Public Finance

Fiscal Trends- strategies for achieving higher growth and development

8.1 The fundamental basis of FY07 budget was meeting the Millennium Development Goals (MDGs) by achieving the annual targets embodied in Poverty Reduction Strategy (PRS). The fiscal policy in the budget was geared to accelerate economic growth and create employment opportunities. Promoting private sector investment was a key objective in the FY07 budget. Though both the total revenue and expenditure fell short of the projection, these ended up higher than that of the preceding financial year. The budget deficit as percentage of GDP, which was lower than that of the FY06, turned out exactly the same as initially targeted. The domestic borrowing of the Government, however, was kept limited within 2.1 percent of the GDP.

The main focus of the FY07 budget was poverty reduction. The Government pursued a set of strategies which were attuned to the poverty issue. These strategies included, among others increasing allocation in education, health and other social sector; ensuring financial security of the disadvantaged by widening social safety nets; ensuring economic good governance and enhancing public management capacity etc.

Although the revenue collection in the revised FY07 budget increased by 10.3 percent over FY06, it fell short of the original growth target of 17.1 percent. The current expenditure, on the other hand, posted a higher growth rate of 20.8 percent in FY07 over FY06. Since resources from the external sources were less than as expected the Annual Development Programme (ADP) was revised downward to Taka 216.0

Table 8.1 Bangladesh Government revenue and expenditure

(billion Taka)

	FY06*	as % of GDP	FY07*	as % of GDP	FY08**	as % of GDP
Total revenue	**448.7**	**10.8**	**494.7**	**10.6**	**573.0**	**10.8**
a) tax	361.8	8.7	392.5	8.4	458.4	8.6
b) non-tax	86.9	2.1	102.2	2.2	114.6	2.2
Total expenditure	**610.6**	**14.7**	**668.4**	**14.3**	**871.4#**	**16.4**
a) current	348.1	8.4	420.6	9.0	484.3	9.1
b) ADP	215.0	5.2	216.0	4.6	265.0	5.0
c) others	47.5	1.1	31.8	0.7	122.1	2.3
Budget deficit	**161.9**	**3.9**	**173.7**	**3.7**	**298.4**	**5.6**

Source : Budget in Brief 2006-07 and 2007-08, Ministry of Finance.
*Revised budget. ** Budget estimate. # Including BPC's liability.

billion. The fiscal deficit in FY07 at 3.7 percent of the GDP was exactly the same as projected.

The FY07 Budget and Fiscal Outcome

a. Revenue receipts

8.2 Against the target of Taka 525.4 billion, the total revenue receipts in FY07 was Taka 494.7 billion (Table 8.1), which was higher than the FY06 revenues by 10.3 percent. The tax revenues making up 79.3 percent of the total revenue receipts increased at a slower rate of 8.5 percent as compared to 13.2 percent growth in FY06.

The non-tax revenue displayed lower growth rate of 17.6 percent in FY07 as compared to 19.9 percent increase in the preceding financial year. The total revenue receipts as percentage of GDP fell to 10.6 percent in FY07 as compared to 10.8 percent in FY06. Similarly, the total tax revenue receipts as percentage of GDP declined to 8.4 percent in FY07 as compared to 8.7 percent in the preceding financial year. The major revenue measures in the FY07 budget included :

- 10 percent tax rebates on the additional tax paid by the individual taxpayers 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 benefits for agro-processing, jute and textile industries extended till 30 June 2008.
- 15 percent tax on diamond cutting and polishing industry.
- Accelarated depreciation allowance 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 allowance in the very first year.
- The amount of allowable investment for the purpose of tax rebates raised from Taka 200,000 to Taka 250,000 irrespective of share purchase by the investor of a company.
- Tax at source at the rate of 5 percent on the amount of export cash subsidy as final settlement of tax liability.
- Advance income tax at the rate of 3 percent on the bills paid by the user of credit cards.
- Minimum income tax of Taka 5,000 or 0.5 percent of turnover whichever is higher for companies irrespective of profit or loss.
- 12 percent and 5 percent customs duty on intermediate goods and capital machinery respectively. Zero percent and 25 percent customs duty on basic raw materials and finished goods respectively.
- Two-tier supplementary duty rates of 15 percent and 25 percent.
- 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.

8.3 In the FY07 budget direct taxes on income and profit increased at a higher rate of 28.2 percent to Taka 89.2 billion enhancing its share in the total tax revenues to 22.7 percent from 19.2 percent in FY06 (Table 8.2). Receipts from excise duty, taxes on vehicle, Value Added Tax (VAT), land revenue and import duty rose by 18.8 percent, 12.1 percent, 10.3 percent, 5.3 percent and 0.5 percent respectively. The tax revenue from supplementary duty and stamp duty (non judicial) declined by 4.5 percent and 1.0 percent respectively. Among other sources receipts from other taxes and duties and narcotics and liquor duty had almost no changes.

8.4 Under the non-tax revenue sector, receipts from dividend and profit, interest, other non-tax revenue and receipts and post offices sharply increased by 57.5 percent, 42.5 percent, 19.8 percent and 18.8 percent respectively. Other sub-sectors showing increases included fines, penalties and forfeiture by 14.3 percent; administrative fees and charges, 9.1 percent; non-commercial sales, 6.9 percent; tolls and levies, 6.7 percent; defense receipts, 4.3 percent and telegraph and telephone board, 2.8 percent. Receipts for services rendered and revenue from railway fell by 2.1 percent and 1.9 percent respectively. Receipts from capital revenue and rents, leases and recoveries remained almost unchanged.

b. Expenditure

8.5 The total public expenditure in the FY07 revised budget amounted to Taka 668.4 billion, which was 4.2 percent lower than the initial projection of Taka 697.4 billion and 9.5 percent higher than the FY06 expenditure of Taka 610.6 billion. The current expenditure of Taka 420.6 billion in FY07 was 6.4 percent higher than the initial projection of Taka 395.4 billion. The development expenditure of Taka 216.0 billion was 16.9 percent lower than the initially targeted Taka 260.0 billion due to less than the expected amount of resources from external sources (Table 8.1).

8.6 The current expenditure in FY07 surpassed initial allocations for a number of accounts, namely social sector, interest on domestic debt, defense, public order and safety, agriculture sector, local government and rural development. The proposed non-development current expenditure in FY07 had the following revisions :

- an additional amount of Taka 11.6 billion was provided for the implementation of allowances of the National Pay Scale, 2005, new appointments under some ministries (particularly Agriculture and Primary and Mass Education) and transfer of development posts to revenue budget.
- an additional amount of Taka 4.4 billion was allocated for agriculture subsidy.
- an additional amount of Taka 5.2 billion was 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, procurement of food stuffs, honorarium/fees/ remuneration etc.
- an additional amount to the tune of Taka 15.2 billion was allocated for interest payments.

Table 8.2 Composition of revenue receipts

(billion Taka)

	FY06*	FY07*	FY08**
Tax revenue	**361.8**	**392.5**	**458.4**
Value Added Tax (VAT)	124.0	136.8	158.9
Import duty	82.4	82.8	93.6
Supplementary duty	63.9	61.0	71.7
Taxes on income and profit	69.6	89.2	108.4
Stamp duty (non judicial)	9.6	9.5	10.3
Excise duty	1.6	1.9	2.0
Land revenue	3.8	4.0	4.6
Taxes on vehicles	3.3	3.7	4.4
Narcotics and liquor duty	0.5	0.5	0.5
Other taxes and duties	3.1	3.1	4.0
Non-tax revenue	**86.9**	**102.2**	**114.6**
Telegraph and telephone board	17.7	18.2	19.3
Administrative fees and charges	11.0	12.0	13.1
Dividend and profit	12.7	20.0	24.7
Interest	7.3	10.4	11.1
Capital revenue	0.6	0.6	0.6
Receipts for services rendered	4.7	4.6	5.4
Non-commercial sales	2.9	3.1	4.1
Rents, leases and recoveries	1.0	1.0	0.8
Defense receipts	6.9	7.2	9.3
Tolls and levies	1.5	1.6	1.9
Fines, penalties and forfeiture	0.7	0.8	0.9
Railway	5.2	5.1	5.6
Post offices	1.6	1.9	2.0
Other non-tax revenue and receipts	13.1	15.7	15.8
Total :	**448.7**	**494.7**	**573.0**

Source : Budget in Brief 2006-07 and 2007-08, Ministry of Finance.
*Revised budget. **Budget estimate.

Chart 8.1

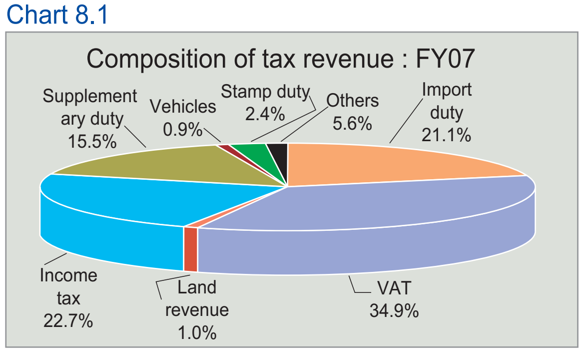
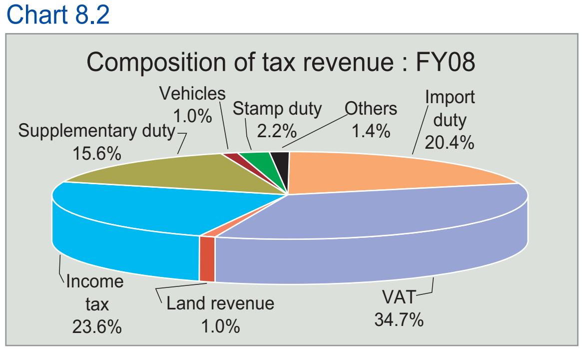


Chart 8.2



8.7 The Annual Development Programme in FY07 was revised downward by 16.9 percent from Taka 260.0 billion to Taka 216.0 billion.

Consistent with the growth and poverty reduction objectives, 30.1 percent of the total outlay was spent for infrastructure sector (power; oil, gas & natural resources; transport; and communication), and 24.5 percent for the social sector (education & religious affairs, and health, nutrition, population & family welfare).

c. Financing the FY07 budget deficit

8.8 The deficit in the revised FY07 budget stood at Taka 173.7 billion or 3.7 percent of the GDP at current prices. This ratio was equal to the amount initially projected. The domestic borrowing component of the deficit financing in FY07 was Taka 100.3 billion (2.1 percent of the GDP). Of this, Taka 65.3 billion (1.4 percent of the GDP) was bank borrowing (Chart 8.3). The other component Taka 35.0 billion (0.7 percent of the GDP) of domestic financing of the deficit was non-bank borrowing, mainly National Savings Schemes bought and held by the public. The foreign financing component of the budget deficit was Taka 73.3 billion (1.6 percent of the GDP), made up of foreign grants and loans. The domestic public debt stock incurred interest costs of Taka 91.5 billion (21.8 percent of the total current expenditure). The interest costs on the much larger external public debt stock turned out Taka 13.0 billion as the debt was of concessional type.

The FY08 Budget : A roadmap for growth and poverty alleviation

8.9 The FY08 budget was formulated basing the national poverty reduction strategy, "Unlocking the Potential : National Strategy for Accelerated Poverty Reduction" (NSAPR). The duration of the strategy (2004-2007) has been extended till June 2008. The budget was prepared within a Medium Term Macroeconomic Framework (MTMF). The underlying assumptions of this framework are : The GDP will grow by 7 percent in FY08 and

Table 8.3 Composition of revenue expenditure

(billion Taka)

	FY06*	FY07*	FY08**
Social sector	106.1	134.1	150.1
Public services	42.4	42.8	56.8
Interest on domestic debt	62.5	78.5	94.6
Defense	33.5	41.5	39.9
Public order and safety	28.3	38.5	39.5
Interest on foreign debt	12.9	13.0	13.2
Agriculture sector	19.6	28.2	41.0
Transport and communication	23.8	22.9	28.2
Local government and rural development	11.2	14.2	13.0
Housing	5.0	5.0	5.7
Others	2.8	1.9	2.3
Total :	**348.1**	**420.6**	**484.3**

Source : Budget in Brief 2006-07 and 2007-08, Ministry of Finance.
* Revised budget. ** Budget estimate.

Table 8.4 Composition of social sector expenditure

(billion Taka)

	FY06*	FY07*	FY08**
Education & technology	63.6	79.5	86.1
Health	19.9	26.0	27.8
Recreation, culture and Religious affairs	3.5	4.5	5.3
Labour and employment	0.2	0.2	0.2
Social security and welfare	18.9	23.9	30.7
Total :	**106.1**	**134.1**	**150.1**

Source : Budget in Brief 2006-07 and 2007-08, Ministry of Finance.
* Revised budget. ** Budget estimate.

Table 8.5 Sectoral shares in ADP expenditure

(Percent)

	FY06*	FY07*	FY08**
Agriculture	5.1	6.0	6.0
Rural development & institutions	14.6	15.9	13.4
Water resources	3.1	2.7	3.2
Industries	1.6	1.3	1.3
Power	15.7	12.9	13.7
Oil, gas & natural resources	1.6	0.7	2.8
Transport	13.1	13.9	12.5
Communication	3.5	2.6	2.1
Physical planning, water supply & housing	6.9	6.4	6.0
Education & religious affairs	13.3	13.6	14.2
Health, nutrition, population & family welfare	9.8	10.9	10.3
Others	11.7	13.1	14.5
Total :	**100.0**	**100.0**	**100.0**

Source : Annual Development Programme 2007-08.
* Revised budget. ** Budget estimate.

this trend will continue in the medium term; the annual inflation will come down from 7 percent to 6.5 percent and in the medium term it will gradually fall further due to adoption of consistent and cautious fiscal and monetary policies; there will be no destabilizing external and internal shocks; there will be much wider expansion of both tax and non-tax revenue base; by implementing more efficient revenue administration, the revenue receipts will be augmented.

The total size of the FY08 budget stands at Taka 871.4 billion. The estimated non-development and development outlay are Taka 529.3 billion and Taka 284.8 billion respectively. The budget provides Taka 15.1 billion from non-development budget for employment generation and development programmes and Taka 4.6 billion for non-ADP Food-for-Work and transfer. Consistent with the development goals, 34.4 percent of the total budget is allocated for physical infrastructure development, 34.3 percent for social infrastructure, 19.3 percent for public administration and the rest for interest payments against public debt and net lending. 57 percent of the total budget, non-development and development combined, is apportioned for programmes directly or indirectly related to poverty alleviation. 10.6 percent of the total budget is kept for social empowerment and safety net programmes.

The FY08 budget addresses the issue of SOEs sector losses caused by administered pricing policy. The pricing of oil, electricity and gas in particular has been unrealistic. The sale price of oil and electricity remains far below the purchase price or production costs. It poses quasi-fiscal costs (hidden costs) on the economy. The GOB takes over the burden of accumulated liabilities resulting from huge loss suffered by the Bangladesh Petroleum Corporation (BPC) and Power Development Board (PDB).In the budget the government assumes the liabilities of the BPC to the tune of Taka 75.2 billion. A provision of Taka 3 billion is made to meet the likely deficit of the PDB.

Chart 8.3

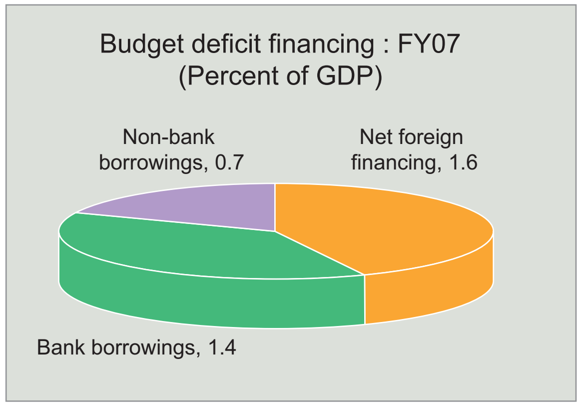
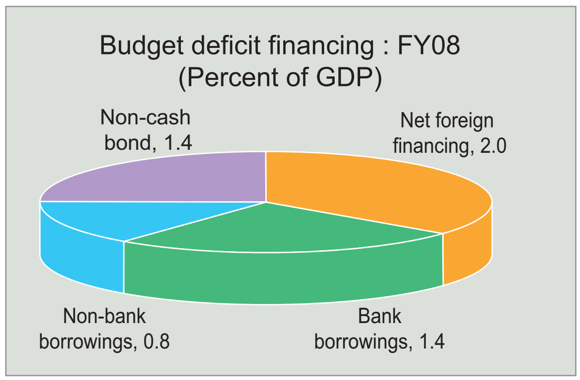


Chart 8.4



In order to make the resource utilisation target oriented the government started the process of reducing the number of projects and selecting only the pro-poor and growth enhancing projects. In the development budget of FY07, the block allocations accounted for 16 percent of the total allocation. It slides to 5 percent in FY08.

The Annual Development Programme (ADP) for FY08 is proposed at Taka 265.0 billion, which is 5.0 percent of the GDP and 22.7 percent higher than that of the previous year's revised budget. The traditional concept of ADP formulation has been revised and allocations are determined taking into account national priorities, regional parity and availability of resources. 23 percent of the total allocation is earmarked for the agriculture sector (agriculture, rural development and water resources). Allocations for other sectors include power and energy, 16 percent; education, 14 percent; health, 12 percent and transport, 10 percent. To bring about balanced development among the regions, the allocation for projects being implemented in Rajshai, Khulna and Barisal Divisions is increased by 35 percent. The total development expenditure stands at Taka 284.8 billion, which is 5.4 percent of the GDP. This proposed development expenditure turns out 21.4 percent higher than that of the revised budget of the previous year.

a. Revenue receipts

8.10 The revenue receipts in FY08 is targeted to grow by 15.8 percent to Taka 573.0 billion compared to that of the previous year's revised budget. The tax and non-tax receipts are expected to rise by 16.8 percent and 12.1 percent respectively, against increases of 8.5 percent and 17.6 percent in the FY07. It leads to the increase in revenue-GDP ratio to 10.8 percent in FY08 from 10.6 percent in FY07 (Table 8.1). A higher 21.5 percent increase in receipts from the direct taxes on income and profits is projected against 15.7 percent growth projected for indirect taxes (VAT, import duty, supplementary duty, other taxes and duties) (Table 8.2).

Among non-tax revenue sources the targeted growth rate of dividend and profit is set lower at 23.5 percent compared to 57.5 percent rise in FY07. The growth rate of defense receipts is projected higher at 29.2 percent against 4.3 percent increase in FY07. Receipts from rents, leases and recoveries is assumed to fall by 20.0 percent.

The FY08 budget puts emphasis on curbing dependence on import based revenue and strengthening domestic revenue sources, i.e. income tax and Value Added Tax (VAT). To keep the prices of commodities within tolerable limits, reduction of import duties on industrial raw materials, capital machinery and intermediate goods is considered necessary. The taxpayers' aversion tendency as well as procedural complexities resulted in poor tax revenue collection over the past years. The formulation of a new law and separation of tax policy from tax administration to build a transparent and simplified tax regime in the country is under consideration. As part of the initiative to simplify tariff structure and difference of duties between the finished products and intermediate products, the customs duty slabs have been restructured. The budget focuses on non-tax revenue too. Measures taken by the government to increase non-tax revenue included expansion of non-tax revenue base, rational re-fixation of existing rates through regular review, exploring new areas, improvement of collection management and plugging the leakages.

b. Expenditure

8.11 The total public expenditure in FY08 is expected to increase by 30.4 percent over the revised figure of FY07. The current expenditure is expected to grow by 15.1 percent, the ADP by 22.7 percent and the other expenditure by 284.0 percent. The ratio of total expenditure to GDP is predicted to increase to 16.4 percent in FY08 from 14.3 percent in FY07 (Table 8.1).

8.12 The current expenditure in FY08 budget stands at Taka 484.3 billion (Table 8.1 & 8.3). Almost one third of the total current expenditure is allocated for the social sector, in which the major shares go to the education and technology, health, social security and welfare programmes (Table 8.4) promoting human resources development and widening social safety net.

Competent human resources are crucial for accelerated and sustained development. Taka 197.0 billion is allocated for human resources development. It is very essential to stimulate labour intensive Small and Medium Enterprises (SMEs), which require less capital. An endowment allocation of Taka 1.0 billion is made to establish an SME Foundation under the Ministry of Industry. Agriculture is central to

Box 8.1

Salient Revenue Measures in FY08 Budget

A. Income Tax

- Minimum income tax payable increased to Taka 2,000 from Taka 1,800.
- Tax exempted income limit for individual taxpayers enhanced from Taka 120,000 to Taka 150,000. 10 percent tax rebates on the additional tax paid by the individual taxpayers paying taxes at the highest rate of 25 percent disclosing more than 10 percent higher income in the assessment year 2008-09.
- 'Universal Self-Assessment Procedures' introduced.
- Irrespective of profit or loss, minimum tax on the basis of turnover reduced from 0.50 percent to 0.25 percent.
- For interest exceeding Taka 25,000 per annum (later enhanced to Taka 150,000 per annum), 10 percent tax at source on interest from savings instruments introduced.
- Provision for deduction of tax at source on credit card bill abolished.
- Provision of paying tax at a specified rate for construction of building or buying house property or flats or land or purchasing car, with undisclosed and untaxed money abolished.
- Tax deductible at source at the rate of 0.25 percent on all export earnings imposed as final tax payment.
- Tax rebate facility to the non-resident Bangladeshi investors extended.
- Tax holiday facility proposed for solar energy plants.

B. Import Duty

- 4 percent infrastructure development surcharge completely withdrawn.
- 5 percent and 12 percent customs duty for capital machinery and intermediate goods increased to 10 percent and 15 percent respectively. 25 percent customs duty for finished goods kept unchanged.
- Two slabs of supplementary duty at 15 percent and 25 percent merged into a single slab of 20 percent.
- 10 percent customs duty imposed on all pumps including those used for agriculture.
- Customs duty on crude edible oil and lentils completely withdrawn.
- Duty free benefit continued to essential commodities including rice, wheat, onion, matar dal (pea) and chola dal (chickpea).
- Duty free facility continued to different lifesaving drugs including insulin and fertilizers.
- Customs duty on formalin and stearic acid enhanced from 12 percent to 25 percent.
- Specific duty on raw sugar re-fixed at Taka 4,000 instead of Taka 2,250.
- Customs duty rate on the import of newsprint reduced from 25 percent to 15 percent, and newsprint for newspaper uses and raw materials for newsprint exempted from customs duty.

C. Value Added Tax (VAT)

- Minimum penalty for tax evasion reduced from 50 percent to 25 percent and maximum penalty from 200 percent to 75 percent of the evaded amount.
- Maximum penalty for minor offences reduced from Taka 50,000 to Taka 25,000.
- Maximum penalty for major offences reduced from Taka 300,000 to Taka 100,000.
- Provision of annual renewal of VAT registration by commercial importers withdrawn.
- Ceiling of invested capital in plant, machineries and equipment re-fixed at Taka 700,000 from Taka 500,000 for the cottage industries.
- 4.5 percent VAT imposed on the basis of truncated base value of the coaching centres, English medium schools, private medical and engineering colleges.

Box 8.2

Salient Expenditure Measures in FY08 Budget

A. Development Expenditure and Non-Development Expenditure

- Total size of the budget stands at Taka 871.4 billion.
- Estimated non-development and development outlay are Taka 529.3 billion and Taka 284.8 billion respectively.
- Assumption of liability of Taka 75.2 billion arising from accumulated loss of the Bangladesh Petroleum Corporation (BPC).
- Taka 15.1 billion from revenue budget for employment generation and development programmes.
- Taka 4.6 billion for non-ADP Food-for-Work and transfer.
- 57 percent of the total budget for poverty reduction.
- 25 percent of the total budget for human resources development.
- Taka 123.7 billion (development and non-development) for the education and technology sector, which is 13.5 percent higher than that of the revised budget of previous year.
- Taka 107.9 billion (non-development) for the interest payment sector, which is 17.8 percent higher than that of the revised budget of previous year.
- Taka 74.6 billion (development and non-development) for the local government and rural development sector, which is 1.6 percent higher than that of the revised budget of previous year.
- Taka 70.0 billion (development and non-development) for the transport and communication sector, which is 17.6 percent higher than that of the revised budget of previous year.
- Taka 69.0 billion (development and non-development) for the agriculture sector, which is 29.8 percent higher than that of the revised budget of previous year.
- Taka 54.7 billion (development and non-development) for the health and family welfare sector, which is 10.3 percent higher than that of the revised budget of previous year.
- Taka 45.9 billion (development and non-development) for the fuel and energy sector, which is 51.2 percent higher than that of the revised budget of previous year.
- Taka 39.0 billion (development and non-development) for the social security and welfare sector, which is 33.8 percent higher than that of the revised budget of previous year.

B. Annual Development Programme (ADP)

- The ADP is estimated at Taka 265.0 billion, which is 22.7 percent higher than that of the revised budget of previous year.

the Bangladesh economy. In order to meet the huge food demand and contain inflation, agricultural productivity needs to be enhanced. Taka 69.0 billion (including an endowment allocation of Taka 3.5 billion for agricultural research and development) is allocated for the agriculture sector. The existing Equity Entrepreneurship Fund (EEF) is split into two funds, namely Agriculture Equity Entrepreneurship Fund and IT Equity Entrepreneurship Fund and an allocation of Taka 1.0 billion is made for each fund.

Measures have been taken to bring in the disadvantaged community including women, children and the disabled into the mainstream of development. In order to reduce maternal and infant mortality a pilot programme titled "Maternity Allowance for the Poor Lactating Mothers" has been introduced. This will ensure safe motherhood and better health and malnutrition of hardcore poor mothers as well as safe birth and sound upbringing of infants. The expecting poor mothers will get an allowance of Taka 300 per month. Initially 45 thousand mothers of 3 thousand unions will be brought under this programme. Taka 0.2 billion is allocated for this programme in the FY08 budget.

The subsistence allowance for the children of orphanages and such other homes is enhanced from Taka 1,000 to Taka 1,200. The per capita capitation grant for children of private orphanages is increased by Taka 200. The rates of allowance at all levels for the disabled freedom fighters are enhanced by 50 percent and the rate of monthly allowance for insolvent freedom fighters is increased from Taka 500 to Taka 600. Taka 0.5 billion is allocated for the enhancement of the rate of allowance of the disabled from Taka 200 to Taka 220 and for the expansion of beneficiary coverage from 166,000 to 200,000.

Funds are allocated to create more employment opportunities. Taka 5.5 billon is provided for employment generation in the rural areas outside the ministry-based employment generation programmes.

The FY08 budget underscores the importance of power and energy sector. Taka 45.9 billion is allocated for the power and energy sector. An allocation of Taka 19.0 billion is made for information, telecommunication and information technology sector.

8.13 The Annual Development Programme (ADP) for FY08 is projected at Taka 265.0 billion, exceeding the revised ADP of Taka 216.0 billion in FY07 by 22.7 percent. 31.1 percent of the total ADP is allocated for infrastructure sector. On the other hand, social sector receives 24.5 percent of the total ADP (Table 8.5).

c. Deficit and its financing

8.14 The FY08 budget deficit, estimated at Taka 298.4 billion, is Taka 124.7 billion higher than that of FY07. However, the budget deficit-GDP ratio for FY08, 5.6 percent, turns out higher than 3.7 percent of FY07. The deficit is expected to be financed with domestic bank and non-bank borrowing to the extent of Taka 192.8 billion (3.6 percent of the GDP), against Taka 100.3 billion (2.1 percent of the GDP) in the revised FY07 budget, and with external financing for the remaining Taka 105.6 billion (2.0 percent of the GDP) in FY08, against Taka 73.3 billion (1.6 percent of the GDP) in FY07 (Charts 8.3 and 8.4). In the domestic borrowing of Taka 192.8 billion, borrowing from the banking system is projected to be Taka 72.5 billion. The interest payments on domestic and foreign debts together is projected to increase from 18.5 percent of the total revenues in the revised FY07 budget to 18.8 percent in FY08.

8.15 The FY08 budget was placed on behalf of the Non-party Caretaker Government at a critical juncture in the history of Bangladesh. The government confronts a range of economic challenges that include maintaining macroeconomic stability, accelerating economic growth, keeping inflation within tolerable limits, removing constraints to private sector-led growth, reducing poverty, ensuring regional and income equity and ensuring food security.

The focus of the budget is poverty reduction. The budget pledges to increase pro-poor development expenditure. 57 percent of the total budget, non-development and development combined, is devoted to programmes directly or indirectly related to poverty reduction. Human resources constitute the foundation stone for building social infrastructure. 25 percent of the total resources has been allocated for this sector. Increased funds have been provided to the education and technology; local government and rural development; transport and communication; agriculture, health and family welfare and energy sector.

The fiscal measures outlined in the FY08 budget are pragmatic. The Government acknowledges that the revenue-GDP ratio in Bangladesh is low compared to that of most countries in the world. The revenue collection is not increasing compared to the growth of GDP. Efforts need to be made to increase the share of revenue. It requires undertaking a formidable of tax assessment, strengthened collection procedure, office automation, transparency and accountability of tax administration, and applied research.

The budget takes measures to keep the market price of commodities stable. As part of the initiative to simplify tariff structure, the customs duty slabs are restructured. To protect the local industries, the duty structure on manufactured products and raw materials is rationalised.

The budget sets a number of targets which are consistent with the poverty reduction objectives. The desired outcome from budget allocation can only be expected if the budget is implemented properly. Continuous monitoring and evaluation are required to enhance economy, efficiency and effectiveness of public spending.