Public Finance

Fiscal trends- strategies for achieving higher growth and development

8.1 The FY08 budget was formulated within the framework of the national poverty reduction strategy, "Unlocking the Potential : National Strategy for Accelerated Poverty Reduction (NSAPR)." The duration of the strategy was extended till June 2008. The fiscal policy in the budget was meant for pro-poor economic growth and supporting private sector investment as well. Both the total revenue and expenditure in the revised FY08 budget exceeded the initial projection. Unlike the previous budgets, the GoB, for the first time, assumed the liabilities of the Bangladesh Petroleum Corporation (BPC) to the tune of Taka 75.2 billion. The budget deficit as percentage of GDP turned out higher than the target. The domestic borrowing of the government, which had been restricted to 2.1 percent of the GDP in the preceding financial year, leapt to 3.7 percent of the GDP.

The focus of the FY08 budget was poverty reduction. The budget pursued a set of objectives which included creation of employment opportunities, removal of infrastructure constraints, improvement of law and order situation, establishment of fiscal discipline, unfettered development of private sector, human resources development, social sector investment, further widening of social safety-net programmes, and strengthening of financial management.

The revenue collection in the revised FY08 budget increased by 22.4 percent over the revised FY07 revenue. It was 5.7 percent higher compared to the target. The current expenditure in the revised FY08 budget was higher than both the revised FY07 current expenditure and the target. On the other hand, although the Annual Development Programme (ADP) of Taka 225.0 billion in the revised FY08 budget turned out higher than the revised FY07 ADP, it fell short of the target by 15.1 percent. The fiscal deficit in the revised FY08 budget at 6.2 percent of GDP (excluding grants and including BPC) was much higher than both the projection and the revised FY07 fiscal deficit.

Table 8.1 Bangladesh Government revenue and expenditure

(billion Taka)

	FY07*	as % of GDP	FY08*	as % of GDP	FY09**	as % of GDP
Total revenue	**494.7**	**10.6**	**605.4**	**11.3**	**693.8**	**11.3**
a) tax	392.5	8.4	480.1	9.0	567.9	9.3
b) non-tax	102.2	2.2	125.3	2.3	125.9	2.0
Total expenditure	**668.4**	**14.3**	**936.1#**	**17.5**	**999.6**	**16.3**
a) current	420.6	9.0	522.5	9.8	607.6	9.9
b) ADP	216.0	4.6	225.0	4.2	256.0	4.2
c) others	31.8	0.7	188.6	3.5	136.0	2.2
Budget deficit	**173.7**	**3.7**	**330.7**	**6.2**	**305.8**	**5.0**

Source : Budget in Brief 2007-08 and 2008-09, Ministry of Finance
*Revised budget **Budget estimate# Including BPC's liability

The FY08 budget and fiscal outcome

a. Revenue receipts

8.2 Against the target of Taka 573.0 billion, the total revenue receipts in FY08 was Taka 605.4 billion, which was higher than the FY07 revenue receipts by 22.4 percent (Table 8.1). The tax revenues making up 79.3 percent of the total revenue receipts increased at a higher rate of 22.3 percent compared to 8.5 percent growth in FY07.

The non-tax revenue also displayed higher growth rate of 22.6 percent in FY08 compared to 17.6 percent increase in the preceding financial year. The total revenue receipts as percentage of GDP rose to 11.3 percent in FY08 compared to 10.6 percent in FY07. Similarly, the total tax revenue receipts as percentage of GDP reached 9.0 percent in FY08 as compared to 8.4 percent in the preceding financial year. The major revenue measures in the FY08 budget included:

- 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 Procedure" introduced to motivate and encourage taxpayers to pay tax voluntarily.

  Irrespective of profit or loss, minimum tax on the basis of turnover reduced from 0.50 percent to 0.25 percent.
- For interests exceeding Taka 150,000 per annum, 10 percent tax at source on interests from savings instruments introduced.
- Provision for deduction of tax at source on credit card bill abolished.
- Tax deductible at source at the rate of 0.25 percent imposed on all export earnings as final tax payment.
- Tax holiday facility to the non-resident Bangladeshi investors extended.
- Tax rebate facility introduced for the solar energy plants.
- Customs duty on capital machinery and intermediate goods increased from 5 percent and 12 percent to 10 percent and 15 percent respectively. 25 percent customs duty on finished goods kept unchanged.
- Two slabs of the supplementary duty at 15 percent and 25 percent were 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 withdrawn.
- Duty free benefit continued to the essential commodities including rice, wheat, onion, matar dal (pea) and chola dal (chickpea).
- Duty free benefit continued to different lifesaving drugs including insulin and fertilizers.
- Specific duty on raw sugar refixed at the rate of Taka 4,000 per Ton.
- 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.
- Ceiling of invested capital in plant, machinery, and equipment refixed at Taka 700,000 from Taka 500,000 for the cottage industry.
- 4.5 percent Value Added Tax (VAT) imposed on the basis of truncated base value of the coaching centres, English medium schools, private medical and engineering colleges.

8.3 In the revised FY08 budget direct taxes on income and profit increased at the rate of 23.4 percent to Taka 110.1 billion enhancing its share in the total tax revenues to 22.9 percent from 22.7 percent in FY07. Receipts from other taxes and duties, taxes on vehicle, supplementary duty, Value Added Tax (VAT), stamp duty (non judicial), import duty and excise duty rose by 51.6 percent, 35.1 percent, 30.7 percent, 24.3 percent, 18.9 percent, 12.3 percent and 10.5 percent respectively compared to that of the revised FY07 budget. On the other hand, the land revenue declined by 10.0 percent. Among other sources receipts from narcotics and liquor duty remained unchanged (Table 8.2).

8.4 Under the non-tax revenue sector, receipts from other non-tax revenue and receipts; fines, penalties and forfeiture; and dividend and profit sharply increased by 95.5 percent, 37.5 percent, and 24.0 percent respectively compared to that of the revised FY07 budget. Other sub-sectors showing increase included tolls and levies by 18.8 percent; administrative fees and charges by 17.5 percent; railway by 9.8 percent; interest by 6.7 percent; receipts for services rendered by 6.5 percent, post offices by 5.3 percent; and Telegraph and Telephone Board by 3.3 percent respectively. Receipts from non-commercial sales, capital revenue, and defense fell by 19.4 percent, 16.7 percent and 12.5 percent respectively. Receipts from rents, leases and recoveries remained unchanged (Table 8.2).

Table 8.2 Composition of revenue receipts

(billion Taka)

	FY07*	FY08*	FY09**
Tax revenue	**392.5**	**480.1**	**567.9**
Value Added Tax (VAT)	136.8	170.1	202.5
Import duty	82.8	93.0	108.6
Supplementary duty	61.0	79.7	95.3
Taxes on income and profit	89.2	110.1	130.5
Stamp duty (non judicial)	9.5	11.3	12.7
Excise duty	1.9	2.1	2.5
Land revenue	4.0	3.6	4.2
Taxes on vehicles	3.7	5.0	5.5
Narcotics and liquor duty	0.5	0.5	0.5
Other taxes and duties	3.1	4.7	5.6
Non-tax revenue	**102.2**	**125.3**	**125.9**
Telegraph and Telephone Board	18.2	18.8	0.0
Administrative fees and charges	12.0	14.1	16.1
Dividend and profit	20.0	24.8	34.3
Interest	10.4	11.1	14.5
Capital revenue	0.6	0.5	0.4
Receipts for services rendered	4.6	4.9	5.6
Non-commercial sales	3.1	2.5	4.2
Rents, leases and recoveries	1.0	1.0	1.1
Defense receipts	7.2	6.3	10.6
Tolls and levies	1.6	1.9	2.0
Fines, penalties and forfeiture	0.8	1.1	1.2
Railway	5.1	5.6	5.7
Post offices	1.9	2.0	2.2
Other non-tax revenue and receipts	15.7	30.7	28.0
Total :	**494.7**	**605.4**	**693.8**

Source : Budget in Brief 2007-08 and 2008-09, Ministry of Finance
*Revised budget **Budget estimate

Chart 8.1

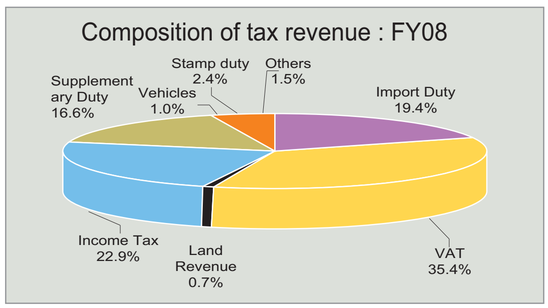
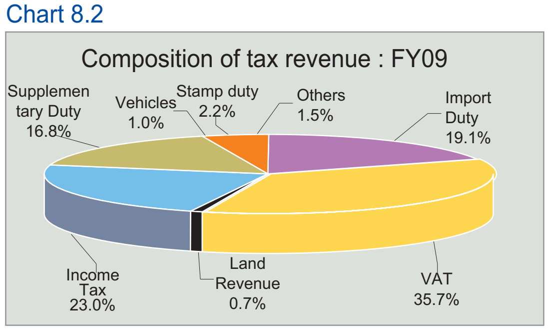


Chart 8.2



b. Expenditure

8.5 The total public expenditure in the revised FY08 budget amounted to Taka 936.1 billion, which was 7.4 percent higher than the initial projection of Taka 871.4 billion and 40.1 percent higher than the FY07 expenditure of Taka 668.4 billion. The current expenditure of Taka 522.5 billion in FY08 was 7.9 percent higher than the initial projection of Taka 484.3 billion. The ADP of Taka 225.0 billion was 15.1 percent lower than the initially targeted Taka 265.0 billion (Table 8.1).

8.6 The current expenditure in FY08 surpassed initial allocations for a number of accounts, namely social sector, interest on domestic debt, defense, public order and safety, interest on foreign debt, agriculture sector, transport and communication, local government and rural development (Table 8.3). The proposed non-developmental current expenditure in FY08 had the following revisions:

- An additional amount of Taka 1.5 billion was allocated for new appointments under some ministries (particularly Primary and Mass Education) and transfer of development posts to revenue budget.

- An additional amount of Taka 16.5 billion was allocated for agriculture subsidy.

- An additional amount of approximately Taka 4.5 billion was included in "Supplies and Services" head of the revised budget for electricity, municipality tax, land development tax, telephone, traveling allowance, contingent staff, petrol & lubricant, training expenses, transport expenses, hiring charge, seminar and conference, food supply, computer equipments, honorarium allowance/fee against some ministries.
- An additional amount of Taka 11.8 billion was allocated for interest payments.
- Taka 1.3 billion was allocated for microcredit programmes to generate self-employment for the poor of the Sidr affected areas.

8.7 The Annual Development Programme in FY08 was revised downward by 15.1 percent from Taka 265.0 billion to Taka 225.0 billion. Consistent with the growth and poverty reduction objectives, 29.1 percent of the total outlay was spent for the infrastructure sector (power; oil, gas & natural resources; transport; and communication), and 24.7 percent for the social sector (education & religious affairs, and health, nutrition, population & family welfare) (Table 8.5).

c. Financing the FY08 budget deficit

8.8 The deficit in the revised FY08 budget stood at Taka 330.7 billion (6.2 percent of the GDP at current prices). This ratio was higher than what was initially projected. The domestic borrowing component of the deficit financing in FY08 was Taka 199.2 billion (3.7 percent of the GDP). Of this, Taka 104.0 billion (1.9 percent of the GDP) was bank borrowing (Chart 8.3). The other component Taka 95.2 billion (1.8 percent of the GDP) of domestic financing of the deficit was non-bank borrowing, i.e. non-cash bond and National Savings Scheme Certificates bought and held by the public. The foreign financing component of the budget deficit was Taka 131.5 billion (2.5 percent of the GDP), made up of foreign grants and loans. The domestic public debt stock incurred interest

Table 8.3 Composition of revenue expenditure

(billion Taka)

	FY07*	FY08*	FY09**
Social sector	134.1	155.0	182.7
Public services	42.8	44.9	87.6
Interest on domestic debt	78.5	106.2	112.7
Defense	41.5	44.8	50.5
Public order and safety	38.5	43.5	46.1
Interest on foreign debt	13.0	13.5	12.9
Agriculture sector	28.2	60.9	65.9
Transport and communication	22.9	32.0	25.3
Local government and rural development	14.2	13.9	14.7
Housing	5.0	5.6	5.7
Others	1.9	2.2	3.5
Total :	**420.6**	**522.5**	**607.6**

Source : Budget in Brief 2007-08 and 2008-09, Ministry of Finance
*Revised budget **Budget estimate

Table 8.4 Composition of social sector revenue expenditure

(billion Taka)

	FY07*	FY08*	FY09**
Education & technology	79.5	85.9	86.9
Health	26.0	28.1	31.2
Recreation, culture and religious affairs	4.5	5.4	4.5
Labour and employment	0.2	0.2	0.2
Social security and welfare	23.9	35.4	59.9
Total :	**134.1**	**155.0**	**182.7**

Source : Budget in Brief 2007-08 and 2008-09, Ministry of Finance
*Revised budget **Budget estimate

Table 8.5 Sectoral shares in ADP expenditure

(Percent)

	FY07*	FY08*	FY09**
Agriculture	6.0	6.0	7.3
Rural development & institutions	15.9	14.1	13.8
Water resources	2.7	4.0	2.9
Industries	1.3	1.2	2.1
Power	12.9	13.8	13.7
Oil, gas & natural resources	0.7	2.0	3.2
Transport	13.9	11.5	13.5
Communication	2.6	1.8	1.2
Physical planning, water supply & housing	6.4	7.2	8.7
Education & religious affairs	13.6	13.6	13.8
Health, nutrition, population & family welfare	10.9	11.1	10.1
Others	13.1	13.7	9.7
Total :	**100.0**	**100.0**	**100.0**

Source : Annual Development Programme 2008-2009, Ministry of Planning
*Revised budget **Budget estimate

costs of Taka 106.2 billion (20.3 percent of the total current expenditure). The interest costs on the much larger external public debt stock turned out Taka 13.5 billion as the debt was of concessionary type.

The FY09 budget : A document for overcoming crises

8.9 The broad objectives of the FY09 budget include maintaining macroeconomic stability, accelerated growth, and poverty reduction. Alongside these, priorities have been given to maintaining price level of essentials within tolerable limit, employment generation, widening and deepening of social safety-net programmes, reducing regional disparity, increasing agricultural production, ensuring food security, increasing power generation and the overall development of communication network including IT. The budget was formulated keeping in mind the second Poverty Reduction Strategy Paper (PRSP) titled "National Strategy for Accelerated Poverty Reduction (NSAPR)" commencing from July 2008. The tenure of implementation of the first NSAPR came to an end in 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 7-8 percent range in the medium term (FY09-11). The rate of inflation will decelerate to the region of 6-7 percent. Investment in the private sector will increase to 22.6 percent. In the medium term, the annual growth of private sector credit will lie between 19-22 percent.

The size of the FY09 budget stands at Taka 999.6 billion. The estimated non-development and development outlays are Taka 667.5 billion and Taka 295.5 billion respectively. The budget provides Taka 21.7 billion from non-development budget for employment generation and development programmes and Taka 17.8 billion for non-ADP Food-for-Work and transfer. Consistent with the development goals, 32.4 percent of the total budget is allocated for social infrastructure, 29.0 percent for physical infrastructure, 21.4 percent for public

Chart 8.3

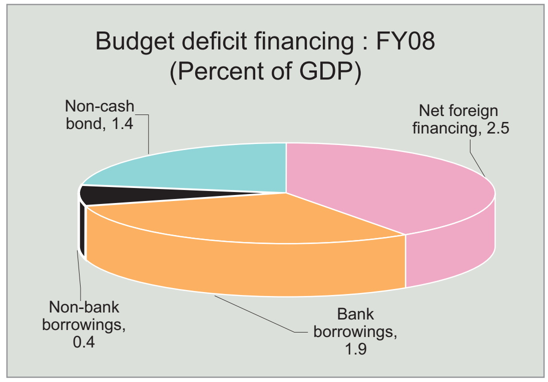
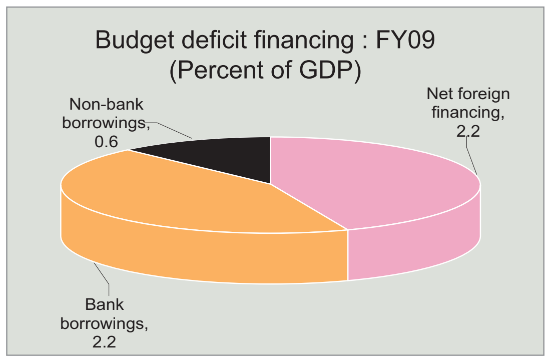


Chart 8.4



administration and the rest for interest payments and net lending. 58.3 percent of the total budget, non-development and development combined, is apportioned for programmes directly or indirectly related to poverty alleviation.

The FY09 budget appears to be an expansionary one. Against the backdrop of the negative impacts of international price hike of oil, food, and fertilizer together with internal shocks, an expansionary fiscal policy to protect the poor and the low-income groups became a necessity.

The FY09 budget, like the previous year's budget, takes into consideration the quasi-fiscal costs borne by the GoB due to losses ensued from under-pricing of some public utilities. Because of the persistent gap between the selling price and the procurement/production costs of petroleum, power, and fertilizer, the

Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), and Bangladesh Chemical Industries Corporation (BCIC) have been incurring losses. Eventually these huge accumulated losses are passed on to the government as hidden quasi-fiscal costs. The GoB depicts this liability in the budget in a transparent manner by allocating Taka 136.5 billion on this account in the FY09 budget. In the FY08, Taka 118.4 billion was met as quasi-fiscal costs.

Allocations for the Annual Development Programme (ADP) for FY09 have been determined bearing in mind the national priorities, regional parity, and availability of resources. Greater attention has been given to the selection of quality projects and their speedy execution. The past trend of ADP utilization suggests that in recent years 20 percent of the ADP remains unutilised at year-ends. Taking this into account the size of the ADP for FY09 has been determined basing historical absorptive capacity.

The total developmental expenditure for FY09 stands at Taka 295.5 billion, which is 4.8 percent of the GDP. This developmental 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 FY09 has been targeted to grow by 14.6 percent to Taka 693.8 billion compared to that of the previous year's revised budget. The tax and non-tax receipts are expected to rise by 18.3 percent and 0.5 percent respectively, against increases of 22.3 percent and 22.6 percent respectively in FY08. It leaves the projected total revenue-GDP ratio unchanged at 11.3 percent in FY09 compared to that of FY08 (Table 8.1). A lower 18.5 percent increase in receipts from the direct taxes on income and profits has been projected against 18.6 percent growth projected for indirect taxes (VAT, import duty, supplementary duty, and other taxes and duties) (Table 8.2).

Among non-tax revenue sources, other non-tax revenue and receipts has been projected to decrease by 8.8 percent compared to 95.5 percent increase in the preceding financial year. Receipts from capital revenue is expected to fall by 20.0 percent in FY09. The targeted growth rate for defense receipts and dividend and profit have been set at 68.3 percent and 38.3 percent respectively for FY09. Receipts from Telegraph and Telephone Board does not apply for FY09 as the entity has been already dissolved (Table 8.2).

Great importance was attached to the private-public partnership in formulating the fiscal measures for FY09 budget. The National Board of Revenue (NBR) held a two-month long pre-budget dialogue with the concerned stakeholders representing nearly every sector. The prime objective of FY09 budget is to raise the tax-GDP ratio by strengthening tax collection efforts. The GoB seeks to achieve this objective of higher revenue generation by expanding the tax coverage through identifying new taxpayers and areas; enhancing transparency, accountability and efficiency of revenue administration; and creating a truly tax-friendly atmosphere rather than introducing new tax or raising the tax rates. To this end, various measures have been initiated to bring the taxpayers and tax collection agencies closer. Special priority has been attached to changing the mind-set of the revenue officials, elimination of discretionary powers to the maximum possible extent, developing a service-oriented attitude among the revenue officials, avoidance of all sorts of discriminatory provisions, simplification of revenue collection and payment procedure, administrative separation of tax collection from tax policy formulation, awareness building programmes among both existing and the potential taxpayers to create interests among the taxpayers and official recognition of the genuine taxpayers. In order to modernize the revenue administration necessary reforms, expansion and reorganization in the administrative structure of Income Tax, Value Added Tax, and Customs Departments have been taken.

Against the background of global food crises and increase in food prices, the GoB offers fiscal incentives in the FY09 budget for the development of the agriculture sector. The tax exemption benefit has been extended to the

Small and Medium Enterprises (SMEs) and Information and Communication Technology sectors. The coverage of Tax Holiday facility has been widened. To foster the local industries the customs duty structure has been transformed into a four-tier structure.

b. Expenditure

8.11 The total public expenditure in FY09 is expected to increase by 6.8 percent to Taka 999.6 billion over the revised figure of FY08. The current expenditure is expected to grow by 16.3 percent, the ADP by 13.8 percent and the other expenditure to decline by 27.9 percent. The ratio of total expenditure to GDP is predicted to decrease to 16.3 percent in FY09 from 17.5 percent in the revised FY08 budget (Table 8.1).

8.12 The current expenditure in FY09 budget stands at Taka 607.6 billion (Table 8.1 & 8.3). Almost one third of the total current expenditure has been allocated for the social sector, in which the major shares go to the education and technology, health, social security and welfare programmes promoting human resources development and widening social safety net (Table 8.4).

The impact of global food shortages has fallen on the poor and the lower middle class. The GoB is fully conscious about the need to provide social security to this section of the community so that their living standard does not deteriorate further. To this end, the Government plans to widen and deepen the social safety-net programmes by increasing the total number of beneficiaries and increasing the rates of subventions involving Taka 169.3 billion in FY09, which is 47.6 percent higher than the revised allocation of Taka 114.7 billion in the FY08 budget.

The ultra-poor and the rural middle and lower middle class communities are worst affected by inflation. Appropriate measures have been taken to provide sufficient allocations in the budget to enhance their purchasing power. The government plans to take up in FY09 a new programme titled "100 Days Employment Generation" to ensure employment of the rural unemployed poor across the country for at least 100 days during the whole year and in particular during mid-October to mid-January and mid-March to mid-May periods. Under this programme, job opportunities would be created locally for 2 million unemployed poor. This programme has been designed as an employment guarantee scheme for the unemployed. The budget provides Taka 20.0 billion in favour of this programme for FY09. This programme is expected to create employment of 200 million man-days with daily remuneration of Taka 100 per person. Alongside, a further allocation in terms of food worth Taka 15.8 billion has been made for the Food for Work programme. It would generate another 144 million man-days of employment.

Taka 5.3 billion has been allocated to the Palli Karma Shahayak Foundation (PKSF) and other such organizations. This fund would be channelled through NGOs as microcredit. Another Taka 1.3 billion has been allocated to departments and agencies under various ministries/divisions. This fund would also be distributed as microcredit. It is expected that employment for 15 million families would be generated through these microcredit operations.

Taka 200 million has been allocated for a new programme titled "Allowance for Poor Lactating Working Mothers in Urban Areas." A new programme titled "Rural Employment and Road Maintenance Programme (RERMP)" would be launched at a cost of Taka 9.4 billion from FY09. It would generate 50,000 jobs annually in 4,926 Unions. Under this programme, Taka 1.9 billion would be spent in FY09.

The monthly rate of Old Age Allowance has been increased from Taka 220 to Taka 250 and the beneficiary coverage is enhanced from 1.7 million to 2.0 million. Taka 6.0 billion has been allocated in favour of this programme for FY09.

Taka 5.4 billion has been allocated for cash subsidy to the farmers using diesel-powered irrigation pumps. Apart from the regular allocation for agricultural extension and research, Taka 2.7 billion has been apportioned budget for agricultural development assistance and rehabilitation.

Taka 43.4 billion has been allocated for the power and energy sector in the non-development and development budget combined for FY09, which is 4.3 percent of the total budget and 21.0 percent higher than the revised allocation in this sector for the preceding financial year.

Box 8.1

Salient Revenue Measures in FY09 Budget

A. Income Tax

- The tax exempted income limit for individual taxpayers enhanced from Taka 150,000 to Taka 165,000. The tax exempted income limit for persons having no income other than agricultural income increased to Taka 215,000.
- The tax free income limit for female taxpayers and senior taxpayers of age exceeding 70 years raised to Taka 180,000. The tax free income limit for female taxpayers and senior taxpayers of age exceeding 70 years having only agricultural income increased to Taka 230,000.
- The tax rate for companies listed for public trading revised downward to 27.5 percent from 30 percent, and for companies not listed for public trading to 37.5 percent from 40 percent. The 45 percent tax rate for banks, insurance, financial institutions and mobile phone operators remains unchanged.
- 20 percent income tax imposed on dividend income for corporate taxpayers.
- Section 16CC of the Income Tax Ordinance requiring all companies, irrespective of profit or loss, pay a minimum tax on the basis of their turnover, rescinded.
- The current tax exemption period for income from farms engaged in fisheries, poultry, cattle breeding, dairy, mushroom cultivation, silk worm production, seed production, marketing of locally produced seeds sectors and cultivation of flowers and plants extended by another three years from 1 July 2008 to 30 June 2011.
- The manufacturing Small and Medium Enterprises (SMEs) having annual turnover not exceeding Taka 2,400,000 exempted from tax.
- The income stemming from exports of handicrafts remains outside the purview of taxes from 1 July 2008 to 30 June 2011.
- The income emanating from computer software development, data processing, data entry and call centre kept tax free from 1 July 2008 to 30 June 2011.
- Agro-processing industry, diamond cutting, steel production from billet, jute industry, different units of textile sector, Underground Rail, Monorail, and telecom infrastructure except mobile phone received tax holiday.
- The existing provision of tax exemption on income of foreign nationals working in Bangladesh as technician annulled.

B. Import Duty

- Further reduction of concessionary rate of duty on capital machinery and spares from 5 percent to 3 percent. Reduction of duty on basic raw materials from 10 percent to 7 percent and intermediate raw materials from 15 percent to 12 percent. The highest slab, for finished products, to remain unchanged at 25 percent.
- The indemnity bond system was replaced with a concessionary rate of 1 percent customs duty for the importation of machinery and spares by the export-oriented enterprises. Similar benefit of 1 percent concessionary rate for the importation of machinery for textile industry and special rate of 3 percent in lieu of 5 percent for the importation of some other spares and inputs were offered.
- The duty exemption benefit for fertilizer, seed and capital machinery and spares used in the dairy and poultry industry continued.
- The customs duty on equipments used in agriculture, like irrigation pumps, diesel engines and tractors, reduced to 3 percent from various existing rates.
- A specific duty of Taka 7,000 per Ton on sugar imposed.
- A specific duty of Taka 2,500 per Ton on Mild Steel ingot and billet imposed.

C. Value Added Tax (VAT)

- The threshold level for VAT enhanced from the existing Taka 2,000,000 to Taka 2,400,000.
- VAT at the production stage of handmade biscuits and fabrics produced from artificial fibre and thread using handloom withdrawn.
- Advanced Income Tax (AIT) and VAT on Electronic Cash Registers withdrawn.
- The provision of Taka 1,000 as AIT for fresh issuance of trade licenses repealed. Taka 500 instead of Taka 1,000 made payable for renewal of trade licenses.

Box 8.2

Salient Expenditure Measures in FY09 Budget

A. Development Expenditure and Non-Development Expenditure

- The total size of the budget stands at Taka 999.6 billion.
- The estimated non-development and development outlays are Taka 667.5 billion and Taka 295.5 billion respectively.
- Taka 21.7 billion from non-development budget for employment generation and development programmes.
- Taka 17.8 billion for non-ADP Food-for-Work and transfer.
- 58.3 percent of the total budget for poverty reduction.
- 21.1 percent of the total budget for human resources development.
- Taka 125.7 billion (non-development) for the interest payment sector, which is 5.0 percent higher than that of the revised budget of previous financial year.
- Taka 122.6 billion (development and non-development) for the education and technology sector, which is 5.2 percent higher than that of the revised budget of previous financial year.
- Taka 91.3 billion (development and non-development) for the agriculture sector, which is 5.0 percent higher than that of the revised budget of previous financial year.
- Taka 82.1 billion (development and non-development) for the social security and welfare sector, which is 77.4 percent higher than that of the revised budget of previous financial year.
- Taka 72.9 billion (development and non-development) for the local government and rural development sector, which is 4.9 percent higher than that of the revised budget of previous financial year.
- Taka 60.7 billion (development and non-development) for the transport and communication sector, which is 0.5 percent higher than that of the revised budget of previous financial year.
- Taka 58.6 billion (development and non-development) for the health and family welfare sector, which is 11.4 percent higher than that of the revised budget of previous financial year.
- Taka 43.4 billion (development and non-development) for the fuel and energy sector, which is 21.1 percent higher than that of the revised budget of previous financial year.

B. Annual Development Programme (ADP)

- The ADP is estimated at Taka 256.0 billion, which is 13.8 percent higher than that of the revised budget of previous financial year.

The FY09 budget reiterates Information and Communication Technology (ICT) sector as a thrust sector. Taka 1.0 billion has been allocated for the IT Equity and Entrepreneurship Fund (EEF).

For the development of Small and Medium Enterprises (SMEs), a further allocation of Taka 1.0 billion has been made to the SME Endowment Fund for FY09.

Considering the importance of human resources development in the economic development, Taka 211.1 billion has been provided to this sector for FY09.

The GoB stresses the need to work out strategies to mitigate the adverse impacts on the lives and livelihood caused by climate change. To this end, Taka 3.0 billion has been allocated for a new fund titled "Fund for Climate Change" for FY09.

8.13 The Annual Development Programme (ADP) for FY09 has been projected at Taka 256.0 billion, exceeding the revised ADP of Taka 225.0 billion of FY08 by 13.8 percent. In order to ensure regional parity, allocations for the projects being implemented in Rajshahi, Khulna, and Barisal divisions have been augmented. 31.6 percent of the total ADP has been allocated for infrastructure sector. On the other hand, social sector would receive 23.9 percent of the total ADP (Table 8.5).

c. Financing the FY09 budget deficit

8.14 The FY09 budget deficit, estimated at Taka 305.8 billion, is lower by Taka 24.9 billion than that of the revised FY08 budget. The budget deficit-GDP ratio for FY09, 5.0 percent, turns out lower than 6.2 percent of FY08. The deficit is expected to be financed with domestic bank and non-bank borrowing to the extent of Taka 170.0 billion (2.8 percent of the GDP), against Taka 199.2 billion (3.7 percent of the GDP) in the revised FY08 budget, and with external financing for the remaining Taka 135.8 billion (2.2 percent of the GDP) in FY09, against Taka 131.5 billion (2.5 percent of the GDP) in FY08 (Charts 8.3 and 8.4). In the domestic borrowing of Taka 170.0 billion, borrowing from the banking system is projected to be Taka 135.0 billion. The interests payments on domestic and foreign debts together is projected to decrease from 19.8 percent of the total revenues in the revised FY08 budget to 18.1 percent in the FY09.

8.15 The FY09 budget was the second consecutive budget placed on behalf of the Non-party Caretaker Government. The budget was proposed on 9 June 2008 and received approval by the President on 30 June 2008.

The fiscal management and macroeconomic stability of the country were subjected to unprecedented external and internal shocks especially during the first half of FY08. The country encountered damages caused by two successive devastating floods and the cataclysmic cyclone Sidr during that period. The estimated loss due to the cyclone stands at Taka 115.0 billion taking into account destruction of houses, cattle, crops and other physical installations. Apart from this, in the last one year prices of many imported commodities doubled in the international market, and in some cases, even trebled.

The growth rate of GDP for FY09 has been set at 6.5 percent assuming no major natural disasters. It is expected that with the current bumper harvest and the forecast of increased global foodgrains production by the first half of FY09 as well, the average inflation would come down to 9.0 percent in FY09. The FY09 budget lays greater emphasis on poverty reduction compared to the previous year's budget. 58.3 percent of the total budget, non-development and development combined, has been devoted to programmes directly or indirectly related to poverty reduction. Human resources development is one of the prime conditions for achieving a sustained economic and social development. Education and health are the major inputs for human resources development. 21.1 percent of the total resources has been allocated for this sector. Increased funds have been provided to all the sectors including education and technology, local government and rural development, transport and communication, agriculture, health, and fuel and energy sectors. However, it has been mentioned in the budget speech that a precondition for enhancing the dynamism of growth momentum is the existence of a fully functional institutional framework including various institutions of the state.

The allocation for the interests payment sector becomes the second largest expenditure in the FY09 budget. The government borrowing as well as interests payments has been increasing over time. This might result in greater interests burden upon the fiscal management in future.

The budget takes measures to keep the prices of essential commodities stable. One such measure is to withdraw the customs duty on the importation of foodgrains and edible oil. In order to help local industries develop, the customs duty structure has been revised.

The FY09 budget puts emphasis on raising the revenue-GDP ratio. The ratio is very low compared to that of most countries. The budget underlines strengthening of domestic resource mobilisation efforts to meet the ever-increasing need for growth-supportive pro-poor development expenditure.

The fiscal measures outlined in the FY09 budget are pro-active. The target for revenue receipts and expenditure has been set higher compared to that of the preceding financial year. A robust revenue growth was achieved in the last financial year. The Government has undertaken various revenue measures to sustain this growth further. The enhanced expenditure is required for the widened social safety-net programmes and the development of social and physical infrastructure. The ADP expenditure has been rationalized. The problem of regional disparity and unbalanced growth has been carefully addressed in the budget. With a view to encouraging food production a number of tax incentives have been given to the agriculture sector. The customs duty has been restructured bearing in mind the development of industry sector including SMEs. The local industry receives necessary protection in the FY09 budget too. The FY09 budget is expected to realize its fiscal objectives and thereby play a supportive role in the country's economic development.