

# Dynamics of Deficit and Debt

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### Acknowledgement

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## 1. INTRODUCTION

The current issue of the Bangladesh Economic Update unearths the 'deficit and debt' situation on the economy of Bangladesh. More specifically, the study addresses the crucial question of whether the existing 'deficit and debt' situation may reduce the capacity of the government to continue its investment in physical and social expenditures. The further dealing of the report is how the management of 'deficit and debt' through borrowing from external and internal sources could affect the economy of the country.

There exists a correlation between 'Deficit and Debt' whereas deficit must be financed by borrowing from external and internal resources to meet up the shortage. Deficit, however, as a share of GDP is estimated at only 4.6 percent in FY 2013-14, which is not that alarming. The actual matter in this regard, is the financial management for this deficit as well as the utilisation of the debt.

The paper aims to observe the existing situation of per capita debt burden, revenue earning, rate of growth in government expenditure, rate of growth in development and non-development expenditure, ADP expenditure, budgetary allocation on social and physical infrastructure, total expenditure on interest payment, expenditure on energy and power sector as well as bank borrowing.

First, the per capita debt burden of Bangladesh has been rapidly mounting since FY 2008-09 and stood at Tk. 3389.84 in FY 2012-13 from Tk. 2982.19 in FY 2011-12. In FY 2012-13, the rate of growth in per capita GDP and the rate of growth in per capita debt burden stood at 11.6 percent and 13.7 per cent respectively from 28.2 per cent and 13.8 per cent in FY 2011-12.

Similarly, total public borrowing has increased at an alarming rate in the last four years. As a result, every citizen of the country is burdened with a debt of Tk. 3389.84 in FY 2012-13 from Tk. 2982.19 in FY 2011-12.

Second, the revenue earning, the revenue expenditure and the deficit targets are unlikely to be realised in FY 2013-14. The targets for revenue collection in FY 2013-14 are set above the trend observed in the last several fiscal years. Additionally, the National Board of Revenue (NBR) missed its revenue collection target in FY 2012-13.

Third, over the years the rate of growth in government expenditure has fluctuated more than that of the rate of growth in revenue. These fluctuations have, however, mainly happened between FY 2006-07 and FY 2009-10 and have slightly been reduced since then.

Fourth, the rate of growth in development and non-development expenditure has been heading towards the opposite directions. The rate of growth in non-development expenditure has increased from 14.7 percent in FY 2012-13 to 21.5 percent in FY 2013-14, while the rate of growth in development expenditure has decreased from 42.0 percent in FY 2012-13 to 25.1 percent in FY 2013-14.

Fifth, among the four main sectors of ADP expenditure (human resource, agriculture and rural development, energy, and communication); human resource, agriculture and rural development, and energy have received lower percentage of allocation in the budget of FY 2013-14, while only energy infrastructure sector has benefitted from greater allocation on the other hand.

Sixth, both social and physical infrastructure have received lower budget in FY 2013-14. Similarly, budgetary allocation has decreased in agriculture and rural development sub-sectors, which is 2.35 percentage points lower in FY 2013-14 than that of previous fiscal year. Thus, the sectors for the country's economy those are important for employment creation and multiplier effect has been squeezed in FY 2013-14.

Seventh, total expenditure on interest payment stood at Tk. 27743 crore in FY 2013-14, which is 18.83 percent higher than that of FY 2012-13. As a result, the interest payment has turned out to be the top receiving sector of the non-development expenditure.

Eighth, expenditure on energy and power sector has been facing five major problems. Firstly, high expenditure on energy and power has been affecting the ability of the government to invest in social and physical infrastructure. Secondly, the cost of subsidy in this sector is soaring as well. Third, the high expenditure on energy and power has still failed to lower the gap between electricity demand and production. Fourth, despite the increase of subsidy, electricity price is rising. Fifth, most of the subsidy is seen to go to the production of electricity in rental, quick rental and independent power producer plants. Those quick rental and rental power plants, however, are not being able to generate electricity as per their promises.

Ninth, the government has surpassed its set targets of borrowing from banking sector in the last three fiscal years. Total public borrowing is increasing at an alarming rate since FY 2009-10, and has kept at Tk. 48362 crore in budget for FY 2013-14.

Tenth, the budget deficit is associated with two other major costs in the economy of the country. In Bangladesh, such deficit has not augmented productive activities at one end. At the other end, Bangladesh has been following the policy prescriptions of international financial organisation like International Monetary Fund (IMF), World Bank (WB) and Asian Development Bank (ADB), to finance a part of deficit, which has been indicating negative impacts on the economy.

## 2. SCENERIO OF DEFICIT AND DEBT

The fiscal targets in FY 2013-14 are might be achieved and likely to worsen the debt situation. High public debt curtailed from persistent fiscal deficit hinders the economic growth and affects the economy. It leads to high taxes and puts upward pressure on real interest rates, which may crowd out the private investment. When a government is no longer able to finance its deficit, it is forced to cut expenditure or raise revenues, often at times when fiscal policy is needed to help in stabilising the economy.

*The overall budget deficit for FY 2013-14 is estimated at Tk. 55,032 crore, which is 4.6 percent of GDP.*

*In addition, the NBR has missed the target of revenue collection Tk. 1,39,670 crore in FY 2012-13.*

*In FY 2012-13 and FY 2011-12, per capita debt burden has increased by Tk. 407.65 and Tk. 656.20 respectively.*

## 2.1 Deficit over Time

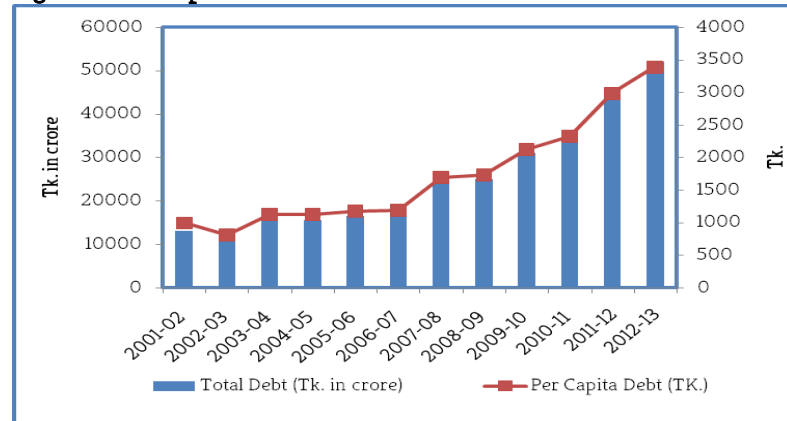
The overall budget deficit for FY 2013-14 is estimated at Tk. 55,032 crore, which is 4.6 percent of GDP. The revised budget for FY 2012-13 has estimated a deficit of Tk. 49,656 crore (4.8 percent of GDP), which was Tk. 55,000 crore (5.0 percent of GDP) in the proposed budget. Since the revenue target of the government seems to be ambitious, the government may be forced to cut the expenditure level in FY 2013-14 to keep the budget deficit within the target. The three fiscal targets related to revenue earning, revenue expenditure and budget deficit thus has fallen short in FY 2012-13 and the government had to revise these by a significant margin. Even then, the targets for revenue collection and revenue expenditure in FY 2013-14 are set above the trend observed in the last several fiscal years. In addition, the NBR has missed the target of revenue collection Tk. 1,39,670 crore in FY 2012-13.

The gap between the total expenditure and total revenue is increasing over the years. Due to the slower rate of collection of revenue as compared to the total expenditure, more borrowing and foreign loans are required to finance the budget deficit.

## 2.2 Per Capita Debt Burden

Per capita debt burden, which is the sum of per capita domestic debt as well as per capita external debt, has been increasing over the years. Specially, since FY 2006-07 per capita debt burdens have been showing a sharp increasing trend. In FY 2012-13 and FY 2011-12, per capita debt burden has increased by Tk. 407.65 and Tk. 656.20 respectively. In FY 2012-13, per capita debt burden of Bangladesh stood at Tk. 3389.84. Total debt has increased from Tk. 45210 crore in FY 2011-12 to Tk. 52068 crore in FY 2012-13. The ever-rising public debt has been exerting a serious pressure on the macro-economic stability of the country. This debt also puts an upward pressure on the real rate of interest by crowding the private investment out.

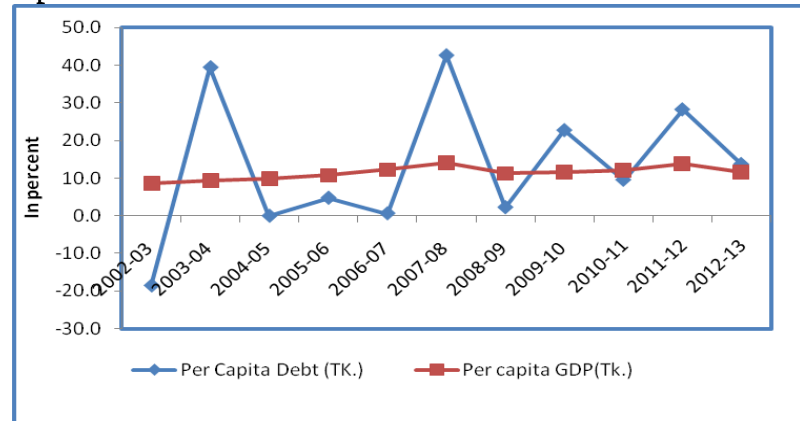
Figure 1: Per capita debt burden



Source: Bangladesh Economic Review, 2013

In FY 2012-13, the rate of growth in per capita debt burden has decreased compared to previous fiscal year, but this rate is still higher than the rate of growth in per capita GDP (Tk.) in FY 2012-13. In FY 2012-13, the rate of growth in per capita GDP and the rate of growth in per capita debt burden stood at 11.6 percent and 13.7 percent respectively.

Figure 2: Comparison between growth of per capita debt and per capita GDP



Source: Bangladesh Statistical Bureau, 2013

### 2.3 Sources of Borrowing and Their Implications

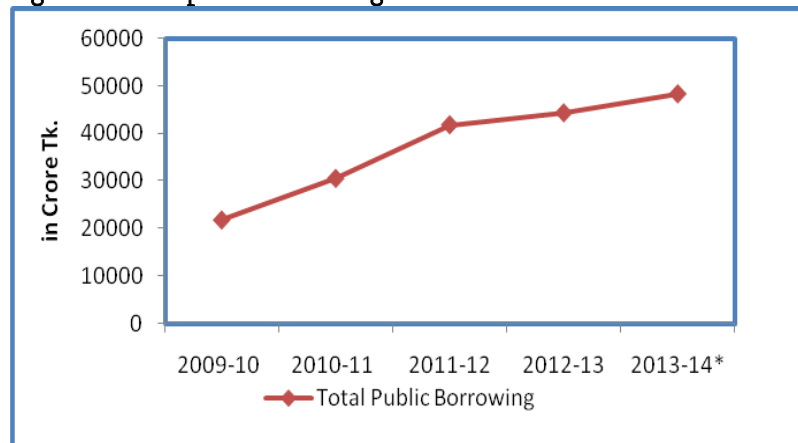
Total public borrowing has been increasing at an alarming rate since FY 2009-10, and has set its target to borrow at Tk. 48362 crore in budget for FY 2013-14. This is equal to an increment by Tk. 3986 crore greater than the amount borrowed in the previous fiscal year. This increasing public borrowing warns that capacity of deficit financing through revenue collection is not increasing adequately.

*In FY 2013-14, target of total public borrowing is set at Tk. 48362 crore.*

*In FY 2013-14, deficit will be financed by Tk. 23,729 crore from external sources whereas in FY 2012-13, this amount was Tk. 19,951 crore.*

In FY 2013-14, deficit will be financed by Tk. 23,729 crore from external sources whereas in FY 2012-13, this amount was Tk. 19,951 crore. Bangladesh Bank, schedule banks and outside the banking sectors are the main sources of domestic borrowing. To meet the budget deficit in FY 2013-14, deficit will be financed by Tk. 33,964 crore from domestic sources; Tk. 25,993 crore will be funded from the banking system, and Tk. 7,971 crore from savings certificates and other non-banking sources.

**Figure 3: Total public borrowing**



Source: Finance Division, 2013

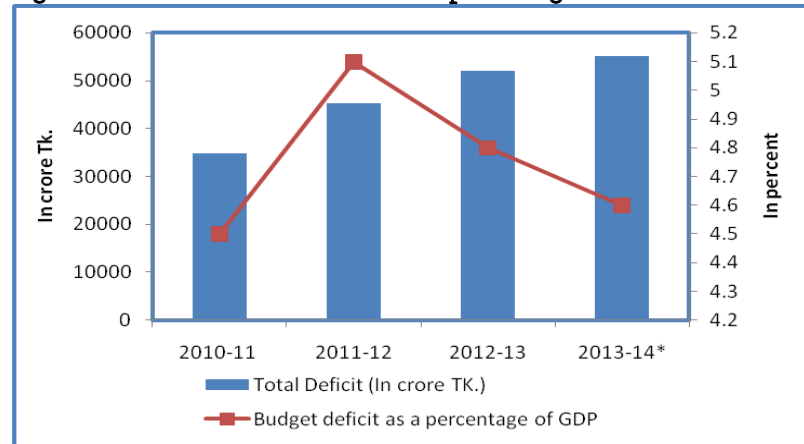
*The target of government borrowing from banking sector is set at Tk. 25,993 crore in FY 2013-14.*

In addition, the government has exceeded its set targets of borrowing from banking sector in the last three fiscal years. Government has crossed the target of borrowing from banking sector in FY 2012-13. Government borrowing from banking system has increased to Tk. 28,500 crore in the revised budget in FY 2012-13 from Tk. 23,000 crore in the proposed budget in the same year. Again, government has set its target at Tk. 25,993 crore in FY 2013-14 which might cross the target.

The deficit has two clear costs for the economy. First, higher government borrowing from domestic sources has crowded out the private sector investment. Second, policy costs are included in the deficit. It seems that government is trying to meet the conditions of International Monetary Fund (IMF), in the Budget of current fiscal year 2013-14 (Prothom Alo, 15 June 2013). According to the demand of IMF, the budget deficit has to keep below 5 percent of GDP. It is, however, stated in the proposed budget that overall budget deficit will stand at 4.6 percent of GDP.



Figure 4: Total deficit and deficit as a percentage of GDP



Source: Budget in brief 2013-14

*In FY 2013-14, Tk. 1,41,219 crore is supposed to be collected from tax revenue from the total revenue collection target of Tk. 167,459 crore.*

*In FY 2012-13 the National Board of Revenue (NBR) has failed to achieve its revenue collection target by Tk. 4,034.29 crore.*

## 2.4 Sources of Revenue Collection and Their Implications

The government has been struggling to boost up its revenue earning. The revenue-GDP ratio and the tax-GDP ratio of the country have stood at 13.46 percent and 11.25 percent respectively in FY 2012-13 (revised budget). The government, therefore, has to capture the opportunity to strengthen its revenue to raise adequate money for financing. In FY 2013-14, Tk. 1,41,219 crore is supposed to be collected from tax revenue from the total revenue collection target of Tk. 167,459 crore. As a result, tax-GDP ratio is expected to increase to 11.88 percent in FY 2013-14 from 11.22 percent, the revised figure of the previous year. In this regard, the following three critical issues are needed to be addressed for the realisation of the targets.

The first concern is the prevalence of narrow tax net, which acts as a hindrance to have a stronger revenue base in the country. The second important concern includes the issue of tax burden and tax progressivity. The revenue collection of the country depends on the indirect taxes like VAT (Value Added Tax). The main four revenue sources in FY 2013-14 are projected as VAT (Tk. 49,956 crore), taxes on income and profit (Tk. 48,297 crore), supplementary duty (Tk. 20,853 crore), and import duty (Tk. 14,629 crore). Consequently, the indirect taxes like the VAT still occupy a dominant position among the sources of revenues in FY 2013-14, although income tax collection has increased in the last several years. Most importantly, in FY 2012-13 the National Board of Revenue (NBR) has failed to achieve its revenue collection target by Tk.

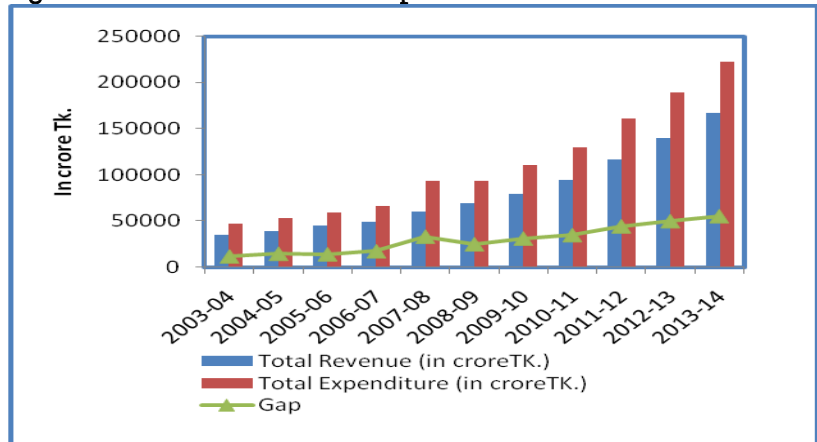
4,034.29 crore due to meager business environment, poor management system as well as political unrest in the country. This is for the first time that the NBR has failed to achieve the target in the last four financial years in the tenure of the current government.

### 3. GOVERNMENT REVENUE AND EXPENDITURE IN DETAILS

*In FY 2013-14, the gap between targeted total expenditure and revenue has been targeted at Tk. 55032 crore, which is 10.83 percent higher than that of the revised budget of FY 2012-13.*

The gap between expenditure and revenue is increasing year on year basis in the economy of the country. This gap is seen due to the rapid increase in the government expenditure rather than the earnings. In FY 2013-14, the gap between targeted total expenditure and revenue has been targeted at Tk. 55032 crore, which is 10.83 percent higher than that of Tk. 49656 crore of the revised budget of FY 2012-13.

**Figure 5: Trend in revenue and expenditure**



Source: National Board of Revenue, 2013

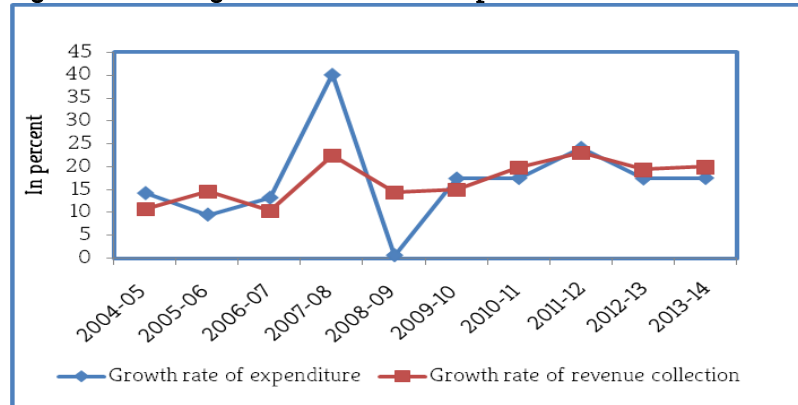
*In FY 2013-14, the total targeted revenue is Tk. 167459 crore against the expenditure of Tk. 222491 crore.*

In FY 2013-14, the total targeted revenue is Tk. 167459 crore against the expenditure of Tk. 222491 crore. Total revenue collection target for FY 2013-14 has been set at 19.9 percent which is higher than that of the previous year. To achieve the target revenue collection, 14.1 percent revenue collection of GDP, needs to be increased. In contrast, the revenue collection target in the previous budget of FY 2012-13 was set at Tk. 1,39,670 crore (13.4 percent of GDP), which has remained unchanged in the revised budget as well. The total public expenditure target for FY 2013-14, on the other hand, is set at Tk. 2,22,491 crore (18.72 percent of GDP), which is 16.04 percent higher than the original target of the previous year. In

*The non-development revenue and development expenditure as percentage of total expenditure have been targeted at 60.43 percent and 32.48 percent respectively in FY 2013-14.*

the previous fiscal year (FY 2012-13), the total public expenditure was estimated at Tk. 191,738 crore (18.41 percent of GDP). The non-development revenue and development expenditure as percentage of total expenditure have been targeted at 60.43 percent and 32.48 percent respectively in FY 2013-14.

**Figure 6: Rate of growth revenue and expenditure**



Source: Finance Division, 2013; National Board of Revenue, 2013

*The rate of growth in revenue collection has increased from 19.3 percent in FY 2012-13 to 19.9 percent in FY 2013-14.*

Moreover, a careful examination reveals that the rate of growth in government expenditure has fluctuated more than that of the rate of growth in revenue over the years (Figure 6). These fluctuations mainly occurred between FY 2006-07 and FY 2009-10, and have slightly been lowered since then. In FY 2012-13, the rate of growth in expenditure was 17.4 percent, which has marginally increased to 17.5 percent in FY 2013-14. The rate of growth in revenue collection has increased from 19.3 percent in FY 2012-13 to 19.9 percent in FY 2013-14.

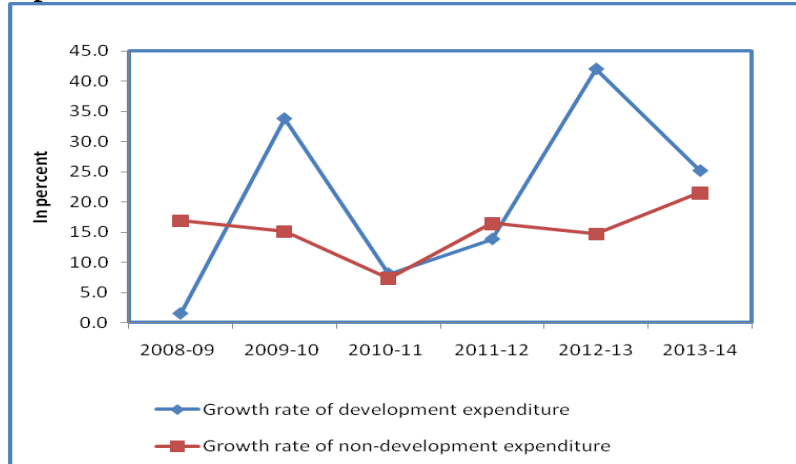
*The rate of growth in development expenditure has decreased to 25.1 percent in FY 2013-14 from 42.0 percent in FY 2012-13.*

### 3.1 Heads of Expenditure: Development Vs Non-Development and ADP

*The rate of growth in non-development expenditure has increased from 14.7 percent in FY 2012-13 to 21.5 percent in FY 2013-14.*

The development and non-development expenditure has been heading towards the opposite directions. The rate of growth in development expenditure has decreased at 25.1 percent in FY 2013-14 from 42.0 percent in FY 2012-13, while the rate of growth in non-development expenditure has increased from 14.7 percent in FY 2012-13 to 21.5 percent in FY 2013-14. In FY 2013-14, development expenditure and non-development expenditure are Tk. 72,275 crore and Tk. 1,34,449 crore respectively. In FY 2012-13, the development and non-development expenditure were respectively Tk. 57751 crore and Tk. 110627 crore.

Figure 7: Growth rate of development and non-development expenditure



Source: Budget in brief, (from 2009-10 to 2013-14)

Among the four main sectors of ADP (Annual Development Programme) expenditure, three sectors (i.e. human resource, agriculture and rural development as well as energy infrastructure) have received lower percentage of allocation, while only one sector has benefitted from greater allocation (i.e. communication infrastructure). In FY 2013-14, ADP expenditure on human resource as well as agriculture and rural development has declined to 23 percent and 25.4 percent respectively in the present fiscal year from 23.5 percent and 30.9 percent respectively of the previous fiscal year. Similarly, expenditure on energy infrastructure has observed a decline of 17.2 percent in FY 2013-14 from 17.3 percent in FY 2012-13. Only ADP expenditure on communication infrastructure has increased, and with a sharp rate, from 15.7 percent in FY 2012-13 to 23.12 percent in FY 2013-14. Special allocation of Tk. 6,852 crore for the Padma multipurpose Bridge has been a major contributing part in this increase.

Table 1: ADP status on different sectors (Percent of Total ADP)

Sectors/ Fiscal Year	2013-14	2012-13	2011-12	2010-11
Human resource	23.0	23.5	24.2	25.6
Agriculture and rural development	25.4	30.9	32.6	33.6
Energy infrastructure	17.2	17.3	18	21.1
Communication infrastructure	23.1	15.7	13.8	10.9

Source: Budget in brief FY 2013-14

### 3.2 Component of Government Expenditure

The size of government expenditure and the gap between total revenue and total expenditure may not necessarily be a matter of concern if such is occurred to augment growth. There is a need to make a study of the different components of expenditure as well as a distinction between a deficit arising out from wrong policies or distribution of patronage (rent-seeking) and that of an increase in public investment to finance public goods, with a view to inducing growth.

*In FY 2013-14, both social and physical infrastructure has received lower budgetary allocation.*

#### **3.2.1 Allocation in the total budget among major sectors**

In FY 2013-14, both social and physical infrastructure has received lower budgetary allocation. Among the major heads of revenue expenditure, allocation as a percentage of total budget has fallen in social infrastructure and stood at 23.17 percent allocation in FY 2013-14, which is 0.98 percentage points lower than the previous fiscal year. In FY 2013-14, 19.6 percent allocation has been set for human development sector which was 20.22 percent as a percentage of total budget in FY 2012-13.

Similarly, the infrastructural sector has observed a lower allocation despite receiving more allocation on communication and infrastructural sub-sector as well as power and energy sub-sector. This sector has received 2.64 percentage points lower budget than the previous fiscal year. The proposed allocation for transport and communication sub-sector as well as power and energy sub-sector has increased to 8.66 percent and 5.10 percent respectively in FY 2013-14 from 6.04 percent and 4.98 percent in FY 2012-13 respectively. In terms of budgetary allocation, although the infrastructural sector has seen one of the highest increases in the present fiscal year, the matter of fact is how the money has been using. If the money is used to build new roads, railways, etc. the possibility of a greater fiscal multiplier will be created.

*Budgetary allocation in agricultural and rural development sub-sectors decreased by 2.35 percentage points in FY 2013-14 than that of previous fiscal year.*

Finally, budgetary allocation has decreased in agricultural and rural development sub-sectors, which is 2.35 percentage points lower in FY 2013-14 than that of previous fiscal year. In this regard, the decreased allocation is a major concern for the agricultural sector of the country as almost half of the total labour force is involved into it.

**Table 2: Percentage of budgetary allocation on different sectors**

Sectors/Year	2013-14*	2012-13	2011-12	2010-11
<b>(A) Social infrastructure</b>	23.17	24.15	25.31	28.2
Human development	19.6	20.22	21.89	24.74
Food and social safety	3.57	3.42	3.55	3.45
<b>(B) Physical infrastructure</b>	30.18	31.82	28.16	30.2
Agriculture and rural development	5.51	7.86	5.74	4.53
Communication and infrastructure	8.66	6.04	6.51	5.41
Power and energy	5.10	4.98	5.08	5.23

Source: Budget in brief of FY 2013-14

#### 4. EDUCATION, TECHNOLOGY, HEALTH AND FAMILY WELFARE

Public expenditure on education and technology, and health and family welfare has continued to suffer from poor budgetary allocation. Although such expenditure has been increasing in volume, the rate of growth has been decreasing over the last five fiscal years. In addition, in the national budget 2013-14, education and technology as well as health and family welfare has obtained lower allocation compared to the previous year in addition to other sectors in the current fiscal year.

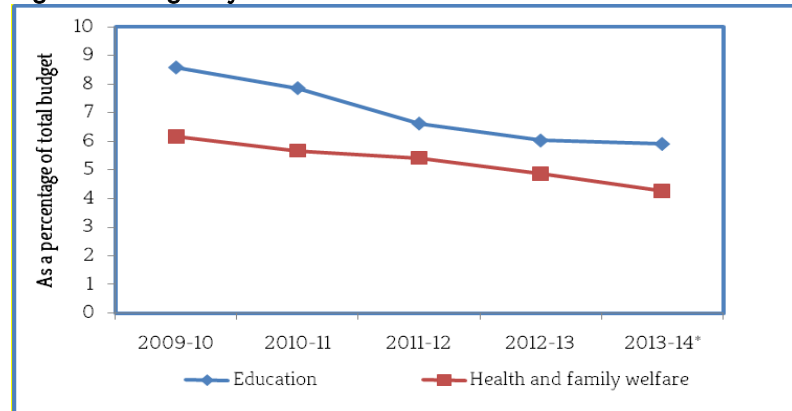
*The proposed allocation for education and technology in the budget of FY 2013-14 is Tk. 26093 crore.*

*The proposed budget for the health sector is only Tk. 9470 crore.*

The proposed allocation for education and technology in the budget of FY 2013-14 is Tk. 26093 crore (including development and non-development budget), whereas the proposed budget for the health sector is Tk. 9470 crore (including development and non-development budget). All these represent the increase of Tk. 3948 crore and Tk. 137 crore for education and technology sector and health sector respectively from the preceding year.

However, the rate of growth in education and health sector has decreased than that of the FY 2012-13. Similarly, expenditure on education and technology, as well as health and family welfare are only 5.92 percent and 4.26 percent respectively as a percentage of total budget in FY 2013-14 which are respectively 0.12 and 0.61 percentage points lower than the last fiscal year. It is clear that regular budgetary allocation is decreasing in this regard which is not a good sign for the economy of the country (Figure 8).

Figure 8: Budgetary allocation for social sectors



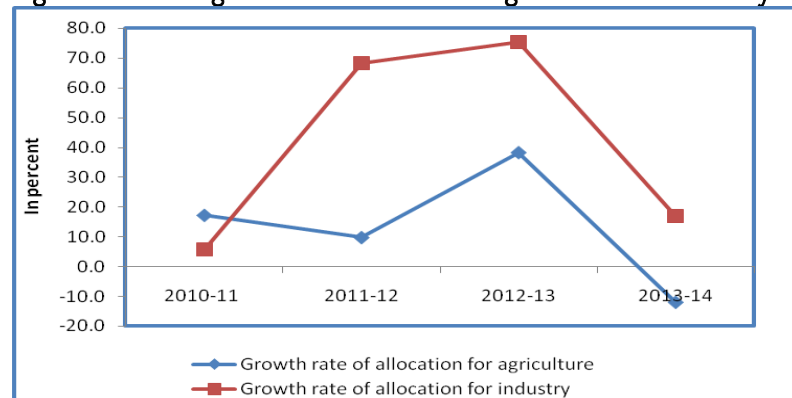
Source: Budget in brief of FY 2013-14

## 5. AGRICULTURE AND INDUSTRY

*In FY 2013-14, the agricultural sector has observed a negative rate of growth of 11.9 percent in total allocation.*

The agricultural sector as well as the industrial sector has faced major challenges in terms of rate of growth. In FY 2013-14, the agricultural sector has observed a declining, and most alarmingly, a negative rate of growth of 11.9 percent in total allocation. Like agriculture, total allocation for industry has decreased at 17.1 percent in FY 2013-14 from 75.3 percent in 2012-13.

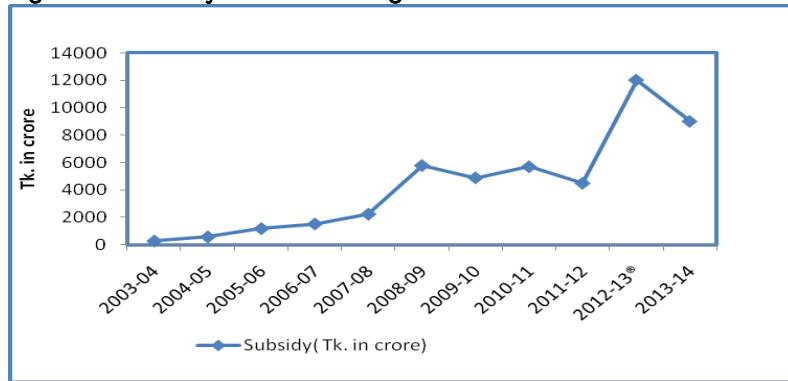
Figure 9: Rate of growth in allocation for agriculture and industry



Source: Budget in brief, 2011-12, 2012-13 and 2013-14

In addition, the non-development expenditure dominates the agricultural allocation, which has less do to with future productivity. For ensuring food security, the necessity of more budgetary allocation on agricultural research and extension services are badly needed. Furthermore, the amount of subsidy to the agricultural sector has stood at Tk. 9000 crore, which is Tk. 3000 crore lower than the revised budget of FY 2012-13.

**Figure 10: Subsidy allocation of agricultural sector**



Source: Ministry of Finance, 2013

*In FY 2013-14, the total annual development expenditure for agriculture and industry are Tk. 1364 crore and Tk. 2117 crore respectively.*

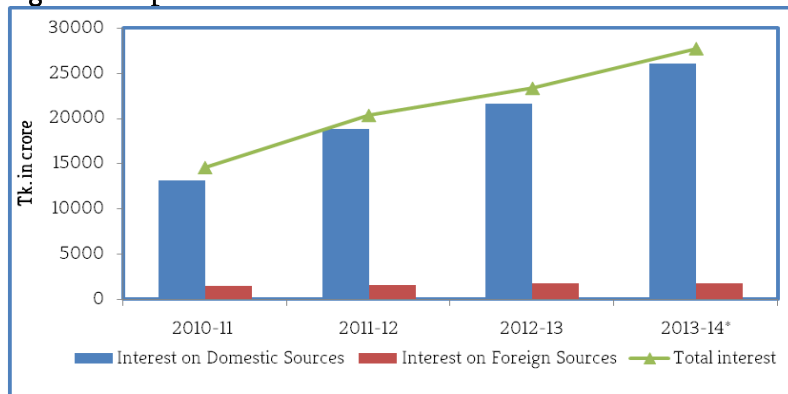
In case of ADP, the allocation in both industry and agriculture is increasing at an inadequate rate. In FY 2013-14, the total annual development expenditure for agriculture and industry are Tk. 1364 crore and Tk. 2117 crore respectively. In FY 2012-13, revised ADP for agriculture and industry sector was Tk.1152 crore and Tk. 1608.17 crore respectively.

## 6. EXPENDITURE ON INTEREST

*In FY 2013-14, the total expenditure on interest payment has been fixed at Tk. 27743 crore, which is 18.83 percent higher than that of FY 2012-13.*

The highest allocation of non-development expenditure has gone to interest payment on both the domestic and foreign sources. In FY 2013-14, the total expenditure on interest payment has been fixed at Tk. 27743 crore, which is 18.83 percent higher than that of FY 2012-13. In FY 2011-12, the interest payment on domestic and foreign sources was Tk. 21604 crore and Tk. 1743 crore respectively. This expenditure has reduced the expenditure capacity in the development sector.

**Figure 11: Expenditure on Interest**



Source: Economic Relations Department, Ministry of Finance (\*till March 2013 and Budget in brief 2013-14)



## 7. ENERGY AND POWER SECTORS

Energy and power sector is facing mainly five major problems. First, high spending on energy and power has been affecting the government's ability to invest in social and physical infrastructure. Second, the cost of subsidy in this sector is soaring as well. Third, the high spending on energy and power has still failed to lower the gap between demand and production of electricity. Fourth, despite the increase of subsidy, electricity price is rising. Fifth, most of the subsidy has gone to the production of electricity in rental, quick rental and independent power producer plants. Those quick rental and rental power plants, however, are not being able to generate electricity as per their promises.

*In FY 2013-14, revenue expenditure on power and energy sector has been estimated at Tk. 11,351 crore.*

In FY 2013-14, revenue expenditure on power and energy sector has been estimated at Tk. 11,351 crore which have a significant impact on social sector expenditure. According to the election manifesto, the highest concerned sector is the energy and power sectors than that of the agricultural and social sector found in FY 2012-13. The total allocation in energy and power sector is Tk. 9544 crore in FY 2012-13 which has increased by 19.95 percent than that of the revised budget of the previous fiscal year. Out of the total allocation of energy and power sector, Tk. 7896 crore has been allocated for the power sector and Tk. 1648 crore for the energy and petroleum sector. The non-development revenue expenditure has increased over the years whereas in the budget of FY 2012-13, the share of fuel and energy sector has targeted to 8.45 percent because of the quick rental power plants.

### 7.1 Subsidy

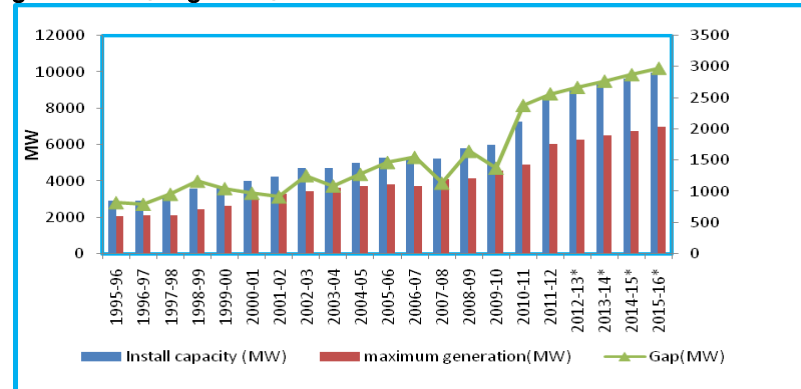
*In FY 2013-14, power subsidy is TK. 15686 crore.*

The huge amount of subsidy in power sector has a negative impact on investment situation. In FY 2013-14, power subsidy is TK. 15686 crore. In FY 2011-12 and FY 2012-13, power subsidy has increased to Tk. 6357 and TK. 6400 crore respectively compared to Tk. 4000 crore in FY 2010-11.

Moreover, despite the increase of subsidy, the gap between installed production capacity and maximum generation capacity of electricity is increasing rapidly. Total gap between installed production capacity and maximum generation

capacity of electricity were 2559 MW and 2374 MW in FY 2011-12 and FY 2010-11 respectively whereas the gap was 972 MW in FY 2000-01. Moreover, the gap between installed capacity and maximum generation might be 2661 MW, 2763 MW and 2866 MW in 2012-13, 2013-14, and 2014-15\* respectively.

**Figure 12: Installed production capacity (mega watt) and maximum generation (mega watt)**



*The gap between installed capacity and maximum generation might be 2661 MW, 2763 MW and 2866 MW in 2012-13, 2013-14, and 2014-15\* respectively.*

Source: Author's calculation, based on Bangladesh Power Development Board, 2013

Moreover, overall electricity price is increasing especially in case of different industries (small industry, heavy industry, medium industry and commercial sector). The higher price of power is adversely affecting the industrial production of local manufacturing industries like drugs and pharmaceuticals, steel, cement, paper, chemicals etc. and specially lowering the export capacity of RMG sectors. In September 2012, power price of electricity for heavy industries (32KV), heavy industries (33KV), medium industries (11KV) and commercial have increased to Tk. 6.16, Tk. 6.48, Tk. 6.81 and Tk. 9 per unit which were respectively Tk. 3.25, Tk. 4.11, Tk. 4.37 and TK. 7.79 in February 2011. After the average increase of 5 percent in March 2010, power price of small industry, heavy industries (32KV), heavy industries (33KV), medium industries (11KV) and commercial sector were Tk. 4.35, Tk. 3.13, Tk. 92, Tk. 4.17 and Tk. 5.58 respectively. Generally, price of electricity is found the highest in the commercial area. In case of small industry, electricity price was Tk. 4.35 per unit in March, 2010 but (after four times increase) in September, 2012 the price has increased to Tk.6.95 per unit again. This increased price of electricity has impacted negatively on industrial production specially on small industries as well as on economic development.

**Table 3: Prices of electricity in different groups (in different years)**

Category/Month	March 2010 (after 5 percent average increase)	Feb-11	Dec-11	Feb-12	Mar-12	Sep-12
Small industries	4.35	4.56	5.27	5.67	6.02	6.95
Heavy industries (32KV)	3.1	3.25	4.59	5.02	5.33	6.16
Heavy industries (33KV)	3.92	4.11	4.88	5.28	5.61	6.48
Medium industries (11KV)	4.17	4.37	5.14	5.55	5.9	6.81
Commercial	5.58	5.85	6.8	7.33	7.79	9

Source: Bangladesh Power Development Board, 2013

In addition, most of the subsidy is provided for the production of electricity in rental, quick rental and independent power producer plants. Those quick rental and rental power plants, however, are not being able to generate electricity as per their promises. The illegal tender processing, rent seeking, use of second hand equipments used in power plants and unwillingness of repairing old power plants, low power plants efficiency, lack of skilled manpower, bribes paid to meter readers or demanded by meter readers and illegal connection etc. are responsible for increasing the gap between installed capacity and maximum generation.

Finally, rental, quick rental and independent power producer plants create pressure on the government to give more subsidies on the power sector. In 2012, 76 percent subsidy has been spent on the quick rental power plants.

## 8. CONCLUSION

The continuous rise in per capita debt as well as lower per capita growth in GDP is resultant of the dogmatic and associated rent seeking behaviour of the government. The people in general are bearing the burden of higher prices of electricity, lesser public investment in social sectors as well as higher taxes.

Most notably in FY 2012-13, the National Board of Revenue (NBR) has failed to achieve its revenue collection target by Tk. 4,034.29 crore due to skimpy business environment, poor

administration system as well as political turmoil in the country.

Government borrows to invest in public services like health, education and infrastructure etc. Generally, the government wants to increase productive capacity and enables a higher rate of economic growth.

Public borrowing is increasing over the years in the country. For these reason, the government has become dependent on the sources of internal and external borrowings to meet its fiscal deficit resulting over burden of debt. This has been exerting a serious pressure on the macro-economic stability of the country.

The highest allocation of non-development expenditure has gone to interest payment on both the domestic and foreign sources. This expenditure reduces the expenditure capacity in the development sector.

Government needs to take proper policy by emphasizing on debt restructuring. In these regard, some suggestions can be disclosed herewith:

1. To harmonize the fiscal and monetary policy
2. To take an effective debt management policy for long term basis
3. Exercising civil and political rights in decision making process concerning debt issues
4. To increase spending on social sectors rather than unproductive sectors
5. To reform tax structure by progressive tax system (to include the tax payable person under tax regime)
6. Encouraging domestic productive sectors
7. Developing domestic debt market rather than dependency on banking sector
8. For sustainable growth and macroeconomic stability in any country, sound and fair budget is a must.

This is better to expose effective options to increase the other internal resources other than borrowing from banking sector. Resource mobilization by making the tax structure elastic and

significant developments in social and physical infrastructures are the feasible solutions for lessening the fiscal deficit.

Finally, deficit financing is a weak fiscal tool for fostering economic growth of any country. Proper mobilisation of additional resources will ensure the employment by using the resources in productive sector.

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