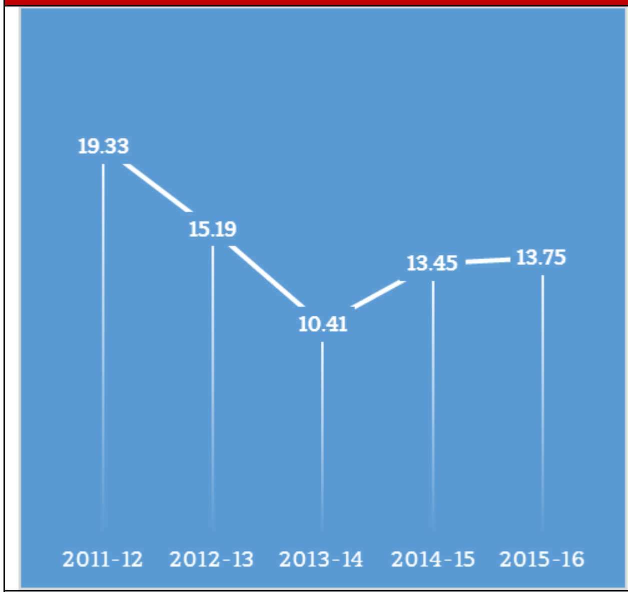
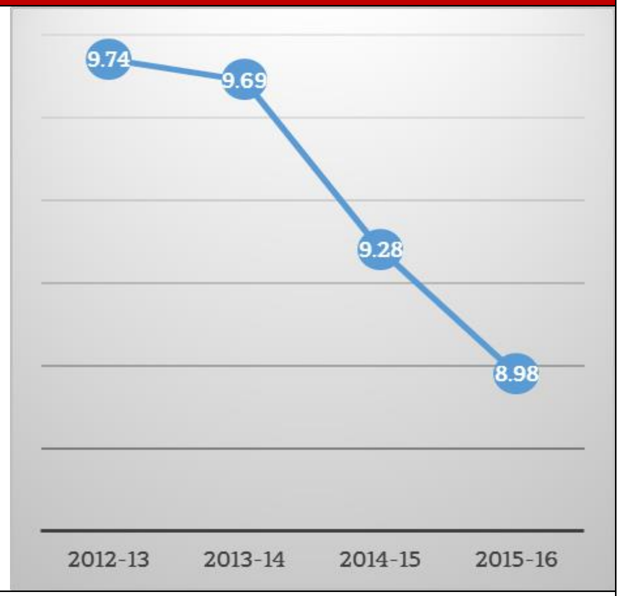
Bangladesh Economic Update

Revenue Mobilisation: Trends and Challenges

October, 2016

Growth in Revenue Mobilization (in %)	Trend in Tax-GDP Ratio
	

Source: Unnayan Onneshan, *Revenue Mobilisation: Trends and Challenges*, Bangladesh Economic Update, Volume 7, No. 10, October 2016.

The Unnayan Onneshan (UO), an independent multidisciplinary think tank, in its monthly publication of Bangladesh Economic Update October 2016 reveals that decline in the rate of growth in total revenue collection in recent times together with an extant of low tax-gross domestic product (GDP) ratio is likely to slow financing for development.

The research organization finds that the rate of growth in revenue mobilization has declined since FY 2011-12. Actual mobilization of total revenue grew by 19.3 percent in FY 2011-12, whereas the rate of growth decline in the subsequent years and stood at 15.2 percent, 10.4 percent, 13.5 percent, and 13.8 percent in FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16 respectively.

Furthermore, it is estimated that Bangladesh has the potential to increase the mobilization of its revenue up to 22 percent of gross domestic product (GDP) whereas the total revenue mobilization as percentage of GDP stood at 10.89 percent, 11.65 percent, 11.66 percent, 10.78 percent, and 10.26 percent in FY 2011-12, FY 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 respectively.

The average revenue mobilization as percentage of GDP during the last four years stood at 11 percent in Bangladesh compared to 20 percent in India, 19 percent in Nepal, 14 percent in Pakistan, and 13 percent in Sri Lanka, finds the UO.

According to the latest statistics, total collection of revenue in the first month of the current fiscal year (July 2016) has stood at Tk. 9594.14 crore against the total target of Tk. 203152 crore for the whole fiscal year. Taking account of the previous years' trend, the UO forecasts the total collection of revenue may fall short of the target by Tk. 30000 crore in the current fiscal year.

The think tank shows that the collection of total tax revenue as percentage of GDP has been declining since FY 2012-13. Total tax revenue as percentage of GDP stood at 9.74 percent, 9.69 percent, 9.28 percent, and 8.98 percent in FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16 respectively.

Total tax revenue grew by 23.3 percent in FY 2012-13, 11.43 percent in FY 2013-14, 8.06 percent in FY 2014-15, and 10.47 percent in FY 2015-16 while Non-tax revenue grew by 2.54 percent, 15.96 percent, negative 14.34 percent, and negative 3.06 percent respectively during the corresponding period.

Taking account of the unsatisfactory performance in collection of income tax which is proposed to be the largest source of revenue and critical to the total revenue mobilization, the think tank evinces that the rate of growth in collection of income tax has been on the decline since FY 2012-13.

The rate of growth in collection of income tax was calculated at 31.35 percent in FY 2012-13. However, growth in collection of income tax in the subsequent years declined to 15.61 percent, 13.07 percent, and 9.89 percent in FY 2013-14, FY 2014-15, and FY 2015-16 respectively.

The research organization further demonstrates that the rate of growth in collection of Value Added Tax (VAT) also assumes a somewhat declining trend in recent times. Growth in the collection of VAT - both at local and import level – stood at 18.37 percent in FY 2011-12, 15.26 percent in FY 2012-13, 8.15 percent in FY 2013-14, 12.11 percent in FY 2014-15, and 10.96 percent in FY 2015-16.

Urging for increasing strength and effectiveness of the tax administration, the UO suggests that the government must administer its fiscal management in a way that would broaden the tax base on the one hand and ensure the provision of necessary services to the citizens in return for their payment of tax on the other.