Public Finance

Fiscal Trends- strategies for achieving higher growth and development

8.1 The FY10 budget was formulated bearing in mind the need to maintain macroeconomic stability in the context of global economic meltdown, achieving desired economic growth and thereby contribute to poverty reduction. The budget was based on certain assumptions contained in the Medium Term Macroeconomic Framework (MTMF). The total revenue in the revised FY10 budget exceeded the initial projection whereas the total expenditure fell short of the target. The budget deficit (excluding grants) as percentage of GDP ended up 4.5 percent, which was lower than the target of 5.0 percent (Table 8.1). The domestic borrowing of the government, which was contained to 2.3 percent of the GDP in the preceding fiscal year, rose to 2.5 percent of the GDP.

In the FY10 budget, as part of the strategy for attaining prosperity, priority was given to massive employment generation, enhancement of social safety net, creation of self-employment, reduction of regional disparity, increasing emphasis on agricultural development, achieving the target of power generation, acceleration of industrialisation and building necessary infrastructure for "Digital Bangladesh."

The revenue collection in the revised FY10 budget increased by 14.9 percent over the revised FY09 revenue. It was lower than the target by a very small margin. The current expenditure in the revised FY10 budget was higher than the revised FY09 current expenditure by 9.6 percent. On the other hand, although the Annual Development Programme (ADP) of Taka 285.0 billion in the revised FY10 budget turned out 23.9 percent higher than the revised FY09 ADP, it fell short of the target by 6.6 percent. The actual utilisation of ADP for the FY10 ended up 89.9 percent of the revised allocation. The fiscal deficit (excluding grants) of 4.5 percent of GDP in the revised FY10 budget was higher than the revised FY09 fiscal deficit by 0.4 percentage points (Table 8.1).

Table 8.1 Bangladesh Government revenue and expenditure

(billion Taka)

	FY09*	as % of GDP	FY10*	as % of GDP	FY11**	as % of GDP
Total revenue	**691.8**	**11.2**	**794.8**	**11.5**	**928.5**	**11.9**
a) tax	555.3	9.0	639.5	9.3	760.4	9.7
b) non-tax	136.5	2.2	155.3	2.2	168.1	2.2
Total expenditure	**941.4**	**15.3**	**1105.2**	**16.0**	**1321.7**	**16.9**
a) current	626.8	10.2	687.1	9.9	752.3	9.6
b) ADP	230.0	3.7	285.0	4.1	385.0	4.9
c) others	84.6	1.4	133.1	2.0	184.4	2.4
Budget deficit	**249.6**	**4.1**	**310.4**	**4.5**	**393.2**	**5.0**

Source : Budget in Brief 2009-10 and 2010-11, Ministry of Finance
* = Revised budget,
** = budget estimate

The FY10 Budget and Fiscal Outcome

a. Revenue receipts

8.2 Against the target of Taka 794.6 billion, the total revenue receipts in the FY10 was Taka 794.8 billion, which was higher than the revised FY09 revenue receipts by 14.9 percent. The tax revenue making up 80.5

percent of the total revenue receipts increased at a lower rate of 15.2 percent compared to 15.7 percent growth in the FY09 (Table 8.1).

The non-tax revenue displayed higher growth rate of 13.8 percent in the FY10 compared to 8.9 percent increase in the preceding fiscal year. The FY10 experienced remarkable success in revenue mobilisation efforts. The total revenue receipts as percentage of GDP rose to 11.5 percent in the FY10 compared to 11.2 percent in the FY09. The total tax revenue receipts as percentage of GDP increased to 9.3 percent in the FY10 compared to 9.0 percent in the preceding fiscal year. On the other hand, the total non-tax revenue receipts as percentage of GDP in the FY10 remained unchanged at 2.2. The major revenue measures in the FY10 budget included:

– The tax exempted income limit for individual taxpayers was kept unchanged at Taka 165,000.
– The age bar was lowered from 70 years to 65 years to help reduce the personal income tax burden on senior Bangladeshi citizens.
– The corporate tax rate for mobile phone operators was reduced to 35 percent subject to the condition that they were listed in the stock exchange as a publicly traded company and at least 10 percent share of the company's paid-up capital was transferred (of which Pre Initial Public Offering Placement could not exceed 5 percent).
– The tax rate for deductions of income tax at source against capital gain from the sale of land within the areas under city corporations, municipalities and cantonment boards was reduced to 2 percent from 5 percent, and for other areas where the price of non-agricultural land exceeded Taka 100,000, the rate was slashed to 1 percent from the existing 5 percent.
– Income emanating from Pensioners' Savings Certificates was kept tax free.
– Undisclosed money was to be accepted without any questions during the period from 1 July 2009 to 30 June 2010 provided that a payment of 10 percent tax was made and it was invested in (1) certain new industries and also BMRE of units in the same industries and provision of physical infrastructure facilities, (2) shares of listed companies of the stock exchanges.
– Investment was to be accepted without any questions for the purchase of flat or construction of house by paying tax at a specific rate according to the measurement of the flat / house.
– Tax on vehicle was imposed at a specific rate on the basis of engine capacity (CC).
– The duty on basic raw materials was reduced from 7 percent to 5 percent. Other slabs of 3 percent (capital machinery and parts), 12 percent (intermediate raw materials) and 25 percent (finished products) were left unchanged.
– Zero tariff on imports of fertiliser seeds and major food grains along with medicine and raw cotton was continued further. VAT on the imports of raw materials for pesticides was withdrawn.
– Five percent regulatory duty was imposed against tariff lines with 25 percent customs duty on luxury items and products detrimental to public health.
– Supplementary duty on the imports of luxury vehicles was increased and duty slabs were restructured.
– Twelve percent customs duty was imposed on mobile phone sets on an ad valorem basis instead of the existing specific duty of Taka 300 per set applicable irrespective of quality and all existing VAT, supplementary duty and AIT were waived.

- Three percent customs duty was imposed on the import of newsprint to be used in the newspaper industry. VAT applicable for importation of pulp which was a virtual raw material for this industry was withdrawn.
- Five percent regulatory duty in addition to 12 percent customs duty was imposed on milk powder imported in bulk.
- VAT imposed on the services of specialist doctors was withdrawn. VAT on domestic production of drugs for cancer prevention was withdrawn.
- Two and a half percent supplementary duty applicable to the processing of liquid milk to be converted into powdered milk was withdrawn. Tariff value for powder milk was fixed at Taka 100 per kg which resulted in only Taka 15 per kg as VAT instead of the current Taka 50 per kg.
- VAT exemption was offered for the next one year for complete manufacture of refrigerators and motorcycles.
- The threshold level for imposing excise duty on bank deposits was raised to Taka 20,000 instead of the existing Taka 10,000.
- VAT on the internet services used in the educational institutions was withdrawn.
- The threshold value of the plants and machineries of cottage industry for VAT exemption was raised by 67 percent from Taka 150,000 to Taka 250,000. The condition of barring subcontracting for VAT registered units for cottage industry was withdrawn. The limit of turnover for cottage industry was increased to Taka 4.0 million from the existing Taka 2.4 million.
- The penalty for evasion of VAT or supplementary duty was re-fixed at minimum equivalent amount to maximum two and half times the tax amount.
- VAT on domestic generation of power along with domestically produced / assembled generators was withdrawn. Solar Panel was exempted from all VAT at stages of import, domestic production and supply.

Table 8.2 Composition of revenue receipts

(billion Taka)

	FY09*	FY10*	FY11**
Tax revenue	**555.3**	**639.5**	**760.4**
Value Added Tax (VAT)	201.2	227.9	270.9
Import duty	95.7	104.3	108.8
Supplementary duty	91.2	104.8	128.7
Taxes on income and profit	135.4	165.6	210.1
Stamp duty (non judicial)	15.2	18.3	19.6
Excise duty	2.4	2.6	2.7
Land revenue	4.0	3.9	5.5
Taxes on vehicles	5.5	6.8	8.7
Narcotics and liquor duty	0.5	0.6	0.7
Other taxes and duties	4.2	4.7	4.7
Non-tax revenue	**136.5**	**155.3**	**168.1**
Administrative fees and charges	17.6	19.6	27.8
Dividend and profit	30.6	25.5	14.5
Interest	9.3	15.5	21.7
Capital revenue	1.0	0.5	0.6
Receipts for services rendered	6.5	7.7	8.8
Non-commercial sales	2.7	2.5	3.2
Rents, leases and recoveries	1.1	0.9	1.3
Defense receipts	16.7	19.4	18.5
Tolls and levies	3.6	3.2	3.7
Fines, penalties and forfeiture	1.3	1.8	1.9
Railway	5.8	5.6	6.0
Post offices	2.2	2.2	2.5
Other non-tax revenue and receipts	38.1	50.9	57.6
Total :	**691.8**	**794.8**	**928.5**

Source : Budget in Brief 2009-10 and 2010-11, Ministry of Finance
* = Revised budget,
** = budget estimate

8.3 In the revised FY10 budget, direct taxes on income and profit increased at the rate of 22.3 percent to Taka 165.6 billion leaving its share in the total tax revenue to 25.9 percent from 24.4 percent in the FY09. Receipts from taxes on vehicle, stamp duty (non judicial), narcotics and liquor duty, supplementary duty, Value Added Tax (VAT), other taxes and duties, import duty, and excise duty rose by 23.6, 20.4, 20.0, 14.9, 13.3, 11.9, 9.0 and 8.3 percent respectively compared to that of the revised FY09 budget. On the other hand, receipts from land revenue declined by 2.5 percent (Table 8.2).

8.4 Under the non-tax revenue head, receipts from interest, fines, penalties and forfeiture, and other non-tax revenue and receipts sharply increased by 66.7, 38.5 and 33.6 percent respectively compared to that of the revised FY09 budget. Other sub-sectors showing increase included receipts for services rendered 18.5 percent; defense 16.2 percent; and administrative fees and charges 11.4 percent. On the contrary, receipts from capital revenue, rents, leases and recoveries, dividend and profit, tolls and levies, non-commercial sales, and railway fell by 50.0, 18.2, 16.7, 11.1, 7.4 and 3.4 percent respectively. Receipts from post offices remained unchanged (Table 8.2).

b. Expenditure

8.5 The total public expenditure in the revised FY10 budget amounted to Taka 1105.2 billion, which was 2.9 percent lower than the initial projection of Taka 1138.2 billion and 17.4 percent higher than the revised FY09 expenditure of Taka 941.4 billion. The revised current expenditure of Taka 687.1 billion in the FY10 was 1.1 percent lower than the initial projection of Taka 695.0 billion. The revised ADP of Taka 285.0 billion was 6.6 percent lower than the initially targeted Taka 305.0 billion (Table 8.1).

The FY10 budget had the first ever allocations for projects under the Public Private Partnership (PPP). A total of Taka 25.0 billion was allocated for these projects. Taka 16.0 billion of the total allocation was later channelled to create a new fund titled "Bangladesh Infrastructure Finance Fund (BIFF)." The objectives of this fund were to strengthen PPP activities and to encourage the potential investors.

8.6 The revised current expenditure in FY10 surpassed initial allocations for a number of accounts, namely social sector, defense, public order and safety, interest on foreign debt, agriculture sector, transport and communication, local government and rural development,

Chart 8.1

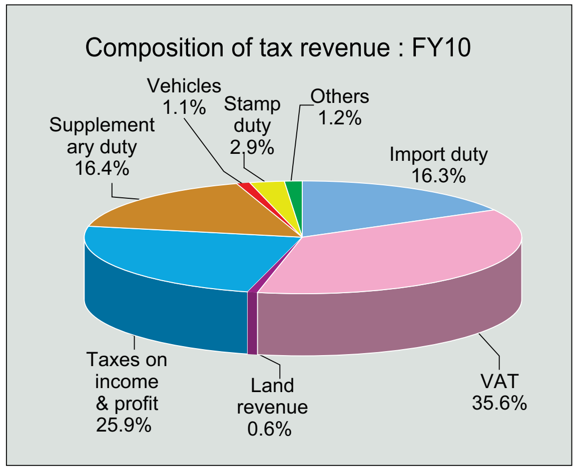


Chart 8.2

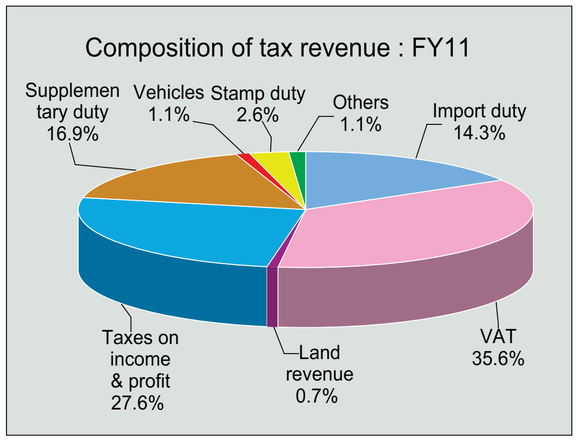


Table 8.3 Composition of revenue expenditure

(billion Taka)

	FY09*	FY10*	FY11**
Social sector	193.6	225.5	257.5
Public services	61.9	68.2	79.8
Interest on domestic debt	120.0	132.6	132.7
Defense	53.7	59.0	66.6
Public order and safety	50.8	56.6	61.7
Interest on foreign debt	13.1	13.9	14.4
Agriculture sector	82.2	75.9	77.7
Transport and communication	26.5	29.1	32.6
Local government and rural development	15.2	16.2	18.5
Housing	5.8	6.4	7.0
Others	4.0	3.7	3.8
Total :	**626.8**	**687.1**	**752.3**

Source : Budget in Brief 2009-10 and 2010-11, Ministry of Finance
* = Revised budget,
** = budget estimate

housing, and others (Table 8.3). The proposed non-development current expenditure in the FY10 had the following revisions:

– An additional amount of Taka 6.0 billion was allocated for agriculture subsidy.

– An additional amount of approximately Taka 6.1 billion was included under supply and services head of the revised budget on account of electricity, municipality tax, land development tax, telephone, travel expenses, contingent staff, petrol and lubricant, training expenses, transport expenses, hiring charge, seminar and conference, food procurement, computer equipments, honorarium / allowance / fee against some ministries.

– Additional allocation was made for stimulus package for tackling world economic recession.

8.7 The Annual Development Programme in FY10 was revised downward by 6.6 percent from Taka 305.0 billion to Taka 285.0 billion. Consistent with the growth and poverty reduction objectives, 27.7 percent of the total outlay was spent for the infrastructure sector (power; oil, gas & natural resources; transport; and communication), and 25.9 percent for the social sector (education & religious affairs, and health, nutrition, population & family welfare) (Table 8.5).

c. Financing the FY10 Budget Deficit

8.8 The deficit (excluding grants) in the revised FY10 budget stood at Taka 310.4 billion (4.5 percent of the GDP). This ratio was lower than what was initially projected. The domestic borrowing component of the deficit financing in the FY10 was Taka 173.3 billion (2.6 percent of the GDP). Of this, Taka 86.6 billion (1.3 percent of the GDP) was bank borrowing (Chart 8.3). The other component of

Table 8.4 Composition of social sector revenue expenditure

(billion Taka)

	FY09*	FY10*	FY11**
Education & technology	92.7	116.3	129.5
Health	34.1	37.4	45.1
Recreation, culture and religious affairs	7.0	6.9	8.3
Labour and employment	0.2	0.4	0.3
Social security and welfare	59.6	64.5	74.3
Total :	**193.6**	**225.5**	**257.5**

Source : Budget in Brief 2009-10 and 2010-11, Ministry of Finance

* = Revised budget,

** = budget estimate

Table 8.5 : Sectoral shares in ADP expenditure

(percent)

	FY09*	FY10*	FY11**
Agriculture	6.1	6.4	6.5
Rural development & institutions	15.6	14.0	11.4
Water resources	3.8	4.2	3.2
Industries	2.0	1.7	1.8
Power	11.6	9.3	13.0
Oil, gas & natural resources	0.9	3.6	2.8
Transport	11.0	13.6	14.3
Communication	1.0	1.2	0.7
Physical planning, water supply & housing	10.8	10.5	9.2
Education & religious affairs	14.1	15.4	13.5
Health, nutrition, population & family welfare	11.9	10.5	10.2
Others	11.2	9.6	13.4
Total :	**100.0**	**100.0**	**100.0**

Source : Annual Development Programme 2010-2011, Ministry of Planning

* = Revised,

** = Estimate

Taka 86.7 billion (1.3 percent of the GDP) of domestic financing of the deficit was non-bank borrowing, mainly National Savings Schemes. The foreign financing component of the budget deficit was Taka 137.1 billion (2.0 percent of the GDP), made up of foreign grants and loans.

The FY11 Budget

8.9 The budget for FY11 has been formulated against the backdrop of the global turnaround from the financial crisis. The budget is based on certain assumptions contained in the Mediumt Term Macroeconomic Framework

(MTMF). The MTMF predicts that the country's economic growth will be 6.7 percent in the FY11, which is substantiated by the continued growth in the agriculture sector and capacity to sustain domestic demand. The expected progress will be achieved by augmenting revenue collection, crowding in private sector investment through ADP implementation, expediting private sector investment through an increase in supply of credit to the private sector including PPP and making the external sector competitive through a stable exchange rate. The annual average inflation will be 6.5 percent in the FY11.

The total size of the FY11budget stands at Taka 1,321.7 billion, which is 16.9 percent of the GDP and 19.6 percent higher than the revised FY10 budget. The estimated non-development and development outlays are Taka 857.9 billion and Taka 427.7 billion respectively. The budget provides Taka 15.0 billion from revenue budget for development programmes, Taka 15.8 billion for non-ADP project, and Taka 11.9 billion for non-ADP Food-for-Work and transfer. The total outlay can be classified into three broad categories such as social infrastructure, physical infrastructure and general services. In the proposed budget, about 33.3 percent of the total outlay has been allocated for social infrastructure, of which 23.9 percent has been allocated for human development (education, health, science and technology and other related sectors). About 30.4 percent of the total outlay has been proposed for physical infrastructure, of which 16.9 percent goes to wider agriculture and rural development, 7.0 percent to overall communication sector and 4.6 percent to power and energy. About 21.1 percent of the total outlay has been proposed for general service sector that includes an allocation of 9.6 percent of the total outlay for PPP projects, cash incentives for various industries and implementation of the last year's pay commission. Apart from these three major categories, the rest 15.1 percent of the total outlay has been allocated for interest payment and net lending, wherein the share of interest payment is 11.1 percent.

The large size of the ADP has been proposed keeping in mind the commitment to regional parity, improved infrastructure and quality of expenditure.

The total developmental expenditure for FY11 stands at Taka 427.7 billion, which is 5.5 percent of the GDP. This developmental expenditure turns out 34.4 percent higher than that of the revised budget of the previous fiscal year.

a. Revenue receipts

8.10 The revenue receipts in FY11 has been targeted to grow by 16.8 percent to Taka 928.5 (11.9 percent of the GDP) billion compared to that of the preceding year's revised budget. The tax and non-tax revenue receipts are expected to rise by 18.9 percent and 8.2 percent respectively, against increases of 15.2 percent and 13.8 percent respectively in the revised FY10 budget. It leaves the projected total revenue-GDP ratio at 11.9 percent in the FY11 compared to 11.5 percent in the FY10 (Table 8.1). A higher 26.9 percent increase in receipts from the direct taxes on income and profits has been projected against 16.2 percent growth projected for indirect taxes (VAT, import duty, supplementary duty, and other taxes and duties) (Table 8.2).

Among non-tax revenue sources, receipts from dividend and profit has been projected to decrease by 43.1 percent compared to 16.7 percent decrease in the preceding fiscal year. Receipts from rents, leases and recoveries, administrative fees and charges, interest, and non-commercial sales are expected to rise by 44.4, 41.8, 40.0 and 28.0 percent respectively in the FY11. The targeted growth rates for receipts from capital revenue, tolls and levies, services

Box 8.1

Salient Revenue Measures in FY11 Budget

A. Income Tax

- The individual and corporate tax rates remain unchanged. The tax exempted income limit for individual taxpayers is still unchanged at Taka 165,000.
- Tax holiday facility has been provided for industries engaged in manufacturing of solar panel, energy saving bulb and contraceptives (barrier contraceptive or rubber latex).
- A provision has been made for allowing infrastructure depreciation allowance on physical infrastructure like bridge, road, fly over, or any infrastructure to be built under Private Public Partnership (PPP) initiative.
- A provision for investment in bonds issued under the Bangladesh Infrastructure Finance Fund (BIFF) subject to the payment of tax at the rate of 10 percent till June 2012 has been introduced.
- Tax has been imposed at a concessionary rate of 5 percent on income of a company, earned from the trading of shares of listed companies in any stock exchanges.
- Tax has been imposed at a concessionary rate of 5 percent on income of sponsor shareholders or directors of a company listed with any stock exchanges.
- Tax has been imposed at the rate of 3 percent on the premium value of shares of companies being sold at a premium value.
- Tax has been imposed at source from real estate developers at the time of registration of flats or buildings at the rate of Taka 2,000 or Taka 800 per square meter depending on the locations.

B. Import Duty

- Four-tier customs tariff structure remains unchanged. The duties on basic raw materials, capital machinery and parts, intermediate raw materials, and finished products are 5 percent, 3 percent, 12 percent and 25 percent respectively.
- The 0 percent customs duty rate on commodities like rice, wheat, onion, pulse, edible oil, seeds, fertiliser, medicine, and cotton has been kept unchanged. Import duty on milk powder has been reduced from 12 percent to 5 percent.
- The 5 percent regulatory duty on all the products with the highest customs duty of 25 percent remains unchanged.
- The supplementary duty rate on both the Completely Built Up (CBU) and Completely Knocked Down (CKD) motorcycle has been enhanced from 20 percent to 30 percent.
- The specific duties on raw sugar and refined sugar at the rate of Taka 2,000 and Taka 4,000 per metric ton respectively have been imposed.
- 10 percent export duty on unmanufactured tobacco has been imposed.

C. Value Added Tax (VAT)

- The online VAT registration and return submission system have been introduced.
- Manufacturers of refrigerators, freezers, motorcycles and energy saving bulbs along with its raw materials have been exempted from VAT.
- The turnover limit for tax facility to Small and Medium Enterprises (SMEs) has been raised to Taka 6.0 million from Taka 4.0 million per year.
- 15 percent VAT has been imposed on the import of CBU/diesel/petrol/CNG buses having 40 seats or more.

rendered, post offices, other non-tax revenue and receipts, and railway, and fines, penalties and forfeiture have been set at 20.0, 15.6, 14.3, 13.6, 13.2, 7.1 and 5.6 percent respectively for the FY11 (Table 8.2). Receipts from defense has been projected to fall by 4.6 percent.

A special tax rate has been introduced to woo investment from the private sector in certain cases. The government already created a fund titled "Bangladesh Infrastructure Finance Fund (BIFF)" for financing physical infrastructures. Bonds under this fund will remain open for investment by individuals and organisations. An opportunity to invest in the bonds issued under the fund has been offered till June 2012 subject to the payment of taxes at the rate of 10.0 percent.

A number of strategies have been worked out to augment government revenue receipts. Measures have been taken to widen the tax net. An extensive programme has been undertaken to reform the VAT and tax process. Steps have been taken to create client-friendly environment in the tax offices. Initiatives for setting up new tax offices and one-stop service points have been undertaken. Awareness campaign like income tax fair has been beefed up to motivate citizens in paying taxes. The online VAT registration and return submission system have been introduced.

b. Expenditure

8.11 The total public expenditure in FY11 is expected to increase by 19.6 percent to Taka 1,321.7 billion over the revised figure of the FY10. The current expenditure is expected to grow by 9.5 percent, the ADP by 35.1 percent and the other expenditure by 38.5 percent over the revised FY10 budget. The ratio of total expenditure to GDP is predicted to increase to 16.9 percent in the FY11 from 16.0 percent in the revised FY10 budget (Table 8.1).

Chart 8.3

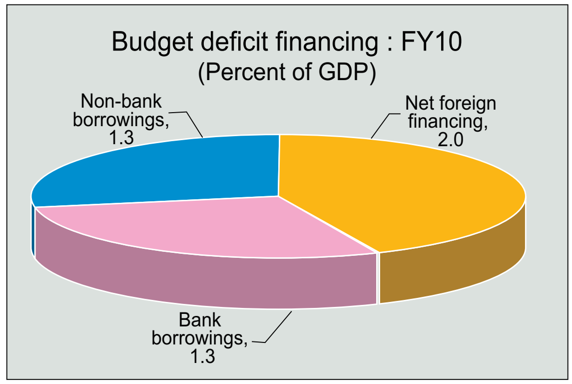
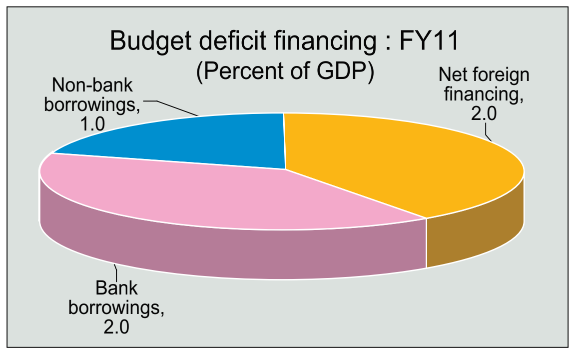


Chart 8.4



8.12 The projected current expenditure for FY11 budget stands at Taka 752.3 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 FY11 budget continues with the Public Private Partnership (PPP) initiatives. As a follow up of the preceding FY's budget, the FY11 budget allocates Taka 30.0 billion for projects under the PPP.

The budget also contains allocation to run the stimulus package arrangements declared first in April 2009. It adds Taka 20.0 billion to the existing package extended for the FY11. The country's export sector is the focus of this fiscal incentive.

Box 8.2

Salient Expenditure Measures in FY11 Budget

A. Development Expenditure and Non-Development Expenditure

- The total size of the budget stands at Taka 1,321.7 billion.
- The estimated non-development and development outlays are Taka 857.9 billion and Taka 427.7 billion respectively.
- Taka 15.0 billion has been allocated from revenue budget for development programme.
- Taka 15.8 billion has been allocated for non-ADP project.
- Taka 11.9 billion has been allocated for non-ADP Food-for-Work and transfer.
- Taka 20.0 billion has been allocated for the stimulus package, especially focusing on the export sector's stability.
- 23.9 percent of the total budget has been earmarked for human resources development.
- Taka 30.0 billion has been allocated for projects under the Public-Private Partnership (PPP).
- Taka 114.1 billion (development and non-development) has been allocated for the agriculture sector, which is 6.0 percent higher than that of the revised budget of the preceding fiscal year.
- Taka 40.0 billion has been allocated as subsidy for the agriculture sector.
- Taka 81.3 billion (development and non-development) has been allocated for the health and family welfare sector, which is 19.0 percent higher than that of the revised budget of the preceding fiscal year.
- Taka 61.1 billion (development and non-development) has been allocated for the fuel and energy sector, which is 61.5 percent higher than that of the revised budget of the preceding fiscal year.
- Taka 183.8 billion (development and non-development) has been allocated for the education and technology sector, which is 13.6 percent higher than that of the revised budget of the preceding fiscal year.
- Taka 2.00 billion has been added to the existing Equity and Entrepreneurship Fund (EEF) to promote entrepreneurship in the IT sector.
- Taka 96.7 billion (development and non-development) has been allocated for the social security and welfare sector, which is 19.9 percent higher than that of the revised budget of the preceding fiscal year.
- Taka 108.7 billion (development and non-development) has been allocated for the local government and rural development sector, which is 18.9 percent higher than that of the revised budget of the preceding fiscal year.
- Taka 88.4 billion (development and non-development) has been allocated for the transport and communication sector, which is 29.1 percent higher than that of the revised budget of the preceding fiscal year.
- Taka 147.1 billion (non-development) has been allocated for the interest payment sector, which is 0.4 percent higher than that of the revised budget of the preceding fiscal year.

B. Annual Development Programme (ADP)

- The ADP has been projected at Taka 385.0 billion, which is 35.1 percent higher than that of the revised budget of the preceding fiscal year.

A total of Taka 114.1 billion (development and non-development) has been allocated for the agriculture sector, which is 6.0 percent higher than that of the revised budget of the preceding fiscal year. Taka 40.0 billion has been apportioned as subsidy for this sector. Taka 3.0 billion has been allocated for programmes aiming at expansion of irrigation facilities.

Human resources development is an integral part of the overall development efforts. Taka 315.6 billion (development and non-development) has been allocated for the education and technology and the health sectors. This is 23.9 percent of the total development and non-development budget and 17.7 percent higher than the preceding FY's budget.

Taka 1.1 billion has been allocated from the non-development budget for the Information and Communication Technology (ICT) sector. The amount of the existing Equity and Entrepreneurship Fund (EEF) earmarked for ICT promotion has been raised by Taka 2.0 billion.

A total of Taka 195.0 billion has been allocated for the social safety net and social empowerment programmes. The allocation is 14.8 percent of the total development and non-development outlays and 2.5 percent of the GDP.

The beneficiary coverage of Old Age Allowance has been enhanced to 2.3 million and Taka 8.9 billion has been allocated for this purpose. Taka 3.3 billion has been provided for the "Widow, Divorced, and Distressed Women Allowances Scheme" targeting about 1 million beneficiaries.

The monthly rate of allowance for the Insolvent Freedom Fighters has been increased from Taka 1,500 to Taka 2,000 per person. The number of beneficiaries has been enhanced from 125,000 to 150,000.

About Taka 0.4 billion has been allocated for the allowance for "Poor Lactating Mothers." Taka 0.3 billion has been apportioned for the allowance for "Lactating Low Income Working Mothers in Urban Areas."

Taka 0.3 billion has been allocated for different programmes, namely Disabled Service and Assistance Centers and Endowment Fund for Social Welfare Parishad and Disabled Foundation.

Taka 57.3 billion has been allocated for various programmes like open market sale of food at low prices, food for work, VGF, VGD, TR (food), GR (food) and food assistance for the Chittagong Hill Tracts.

8.13 The Annual Development Programme (ADP) for FY11 has been projected at Taka 385.0 billion, exceeding the revised ADP of Taka 285.0 billion in the FY10 by 35.1 percent. About 30.8 percent of the total ADP has been allocated for infrastructure sector. On the other hand, social sector would receive 23.7 percent of the total ADP (Table 8.5).

Under the ADP, a number of allocations have been made. These are: Taka 1.4 billion for Rural Roads Maintenance Project creating employment for the poor labourers, Taka 0.8 billion for protection of Government assets and Rural Employment Project, Taka 0.7 billion for creating employment for the hardcore poor of the Monga areas and Taka 35.5 billion for raising the living standard together with employment of the people living in Char areas and other poverty reduction projects.

C. Deficit and its financing

8.14 The FY11 budget deficit, estimated at Taka 393.2 billion, is higher by Taka 82.8 billion than that of the revised FY10 budget. The budget deficit-GDP ratio for the FY11, 5.0 percent, turns out higher than 4.5 percent of the FY10. The deficit is expected to be financed with domestic bank and non-bank borrowing to the extent of Taka 236.8 billion (3.0 percent of the GDP), against Taka 173.3 billion (2.5 percent of the GDP) in the revised FY10 budget, and with external financing for the remaining Taka 156.4 billion (2.0 percent of the GDP) in the FY11, against Taka 137.1 billion (2.0 percent of the GDP) in the FY10 (Charts 8.3 and 8.4). In the domestic borrowing of Taka 236.8 billion, borrowing from the banking system is projected to be Taka 156.8 billion.

8.15 The FY11 budget is the second budget of the present Grand Alliance Government. The budget was proposed on 10 June 2010 and passed by the National Parliament on 30 June 2010.

During the preparation of the budget, eight different pre-budget discussion sessions with the renowned economists, members of the parliament, journalists, civil society members, development experts and secretaries of different ministries were held. The Finance Minister himself exchanged ideas with the peasants at the Baradhul Bazar of Kamarkhand Upazila in the Sirajganj District and listened to their views about the budget under process. Various socio-economic institutions, business associations and NGOs, think tanks and research groups, professionals and members of intelligentsia, chairpersons of a number of parliamentary standing committees, and other members of the parliament also made valuable contributions to the budget. Above all, the Perspective Plan 2010-2021 and the 6th Five Year Plan 2010-2015, which were still under process, remained as a crucial factor in the preparation of budget.

The budget acknowledges poor achievement of the PPP initiatives declared in the preceding FY's budget. An allocation of Taka 25.0 billion was made in the FY10 budget for supporting the PPP projects. Due to the absence of an integrated policy on the PPP, hardly any investment was made in this sector till to date.

Following the PPP experience, a set of PPP guidelines incorporating new policies, strategies and procedures for selection and approval of projects have been prepared replacing the existing regulatory framework. Besides, steps have been taken to establish a PPP office and to engage a group of experts to run this office.

The budget puts emphasis on the agricultural production increase. In order to sustain agricultural growth, importance has been given on agricultural productivity by introducing crop intensity and diversifying agricultural products with the help of intensified agricultural research. In addition, a wide range of government assistance in the agriculture sector, like providing adequate subsidy, ensuring uninterrupted power supply for irrigation, increasing the flow of agricultural loans, developing adverse weather and salt tolerant seeds and providing assistance for agro-based industries will help achieve the expected growth in the agricultural sector.

Implementation of the ADP poses a major challenge for the FY11 budget. Historically, the achievement of ADP has been always below the target level. Effective supervision and evaluation of the ADP projects are required to overcome the problem.

The fiscal measures outlined in the FY11 budget are attuned to the Government's long-term vision for the country's development. Rapid poverty reduction, human resources development, employment generation, social safety net programme, power and energy production and real sector output increase are the key objectives of the projected government spending. The income tax, customs duty and VAT structure have undergone necessary revision. Protection has been given to the domestic industries. Measures have been taken to keep the prices of essential commodities at a tolerable limit by offering duty exemption. The budget envisages 6.7 percent GDP growth in the FY11 and looks forward to enhance it to 8.0 percent by the FY14. Reaching this growth target largely rests upon augmenting government revenue receipts, crowding in private sector investment, building up physical infrastructure, and mitigating power and energy crisis.