Public Finance

Fiscal Trends- strategies for achieving higher growth and development

8.1 The fiscal policy in FY06 centred around strategies directed towards poverty reduction. It marked the first year of implementation of the Government's Poverty Reduction Strategy Paper (PRSP) titled NSAPR, finalised in October 2005. In a cautious fiscal stance intended to limit inflation and leave sufficient room for credit growth for the private sector, domestic borrowing of the Government was kept limited within 2.0 percent of GDP.

The main emphasis of FY06 budget was on extensive investments in social and physical infrastructure towards enhancing the productive capacity. Increased funds were sanctioned to agriculture, rural development and infrastructure for raising employment opportunities and productivity in the farm and non-farm sectors including Small and Medium Enterprises (SMEs). The poverty reduction programmes targetted on job creation and widening of the social safety net. The domestic resource mobilisation intensified in FY06, especially in tax revenue, as consolidation of tax instruments and strengthening of tax administration were carried out.

Although the revenue collection in FY06 increased by 14.5 percent over FY05, it fell short of the original growth target of 16.6 percent due to the reduction of tariff on some essential commodities. The current expenditure, on the other hand, posted a lower growth of 10.2 percent in FY06 over FY05. With the size of the ADP squeezed too, the fiscal deficit, 3.9 percent of the GDP in FY06, was much lower than the projected level of 4.5 percent. The lower fiscal deficit was achieved because of strict fiscal discipline and cutting wasteful expenditure through austerity measures. The dropping of a number of low priority projects, adoption of austerity measures, declining foreign aid flow, and sluggish utilisation of funds in some projects contributed to the downsizing of ADP.

Table 8.1 Bangladesh Government revenue and expenditure

(billion Taka)

	FY05*	as % of GDP	FY06*	as % of GDP	FY07**	as % of GDP
Total revenue	**392.0**	**10.6**	**448.7**	**10.8**	**525.4**	**11.3**
a) tax	319.5	8.7	361.8	8.7	429.1	9.2
b) non-tax	72.5	2.0	86.9	2.1	96.3	2.1
Total expenditure	**556.3**	**15.1**	**610.6**	**14.7**	**697.4**	**15.0**
a) current	315.9	8.6	348.1	8.4	395.4	8.5
b) ADP	205.0	5.6	215.0	5.2	260.0	5.6
c) others	35.4	1.0	47.5	1.1	42.0	0.9
Budget deficit	**164.3**	**4.5**	**161.9**	**3.9**	**172.0**	**3.7**

Source : Budget in Brief 2005-06 and 2006-07, Ministry of Finance.
*Revised budget. ** Budget estimate.

The FY06 Budget and Fiscal Outcome

a. Revenue receipts

8.2 Against the target of Taka 457.2 billion, the revenue receipts in FY06 were Taka 448.7 billion (Table 8.1), higher than FY05 revenues by 14.5 percent. The tax revenues, comprising 80.6 percent of the total revenue receipts, increased at a somewhat higher rate of 13.2 percent as compared to 12.9 percent growth in FY05. The non-tax revenue growth displayed significantly higher rate of 19.9 percent as compared to 2.1 percent in the previous year.

Although the total revenue receipts as percentage of GDP rose to 10.8 percent in FY06, as compared to 10.6 percent in FY05, the total tax revenue receipts as percentage of GDP remained the same at 8.7 percent in FY06. The major revenue measures in the FY06 budget included:

- The ceiling of tax-exempt income enhanced from Taka 1 lakh to Taka 1 lakh 20 thousand, the tax rates kept unchanged.
- The limit of total income that attracts the highest tax rate enhanced from Taka 9 lakh to Taka 10 lakh 20 thousand.
- The tax rate for non-listed companies fixed at 40 percent instead of 37.5 percent.
- Banks were allowed to make provision for bad and doubtful debts up to 1 percent in place of 2 percent of the total outstanding loans till assessment year 2006-07.
- 10 percent advance income tax imposed on dividends replacing dividend distribution tax.
- Rate of advance income tax applicable to profits from approved securities and bonds reduced to 10 percent from the prevailing 20 percent.
- Tax at the rate of 4 percent on freight charges of resident ocean going ships as final settlement of tax liability.
- Tax at the rate of 10 percent on the profit or interest paid on deposits by non-banking and other deposit collecting institutions.
- Tax at the rate of 0.25 percent on total export proceeds of knitwear and readymade garments as final settlement of tax liability.
- A unique 10 percent rate of advance income tax applicable to “Royalty & Technical Know-how fee” and “Professional & Technical Service fee.
- Tax at the rate of 0.015 percent on the transaction value of shares for members of stock exchange as final settlement of tax liability.
- Tax for sale of apartments at the rate of Taka 175 per square meter and for land at the rate of 2.5 percent on deed value at the time of registration from persons engaged in real estate business as final settlement of tax liability.
- Tax rate on the value of bandrole of hand-made cigarettes enhanced from 3 percent to 4 percent.
- Reduced tax rate of 10 percent on the income from computer software business, valid till 30 June 2008.
- The time limit for revelation of undisclosed income without any explanation by paying only 7.5 percent income tax extended till 30 June 2006.
- Four tier customs duty- 0 percent and 6 percent for basic raw materials and capital machinery for industry respectively, 13 percent for intermediate goods, and 25 percent for finished goods; two tier supplementary duty, 35 percent and 25 percent.
- All duties and taxes on some varities of fertilizer completely withdrawn; customs duty reduced from 15 percent to 7.5 percent on raw materials needed for the manufacture of parts and accessories of rice and wheat mills.
- All duties and taxes on the raw materials of dairy and poultry feed, medicine, other medical inputs, and capital machinery withdrawn.
- Taka 300 duty per mobile set at the importation stage, Taka 900 for connection of each SIM card or similar technology at local stage imposed.

8.3 In the FY06 budget direct taxes on income and profits increased at a higher rate of 19.0 percent to Taka 69.6 billion (Table 8.2), enhancing the share of direct taxes in total tax revenues to 19.2 percent, from 18.3 percent in FY05. Receipts from VAT, import duty and supplementary duty increased by 17.0, 3.0 and 14.1 percent respectively in FY06. Stamp duties significantly increased by 18.5 percent in FY06 against 14.1 percent increase in FY05. The land revenue and taxes on vehicles also showed notable improvement by growing 15.2 percent and 22.2 percent respectively.

8.4 Under the non-tax revenues, defense receipts markedly increased by 200.0 percent in FY06 against 76.9 percent growth in FY05. The interest also showed notable improvement in FY06, growing by 14.1 percent against 14.7 percent negative growth in FY05. Receipts from other non-tax revenue, non-commercial sale, administrative fees and charges, rents, leases and recoveries, services rendered, dividend and profits, railway, telegraph and telephone, and post office rose by 48.9 percent, 11.5 percent, 11.1 percent, 11.1 percent, 9.3 percent, 8.5 percent, 8.3 percent, 7.3 percent, and 6.7 percent respectively in FY06. Receipts from capital revenue, tolls and levies, fines, penalties and forfeiture remained unchanged in FY06.

b. Expenditure

8.5 The total public expenditure in FY06 revised budget amounted to Taka 610.6 billion, 5.2 percent lower than the initial projection of Taka 643.8 billion but 9.8 percent higher than the FY05 expenditure of Taka 556.3 billion. The current expenditure of Taka 348.1 billion in FY06 was lower than the initial projection of Taka 355.2 billion. The development expenditure of Taka 215.0 billion was lower than the initially targeted Taka 245.0 billion, due to dropping of a number of low-priority projects, adoption of austerity measures, declining foreign aid flow, and sluggish utilisation of funds in some projects.

8.6 The current expenditure in FY06 surpassed initial allocations for all accounts but Public Services, Local Government and Rural Development, and Social Security and Welfare. The proposed non-developmental current expenditure in FY06 had the following revisions:

Table 8.2 Composition of revenue receipts

(billion Taka)

	FY05*	FY06*	FY07**
Tax revenue	**319.5**	**361.8**	**429.1**
Value Added Tax (VAT)	106.0	124.0	147.3
Import duty	80.0	82.4	94.9
Supplementary duty	56.0	63.9	77.0
Taxes on income and profit	58.5	69.6	85.0
Non-judicial stamps	8.1	9.6	10.1
Excise duty	1.5	1.6	1.8
Land revenue	3.3	3.8	4.1
Taxes on vehicles	2.7	3.3	3.8
Duty on narcotics and liquor	0.5	0.5	0.5
Other taxes and duties	2.9	3.1	4.6
Non-tax revenue	**72.5**	**86.9**	**96.3**
Telegraph and telephone	16.5	17.7	19.0
Administrative fees and charges	9.9	11.0	11.9
Dividend and profits	11.7	12.7	15.0
Interest	6.4	7.3	9.0
Capital revenue	0.6	0.6	0.6
Receipts for services rendered	4.3	4.7	4.9
Non-commercial sale	2.6	2.9	3.8
Rents, leases and recoveries	0.9	1.0	1.0
Defense receipts	2.3	6.9	8.3
Tolls and levies	1.5	1.5	1.7
Fines, penalties and forfeiture	0.7	0.7	0.7
Railway	4.8	5.2	5.2
Post office	1.5	1.6	1.8
Other non-tax revenue and receipts	8.8	13.1	13.4
Total :	**392.0**	**448.7**	**525.4**

Source : Budget in Brief 2005-06 and 2006-07, Ministry of Finance.
*Revised budget. **Budget estimate.

Chart 8.1

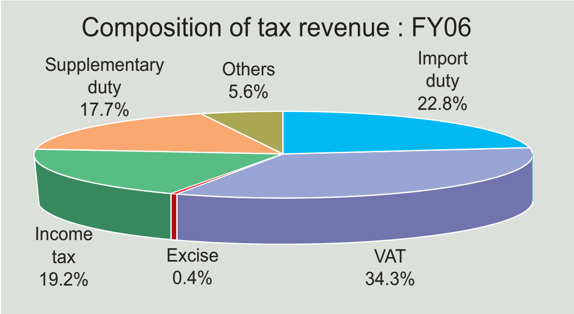
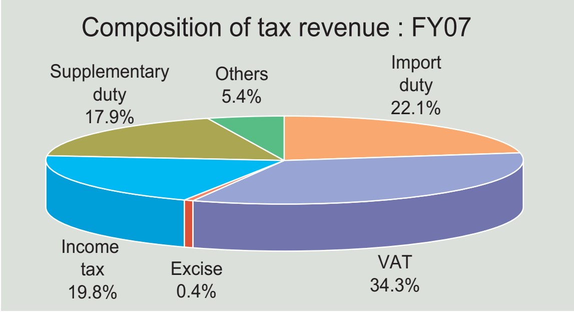


Chart 8.2



- an additional amount to the tune of Taka 2.5 billion provided for the implementation of basic pay according to the National Pay Scale 2005, for the inclusion of the officers and staffs of the completed development projects in the revenue budget of the ministries (especially the Ministry of Health and Family Welfare and Ministry of Primary and Mass Education) and for recruitment in several important ministries .
- an additional amount of Taka 4.9 billion allocated under "Supplies and Services" head for payment of electricity, municipal rates and taxes, land tax, telephone, travel expenses, contingent staff, petrol & lubricant, training expenses, freight and transport charges, hiring charges, seminar and conference expenses, seeds and plants, vaccines & medicines, procurement of food stuffs, arms and ammunition, honorarium/fees/remuneration etc.
- an additional amount to the tune of Taka 5.0 billion allocated for interest payments.

The reduced current non-developmental expenditure in the aforementioned accounts implied government's commitment to austerity in public expenditure.

8.7 The Annual Development Programme in FY06 was revised downward by 12.2 percent from Taka 245.0 billion to Taka 215.0 billion.

Consistent with the growth and poverty reduction objectives, 33.9 percent of the total outlay was spent for infrastructure sector (power; oil, gas & natural resources; transport; and communication), and 23.1 percent for the social sector (education & religious affairs, and health & population).

c. Financing the FY06 Budget Deficit

8.8 The deficit in the revised FY06 budget stood at Taka 161.9 billion or 3.9 percent of the GDP at current prices. This was somewhat lower than the 4.5 percent deficit initially projected. The domestic borrowing component

Table 8.3 Composition of revenue expenditure

(billion Taka)

	FY05*	FY06*	FY07**
Social sector	90.2	106.1	121.2
Public services	47.4	42.4	58.9
Interest on domestic debt	53.0	62.5	62.9
Defense	29.4	33.5	36.4
Public order and safety	25.3	28.3	31.9
Interest on foreign debt	12.0	12.9	13.4
Agriculture sector	19.6	19.6	23.5
Transport and communication	22.1	23.8	28.5
Local government and rural development	10.8	11.2	11.7
Housing	4.7	5.0	5.1
Others	1.4	2.8	1.9
Total :	**315.9**	**348.1**	**395.4**

Source : Budget in Brief 2005-06 & 2006-07, Ministry of Finance.
* Revised budget. ** Budget estimate.

Table 8.4 Composition of social sector expenditure

(billion Taka)

	FY05*	FY06*	FY07**
Education & technology	51.4	63.6	70.9
Health & population	17.5	19.9	23.3
Recreation, culture and religious affairs	3.3	3.5	3.9
Labour and manpower	0.1	0.2	0.2
Social security and women welfare	17.9	18.9	22.9
Total :	**90.2**	**106.1**	**121.2**

Source : Budget in Brief 2005-05 & 2006-07, Ministry of Finance.
*Revised budget. **Budget estimate.

Table 8.5 Sectoral shares in ADP expenditure

(Percent)

	FY05*	FY06*	FY07**
Agriculture	3.1	5.1	7.2
Rural development & institutions	13.1	14.6	12.1
Water resources	4.8	3.1	3.3
Industries	2.6	1.6	1.8
Power	16.1	15.7	13.1
Oil, gas & natural resources	4.7	1.6	2.6
Transport	16.4	13.1	12.7
Communication	5.7	3.5	3.3
Physical planning & water supply & housing	7.1	6.9	5.1
Education & religious affairs	10.3	13.3	14.9
Health, nutrition, population & family welfare	7.2	9.8	9.6
Others	8.9	11.7	14.3
Total :	**100.0**	**100.0**	**100.0**

Source : Annual Development Programme 2006-2007.
* Revised budget. ** Budget estimate.

of the deficit financing in FY06 was Taka 81.4 billion (2.0 percent of the GDP). Of this, Taka 49.1 billion (1.2 percent of the GDP) was bank borrowing (Chart 8.3). The other Taka 32.2 billion (0.8 percent of the GDP) of domestic financing of the deficit was non-bank borrowings, mainly National Savings Certificates bought and held by the public. The foreign financing component of the budget deficit was Taka 80.5 billion (1.9 percent of the GDP), consisting of foreign grants and borrowing. The domestic public debt stock incurred interest costs of Taka 62.5 billion (17.9 percent of the total current expenditure). The interest costs on the much larger external public debt stock turned out Taka 12.9 billion as the debt was of concessional type.

The FY07 Budget

8.9 The budget for FY07 was designed keeping in mind that it would be implemented by three governments, namely the alliance government, the caretaker government, and the next elected government. The focus of all economic activities of the government was poverty alleviation. Meeting the Millennium Development Goals (MDGs) by achieving the annual targets embodied in Poverty Reduction Strategy Paper (PRSP) was the fundamental basis of the proposed budget. To this end, the strategy pursued by the government was: accelerate economic growth by further streamlining the strong macroeconomic framework that was in place through continuous reforms and create employment opportunities; elevate Human Development Index (HDI) with the increased allocation in education, health and other social sectors along with qualitative improvement; ensure financial security of the disadvantaged by widening social safety net; promote private sector initiatives and investment by adopting prudent fiscal and monetary policy; reduce the cost of doing business by developing physical infrastructure; ensure economic good governance, improve law and order, maintain internal security and enhance public management capacity.

Chart 8.3

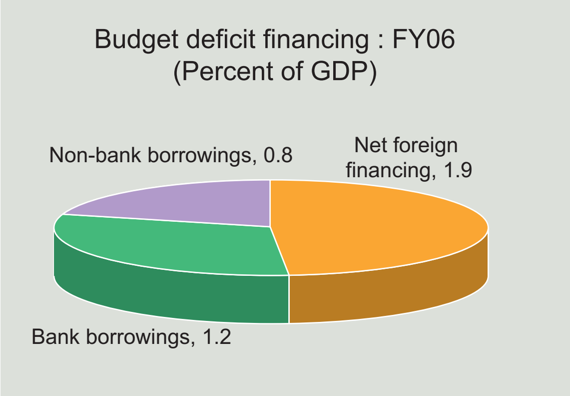
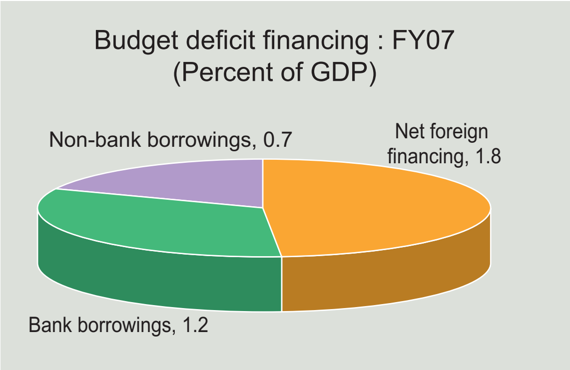


Chart 8.4



The budget contained fiscal measures aiming at sustained economic growth and macroeconomic stability. The budget deficit was scaled down to 3.7 percent of the GDP despite increased allocations for human resources development, physical infrastructure, and poverty reduction programmes. Unproductive spending was slashed and spending was prioritized. 56.3 percent of the total resources was directed towards direct and indirect poverty-reducing spending. The fiscal stance behind the budget was also consistent with the government's private sector-led growth strategy. The economy was expected to remain resilient to both internal and external shocks. The trade, commerce, and investment were supposed to remain buoyant and the growth was projected to reach almost 7.0 percent in FY07. Due to reforms in the monetary sector, the inflation was expected to come down to below 6.0 percent.

In the proposed budget, importance was laid to the human resources development sector. Because of the success in health and education sector, the country reached the middle category position in terms of Human Development Index (HDI). In FY07, the allocation for human resources stands at 23 percent of the total budget. The government took various measures to promote education at all spheres. These measures included “Female Stipend Programme” and “Food for Education Programme” which would encourage women enrolment in education. Under these programmes, about 2.5 million female were receiving stipends, examination fees, and tuition fees. This would lead to gender equality and prevention of early marriage, low fertility rate and extended reproduction gap as well.

To strengthen the health sector, a long term “Strategic Investment Plan for Health, Nutrition and Population” was being implemented. Due to the government’s pragmatic health policy, the general health standard showed remarkable improvement. The average life expectancy of 64 years compared to 61 years in 2000 is one example of the progress made in this sector. For FY07, Taka 47.8 billion was allocated for the health sector, which was 16 percent higher than the allocation made in the revised budget of the preceding year.

Increased allocation was made for the agriculture and agro-based industry. There were allocations for agricultural research amounting to Taka 2.4 billion and other incentives too. The role of Small and Medium Enterprises (SMEs) is extremely important in the development of private sector entrepreneurs, human resources development, poverty reduction and employment generation in the rural and urban areas. Since limited access to credit and high cost of financing were the two main hindrances to the development of this sector, several measures were taken to assist this sector. These measures included Refinancing Scheme and Equity Development Fund. The government transfer payments were further beefed up to widen the social safety net. This was done to enhance the purchasing power of hapless and unprivileged populace enabling them to meet the minimum requirements of livelihood. In addition, Taka 0.2 billion was allocated to create “Skill Development Fund for the Readymade Garments Workers” and Taka 0.5 billion for “Housing the Homeless.”

The government rightly identified good governance as a key to development. Two manuals titled “Public Expenditure Management Manual” and “Internal Control Manual” were being implemented to ensure best use of the government funds. Each ministry is required to prepare separate monthly accounts statement and Annual Financial Statement. Furthermore, steps were taken to separate cash management from public debt management. To bring the government procurement practice in alignment with international practices, a public procurement bill was placed before the Parliament. A Tax Ombudsman Act 2005 was enacted to ensure transparency and accountability in tax administration.

The Annual Development Programme (ADP) for FY07 was proposed at Taka 260.0 billion, being 5.6 percent of the GDP and 20.9 percent higher than the revised ADP of the previous year. In addition, Taka 19.82 billion employment generation and development programmes financed from revenue budget and Taka 4.81 billion for Food-for-Work and transfer were earmarked for FY07. The total developmental expenditure would stand at Taka 284.6 billion, 6.1 percent of the GDP. This proposed developmental expenditure would turn out 20.5 percent higher than that of the revised budget of the previous year.

a. Receipts

8.10 The revenue receipts in FY07 were targeted to grow by 17.1 percent to Taka 525.4 billion. The tax and non-tax receipts were expected to rise by 18.6 percent and 10.8 percent respectively, against increases of 13.2 percent and 19.9 percent in FY06. This would lead to the increase in the ratio of revenue to

GDP to 11.3 percent in FY07 from 10.8 percent in FY06 (Table 8.1). A higher 22.1 percent increase in receipts from the direct taxes on income and profits was projected against 18.4 percent growth projected for indirect taxes (VAT, import duty, supplementary duty, other taxes and duties) (Table 8.2).

The targeted growth rate of VAT was set higer at 18.8 percent in FY07 against the 17.0 percent increase in FY06. The growth rate of import related receipts from customs and supplementary duties was projected higher at 17.5 percent against the growth of 7.6 percent in FY06.

As a part of the Strategic Development Plan, modernization of the National Board of Revenue was being carried out. Along with this, measures were taken to unearth cases of tax evasion and realization of such evaded taxes.

b. Expenditure

8.11 The total public expenditure in FY07 was expected to increase by 14.2 percent over the revised estimate for FY06. The current expenditure was expected to grow by 13.6 percent, the ADP expenditure by 20.9 percent and other expenditure to decline by 11.6 percent during the fiscal year. The ratio of total expenditure to GDP was projected to increase to 15.0 percent in FY07 from 14.7 percent in FY06 (Table 8.1).

8.12 The current expenditure in FY07 budget was projected to rise by 13.6 percent over the FY06 revised figure, to Taka 395.4 billion (Table 8.1 & 8.3). As in the previous year, almost a quarter of the total current expenditure was allocated for the social sector, in which the major shares go to the education, health and population, social security & women welfare programmes (Table 8.4) promoting human resources development and widening social safety net.

Priority was given to sectors involved in direct and indirect poverty reducing programme, human resources development, rural infrastructure, telecommunication, foreign investment and export inducing sectors. For education and technology sector, Taka 110.9 billion was allocated, which was 19.7 percent higher than that of the revised budget of the previous year. Taka 2.0 billion was given to the Information and Communication Technology (ICT), which was already declared a thrust sector. A new fund named “Fund for Assistance to Small Farmers Affected by Natural Disasters” was created starting with Taka 0.5 billion. This fund was meant to safeguard farmers’ interests in case of crops losses caused by natural disasters and epidemics. An allocation of Taka 2.67 billion was made for the “Special Fund for the Employment of the Hardcore Poor,” administered by the Palli Karma Shahayak Foundation (PKSF). Taka 42.9 billion was proposed for fuel and energy sector, which was 13.7 percent higher than the revised budget of FY06. An “Energy Development Fund” was created to promote use of solar power and other renewable sources of energy for inaccessible localities. Initially Taka 1.0 billion was apportioned to the fund.

8.13 The Annual Development Programme (ADP) for FY07 was projected at Taka 260.0 billion, exceeding the revised ADP of Taka 215.0 billion in FY06 by 20.9 percent. In compliance with the government’s emphasis on infrastructure development, 31.7 percent of the total ADP for FY07 would be allocated for infrastructure sector. On the other hand, social sector would receive 24.5 percent of the total ADP. The ADP was designed to accelerate the pace of human resources development, extend the government’s assistance in employment generation, and safeguard interests of the poor through widened social safety net (Table 8.5).

c. Deficit and its Financing

8.14 The FY07 budget deficit, estimated at Taka 172.0 billion, would be Taka 10.1 billion higher than that of FY06. However, the budget deficit-GDP ratio for FY07, 3.7 percent, would be lower than 3.9 percent of FY06. The deficit

Box 8.1

Salient Revenue Measures in FY07 Budget

A. Direct Tax

- 10 percent tax rebates on the additional tax paid by the individual tax payers paying taxes at the highest rate of 25 percent disclosing more than 10 percent higher income in the assessment year 2007-08.
- Tax exemption and rebate for agro-processing, jute and textile industries extended till 30 June 2008.
- 15 percent tax rate for diamond cutting and polishing industry.
- Accelerated depreciation at the rate of 50 percent, 30 percent, and 20 percent respectively in the first three years of installation of machinery instead of 100 percent depreciation in the very first year.
- For tax rebates, the amount of allowable investment raised from Taka 2 lakh to Taka 2 lakh 50 thousand irrespective of share purchase of a company.
- Tax exemption benefit on remittances from abroad for resident persons who are not citizens of Bangladesh withdrawn.
- Tax at source at the rate of 5 percent on the amount of export cash subsidy.
- Minimum income tax of Taka 5,000/- or 0.50 percent of turnover whichever is higher for companies irrespective of profit or loss.

B. Indirect Tax

- 13 percent and 6 percent customs duty for intermediate goods and capital machinery reduced to 12 percent and 5 percent respectively; 0 percent and 25 percent duty for basic raw materials and finished goods respectively remained unchanged.
- Two-tier supplementary duty rates reduced to 20 percent and 15 percent from 35 percent and 25 percent respectively.
- Tax incidence of garlic, turmeric, chilly, ginger, onion, and pulses (peas and chickpeas) reduced to 5 percent.
- Specific duty of Taka 5,000/- per metric ton on sugar.
- All duties and taxes on capital machinery and their accessories and other inputs for poultry industries and machinery for manufacture of poultry feed withdrawn.
- Import duties on certain basic raw materials for plastic and melamine industries reduced from 13 percent to 5 percent.
- Import duty on diodes, transistors, semi-conductor device and compressors reduced from 13 percent to 5 percent.
- Duty on cellular mobile telephone sets reduced from Taka 300/- to Taka 200/- per set. Taka 200/- duty imposed on cellular fixed wireless telephone sets.

C. Value Added Tax (VAT)

- The time limit for disposal of VAT appeal cases reduced from one year to nine months for Commissioner (Appeal) and Customs, Excise and VAT Appellate Tribunal.
- The minimum penalty for tax evasion reduced to 50 percent of the amount of tax evaded from the equal amount of tax evaded; the maximum penalty reduced to double of the evaded amount from two and a half times of the evaded amount.
- The minimum penalty for minor offences reduced to Taka 5,000/- from Taka 10,000/- and for offences of less serious nature to Taka 10,000/- from Taka 25,000/-.
- 2.5 percent supplementary duty on local production of packet powder milk in packs of 2.5 kg and over withdrawn.
- Tax for each cellular mobile phone connection reduced to Taka 800/- from Taka 900/-; Taka 800/- tax per connection of the cellular fixed-wireless telephone.

Box 8.2

Salient Expenditure Measures in FY07 Budget

A. Developmental Expenditure and Non-Developmental Expenditure

- The total size of the budget, development and non-development together, stands at Taka 697.4 billion.
- The estimated non-development outlay is Taka 422.9 billion.
- Taka 19.8 billion from revenue budget for employment generation and development programmes.
- Taka 4.8 billion for Food-for-Work.
- 23 percent of the total budget for human resources development.
- Taka 47.8 billion (development and non-development) for the health sector; which is 16.3 percent higher than the allocation made in the revised budget of previous year.
- Taka 7.5 billion (development and non-development) for women and children affairs sector, which is 24.4 percent higher than that of the revised budget of previous year.
- Taka 68.0 billion (development and non-development) for local government and rural development sector, which is 4.5 percent higher than that of the revised budget of previous year.
- Taka 32.5 billion (development and non-development) for social security and welfare sector, which is 10.7 percent higher than that of the revised budget of previous year.
- Taka 42.9 billion (development and non-development) for fuel and energy sector, which is 13.7 percent higher than that of the revised budget of previous year.
- Taka 73.7 billion (development and non-development) for transport and communication sector, which is 20.4 percent higher than that of the revised budget of previous year.

B. Annual Development Programme (ADP)

- The ADP is estimated at Taka 260.0 billion, which is 20.9 percent higher than that of the revised budget of previous year.

was expected to be financed with domestic bank and non-bank borrowing to the extent of Taka 88.3 billion (1.9 percent of the GDP), against Taka 81.4 billion (2.0 percent of the GDP) in the revised FY06 budget, and with external financing for the remaining Taka 83.7 billion (1.8 percent of the GDP), against Taka 80.5 billion (1.9 percent of the GDP) in FY06 (Charts 8.3 and 8.4). In the domestic borrowing of Taka 88.3 billion, borrowing from the banking system was projected to be Taka 54.3 billion. The interest payments on domestic and foreign debts together were projected to decline from 16.8 percent of the total revenues in FY06 to 14.5 percent of the total revenues in FY07.

8.15 The FY07 budget was placed in the backdrop of the second year of PRS implementation. The fiscal measures outlined in the budget corresponded to the government's commitment to poverty reduction. Sectors instrumental in addressing poverty questions lured increased allocations. Human resources development, being a key factor for employment generation and higher productivity, was the focus of both developmental and non-developmental expenditure. Besides, more funds were allocated for agriculture, agro-based industries, rural development, infrastructure, power and energy, communication, Small and Medium Enterprises (SMEs), and law and governance etc. The budget put utmost importance to widening of social safety net and proposed new allocations targeting the deprived section of the population, especially women and elderly persons, along with current programmes.

The FY07 budget not only paid attention to the poverty issues, but also stressed the need for sustained economic growth accompanied by macroeconomic stability. Considering private sector investments pivotal for this goal, the budget had various proposals conducive to private investment. The new tax measures would bring about dynamism in domestic resource mobilization without jeopardizing tax payers' interests and protect domestic industries from foreign competitors. In the budget, transparency and accountability in the public revenue receipts and expenditure and good governance were acknowledged as key areas which would greatly influence realisation of fiscal objectives.

The targets set in the FY07 budget were pro-poor and pragmatic as well. Combating poverty should be the prime concern of a developing country like Bangladesh. The nation will not be able to explore the optimum potential of its resources unless it tackles the poverty problems first. However, the success of the budget will depend on the proper implementation of fiscal measures, efficiency in public fund management, good governance, particularly economic governance, and above all adherence by the government to the fiscal guidelines embodied in the budget.