expenditure are to improve the living conditions of the people, develop human resources, and physical infrastructure and reduce poverty. Public expenditure in current prices and expenditure/GDP ratio over the last decade are presented in Table 4.3.

**Table 4.3: Public Expenditure**

(In crore Tk.)

| Particulars   | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Public Expenditure (a+b+c)                            | 24082   | 25859   | 29779   | 34464   | 37399   | 40757   | 42075   | 47184   | 53903   | 59031   | 59811   |
| (a) Non-development expenditure                       | 12305   | 14232   | 16562   | 18195   | 20536   | 22700   | 25307   | 28390   | 33324   | 36618   | 41201   |
| (b) Development expenditure (ADP) <sup>1</sup>        | 10886   | 10867   | 12325   | 15221   | 15901   | 15050   | 15271   | 16817   | 18771   | 19473   | 17206   |
| (c) Other expenditure <sup>2</sup>                    | 891     | 760     | 892     | 1048    | 962     | 3008    | 1497    | 1977    | 1808    | 2940    | 1404    |
| <b>As percentage of Gross Domestic Products (GDP)</b> |         |         |         |         |         |         |         |         |         |         |         |
| Public Expenditure as percent of GDP (a+b+c)          | 13.33   | 12.92   | 13.55   | 14.54   | 14.75   | 14.92   | 14.00   | 14.17   | 15.01   | 14.18   | 12.79   |
| (a) Non-development expenditure                       | 6.81    | 7.11    | 7.54    | 7.67    | 8.10    | 8.31    | 8.42    | 8.53    | 8.99    | 8.80    | 8.81    |
| (b) Development expenditure                           | 6.02    | 5.43    | 5.61    | 6.42    | 6.27    | 5.51    | 5.08    | 5.05    | 5.53    | 4.68    | 3.68    |
| (c) Other expenditure                                 | 0.49    | 0.38    | 0.41    | 0.44    | 0.38    | 1.10    | 0.50    | 0.59    | 0.49    | 0.71    | 0.30    |

Source: IMED, M/O Planning and Finance Division, M/O Finance. P=provisional.

<sup>1</sup> 'Actual expenditure' of Annual Development Programme (ADP) except financing from 'own source'.

<sup>2</sup> 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 27.9 percent of total non-development expenditure (Appendix Table 20). In FY 2004-05 and FY 2005-06 these ratios went down to 26.3 and 27.6 respectively, but increased to 29.4 percent in FY 2006-07. In FY 2003-04, the expenditure on subsidy and current transfer accounted for 28.8 percent of total non-development expenditure. In FY 2004-05, FY 2005-06 and FY 2006-07 the expenditure on subsidy and current transfer accounted for 31.3, 30.2 and 32.6 percent of total non-development expenditure respectively. In FY 2003-04, the share of interest payments on foreign and domestic loans in total non-development outlay was 20.6 percent. In FY 2004-05, FY 2005-06 and FY 2006-07, the shares of interest payments on foreign and domestic loans in total non-development outlay were 19.5, 20.6 and 20.9 percent respectively.

### Composition of Annual Development Programme (ADP) Expenditure

Actual expenditure against the revised allocation of ADP was around 90 percent during the period from 1991-92 to 2006-07 (Table 4.4). In FY2004-05, FY2005-06 and FY2006-07, it stood at about 92, 91 and 80 percent respectively.

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

(In crore Taka)

| Year    | Original Allocation | Revised Allocation | Actual Expenditure | Expenditure as % of Revised Allocation |
|---------|---------------------|--------------------|--------------------|--|
| 1991-92 | 7500                | 7150               | 6024               | 84.3                                   |
| 1992-93 | 8650                | 8121               | 6550               | 80.7                                   |
| 1993-94 | 9750                | 9600               | 8983               | 93.6                                   |
| 1994-95 | 11000               | 11150              | 10303              | 92.4                                   |
| 1995-96 | 12100               | 10447              | 10016              | 96.0                                   |
| 1996-97 | 12500               | 11700              | 11041              | 94.0                                   |
| 1997-98 | 12800               | 12200              | 11037              | 90.5                                   |
| 1998-99 | 13600               | 14000              | 12509              | 89.4                                   |
| 1999-00 | 15500               | 16500              | 15471              | 93.8                                   |
| 2000-01 | 17500               | 18200              | 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              | 17206              | 79.7                                   |

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 socio-economic and physical infrastructure sectors through ADP is consistent with the fiscal policy 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                       | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Agriculture                  | 5.0     | 4.5     | 4.9     | 4.7     | 4.5     | 4.4     | 3.74    | 4.04    | 3.62    | 5.20    | 6.10    |
| Rural Development            | 8.4     | 8.2     | 10.1    | 12.2    | 12.2    | 11.1    | 10.09   | 13.83   | 14.27   | 15.83   | 17.85   |
| Water Resources              | 8.2     | 8.1     | 7.0     | 6.9     | 6.1     | 5.4     | 4.29    | 4.04    | 2.44    | 3.22    | 2.39    |
| Industries                   | 1.4     | 0.8     | 0.8     | 1.7     | 3.3     | 1.9     | 1.14    | 2.74    | 2.42    | 1.64    | 1.29    |
| Power                        | 13.5    | 10.9    | 12.0    | 12.9    | 12.2    | 12.1    | 13.70   | 17.26   | 20.74   | 1.64    | 14.44   |
| Gas, Oil & Natural Resources | 4.4     | 4.9     | 4.7     | 4.3     | 2.5     | 3.1     | 4.00    | 5.19    | 6.04    | 1.62    | 0.77    |
| Transport                    | 22.4    | 19.7    | 17.9    | 17.4    | 20.4    | 19.9    | 16.15   | 18.04   | 12.27   | 14.30   | 15.00   |
| Communication                | 1.9     | 1.6     | 2.8     | 3.1     | 2.8     | 6.1     | 3.63    | 2.23    | 2.93    | 2.82    | 2.83    |
| Physical Planning & Housing  | 5.4     | 5.1     | 5.4     | 7.0     | 7.5     | 6.6     | 5.61    | 5.91    | 6.03    | 7.56    | 6.96    |
| Education & Religion         | 13.2    | 12.9    | 13.5    | 12.8    | 13.3    | 14.2    | 13.88   | 12.28   | 13.70   | 13.83   | 16.12   |
| Health & Population          | 7.9     | 9.1     | 8.2     | 8.1     | 7.3     | 7.9     | 6.72    | 8.27    | 8.17    | 9.59    | 10.38   |
| Others                       | 8.1     | 14.1    | 12.8    | 9.1     | 7.8     | 7.4     | 17.00   | 6.24    | 7.38    | 8.19    | 5.86    |
| Total ADP                    | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   | 100.0   |

Source: IMED, Ministry of Planning. Figures for 2006-07 are up to December 2006.

### Budget Balance and Financing

In view of resource constraints, there exists a gap between the government revenue and expenditure. Table 4.6 below shows data on budget deficit and mode of its financing during the period from FY1995-96 to FY2006-07.

**Table 4.6: Overall Budget Balance**

(As percent of GDP)

| Budget Deficit/ financing                                      | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Overall budget deficit (excluding foreign grants)              | - 4.7   | -3.7    | -3.4    | -4.6    | - 6.1   | -5.1    | -4.7    | -4.2*   | -4.2*   | -4.5*   | -3.9*   | -3.7*   |
| Overall budget deficit (including foreign grants) <sup>3</sup> | -3.0    | -2.0    | -2.1    | -3.2    | -4.5    | -4.1    | -3.7    | -3.4    | -3.4    | -3.7    | -3.3    | -3.3    |
| Net foreign financing <sup>4</sup>                             | 2.8     | 2.8     | 2.3     | 2.5     | 2.5     | 2.0     | 2.1     | 2.3     | 2.4     | 2.4     | 1.7     | 1.6     |
| Net domestic financing <sup>5</sup>                            | 1.8     | 1.5     | 1.6     | 1.9     | 2.8     | 2.8     | 2.6     | 1.9     | 1.8     | 1.8     | 2.2     | 2.0     |

\*According to actual outcome, the overall budget deficit in FY 2002-03, FY 2003-04, FY 2004-05, FY 2005-06 and FY 2006-07 stood at 3.5, 3.4, 3.5, 3.7 and 3.2 percent of GDP respectively.

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

### Domestic Resources for ADP

The contribution of domestic resources towards financing of ADP shows an upward trend. Table 4.7 below shows the financing of ADP during the period from FY1995-96 to FY2006-07.

<sup>3</sup> According to IMF, foreign grants are net receipts to Government, because it does not carry any liabilities to the government.

<sup>4</sup> Net foreign financing = (foreign borrowing + grants) - principal payment of foreign borrowing.

<sup>5</sup> 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.

**Table 4.7: Quantum of Domestic Resources (according to revised budgets) in Financing ADP**

(In crore Tk.)

|   | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total Financing                                 | 10447   | 11700   | 12200   | 14000   | 16500   | 18200   | 16000   | 17100   | 19000   | 20500   | 21500   | 21600   |
| Foreign Financing                               | 6033    | 5975    | 6679    | 8188    | 8274    | 8670    | 8215    | 8241    | 9410    | 10430   | 10700   | 10194   |
| Domestic Financing                              | 4414    | 5725    | 5521    | 5812    | 8226    | 9530    | 7785    | 8859    | 9590    | 10070   | 10800   | 11406   |
| Domestic financing as % of Total ADP allocation | 42.25   | 48.93   | 45.25   | 41.51   | 49.85   | 52.36   | 48.66   | 51.81   | 50.47   | 49.12   | 50.23   | 52.18   |

Source: Finance Division, Ministry of Finance and Planning Commission.

## Public Debt Management

The government resorts to borrowing for a variety of reasons. Included among them are:

- To meet unexpected expenditure in emergencies
- To increase production of goods and services
- To defray expenditure for social safety net programmes
- To increase investment in the productive sectors of the economy
- To maintain macroeconomic stability

## Sources of Public Debt

### Domestic Sources

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 1990-91 through FY 2006-07. Source-wise government borrowing from domestic sources over the last 17 years has been presented in Graph 4.2.

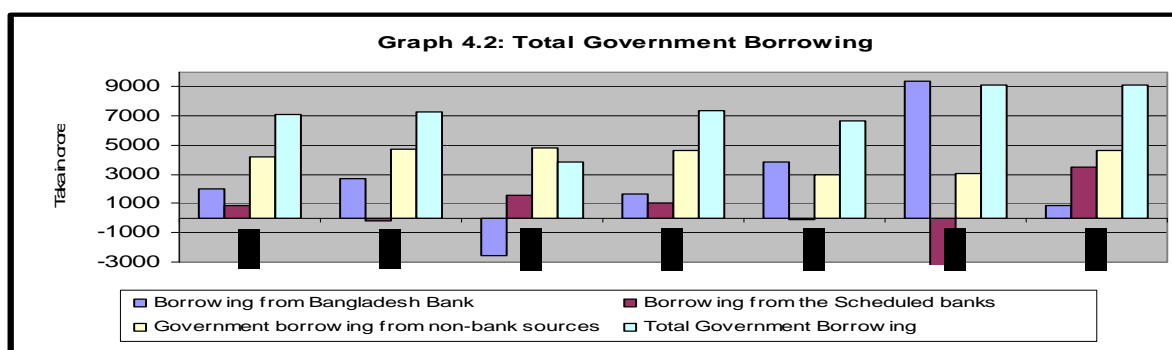
**Table 4.8: Net Government Borrowing from Domestic Sources 1990-91 to 2006-07**

(Taka In crore)

| 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                 |
| 1990-91              | -0.60  | 173.70                         | 173.10          | 467.12                                     | 640.22                     | -                 |
| 1991-92              | -480.80  | 1918.60                        | 1437.80         | 806.04                                     | 2243.84                    | 1.9               |
| 1992-93              | 250.90   | 45.60                          | 296.50          | 1157.50                                    | 1454.00                    | 1.2               |
| 1993-94              | -438.20  | 1198.10                        | 759.90          | 751.30                                     | 1511.20                    | 1.1               |
| 1994-95 <sup>R</sup> | 244.40   | 456.30                         | 700.70          | 1098.20                                    | 1798.90                    | 1.18              |
| 1995-96              | 1782.80  | -86.60                         | 1696.20         | 1597.00                                    | 3293.20                    | 1.8               |
| 1996-97              | 1452.10  | 254.90                         | 1707.00         | 947.42                                     | 2654.42                    | 1.5               |
| 1997-98              | 806.60   | 448.20                         | 1254.80         | 1905.17                                    | 3159.97                    | 1.6               |
| 1998-99              | 1064.40  | 912.20                         | 1976.60         | 2772.44                                    | 4749.04                    | 1.9               |
| 1999-00              | 1738.10  | 1786.20                        | 3524.30         | 3229.68                                    | 6753.98                    | 2.8               |
| 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 <sup>R</sup> | 1653.00  | 1016.10                        | 2669.10         | 4658.90                                    | 7328.00                    | 2.2               |
| 2004-05 <sup>R</sup> | 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                    | 2.0               |

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

R= Revised



### Government Borrowing from Foreign Sources

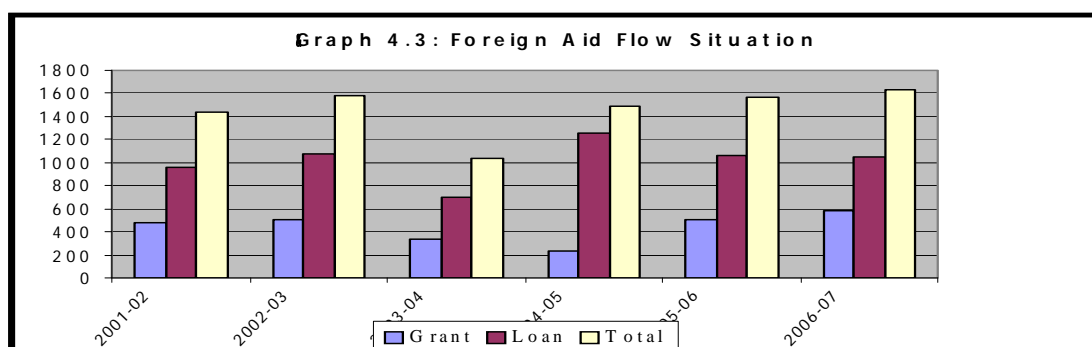
Table 4.9 shows the government borrowing from foreign sources during FY 1996-97 to FY2006-07. The situation on foreign aid flow is shown in Graph 4.3.

**Table 4.9: Government Borrowing from Foreign Sources, 1996-97 to 2006-07**

(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                              |
| 1996-97        | 736                              | 745   | 1481      | 147                            | 316       | 463       | 1165                    | 1018                               |
| 1997-98        | 503                              | 748   | 1251      | 137                            | 307       | 444       | 944                     | 807                                |
| 1998-99        | 669                              | 867   | 1536      | 166                            | 373       | 539       | 1163                    | 997                                |
| 1999-00        | 726                              | 862   | 1588      | 172                            | 447       | 619       | 1141                    | 969                                |
| 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                              | 1041  | 1631      | 181                            | 529       | 710       | 1102                    | 921                                |

Source: Economic Relations Division (ERD).



Currently, the debt obligation of the government is at a tolerable level. For financing budget deficit, the government has preferred concessional foreign borrowing to domestic borrowing because of the lower cost of foreign borrowing.

**Table 4.10: Budget for 2007-08 at a Glance**

(Tk in crore )

| Description  | Budget<br>2007-08 | Revised<br>2006-07 | Budget<br>2006-07 |
|--|-------------------|--------------------|-------------------|
| <b>Revenue and Foreign Grants</b>                      |                   |                    |                   |
| Revenues   | <b>57301</b>      | <b>49472</b>       | <b>52542</b>      |
| Tax Revenue  | 45838             | 39247              | 42915             |
| NBR-Tax Revenue  | 43850             | 37479              | 41055             |
| Non-NBR Tax Revenue                                    | 1988              | 1768               | 1860              |
| Non-Tax Revenue  | 11463             | 10225              | 9627              |
| Foreign Grants   | 4255              | 2150               | 2508              |
| <b>Total:</b>  | <b>61556</b>      | <b>51622</b>       | <b>55050</b>      |
| <b>Expenditure</b>                                     |                   |                    |                   |
| <b>Non-Development Expenditure</b>                     | <b>52900</b>      | <b>44504</b>       | <b>42286</b>      |
| Non-Development Revenue Expenditure                    | 48389             | 42157              | 39536             |
| of which   |                   |                    |                   |
| Domestic Interest                                      | 9464              | 7854               | 6298              |
| Foreign Interest                                       | 1321              | 1300               | 1339              |
| Non-Development Capital Expenditure                    | 4511              | 2347               | 2750              |
| Net Outlay for Food Account Operation                  | 300               | 388                | 202               |
| Loans & Advances (Net)                                 | 5115              | -1545              | -1211             |
| of which   |                   |                    |                   |
| Liabilities of Government (from BPC)                   | 7523              | 0                  | 0                 |
| Structural Adjustment Expenditure                      | 300               | 29                 | 0                 |
| <b>Development Expenditure</b>                         | <b>28522</b>      | <b>23460</b>       | <b>28463</b>      |
| Employment Generation and Development Programmes       | 1558              | 1577               | 1982              |
| financed from  |                   |                    |                   |
| Non-Development Budget                                 |                   |                    |                   |
| Annual Development Programme                           | 26500             | 21600              | 26000             |
| Non-ADP FFW and Transfer                               | 464               | 283                | 481               |
| <b>Total Expenditure including BPC's Liability :</b>   | <b>87137</b>      | <b>66836</b>       | <b>69740</b>      |
| <b>Total Expenditure (excluding BPC) :</b>             | <b>79614</b>      | <b>66836</b>       | <b>69740</b>      |
| Overall Deficit (including Grants) :                   | -25581            | -15214             | -14690            |
| (In Percent of GDP) :                                  | -4.8              | -3.3               | -3.2              |
| Overall Deficit (Excluding Grants and Including BPC) : | -29836            | -17364             | -17198            |
| (In Percent of GDP) :                                  | -5.6              | -3.7               | -3.7              |
| Overall Deficit (Excluding Grants and BPC) :           | -22313            | -17364             | -17198            |
| (In Percent of GDP) :                                  | <b>-4.2</b>       | <b>-3.7</b>        | <b>-3.7</b>       |
| <b>Financing</b>                                       |                   |                    |                   |
| <b>Foreign Borrowing-Net</b>                           | <b>6305</b>       | <b>5183</b>        | <b>5856</b>       |
| Foreign Borrowing                                      | 10403             | 9048               | 9618              |
| Amortization   | -4098             | -3865              | -3762             |
| <b>Domestic Borrowing</b>                              | <b>19276</b>      | <b>10031</b>       | <b>8834</b>       |
| <b>Borrowing from Banking System (Net)</b>             | <b>7253</b>       | <b>6531</b>        | <b>5434</b>       |
| Long-Term Debt (Net)                                   | -744              | 741                | 427               |
| Short-Term Debt (Net)                                  | 7997              | 5790               | 5007              |
| <b>Non-Bank Borrowing</b>                              | <b>4500</b>       | <b>3500</b>        | <b>3400</b>       |
| National Saving Schemes (Net)                          | 3778              | 2805               | 2600              |
| Others   | 722               | 695                | 800               |
| Non-Cash Bond (Liabilities of BPC)                     | 7523              | 0                  | 0                 |
| <b>Total - Financing Including BPC's Liability</b>     | <b>25581</b>      | <b>15214</b>       | <b>14690</b>      |
| <b>Memorandum Item</b>                                 | <b>GDP</b>        | <b>530300</b>      | <b>467500</b>     |
|  |                   | <b>465300</b>      |                   |

Source: Finance Division.