REVENUE MOBILISATION: RECENT TRENDS

Bangladesh Economic Update

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1. INTRODUCTION

The current issue of the Bangladesh Economic update attempts to assess the state of revenue collection against the backdrop of the declining rate of growth in collection of total revenue in recent periods.

The current issue of the Bangladesh Economic update attempts to assess the state of revenue collection against the backdrop of the declining rate of growth in collection of total revenue in recent periods. The Update also examines the contribution of different sources to the total collection of revenue and analyses the pattern of expenditure, deficit, and cost of deficit financing.

Revenue has fallen short of its target in previous two consecutive years where economic situation was comparatively good. So, considering the historical trend, it can be predicted that the shortfall will persist affecting the trajectory of growth of the economy. Some structural problems are also responsible for increasing pressure on revenue collection. Tax –GDP ratio is very low. The tax base in Bangladesh is undoubtedly narrow. The wide opportunities of evading and avoiding tax along with structural weakness in the system and sporadic political turbulence have added further difficulties to this situation. A huge amount of capital is illegally flown out from country every year which is a big blow for the economy as it means lost investments and revenue income for the government.

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Adequate revenue collection propels the growth of a country by providing adequate fund to meet the expenditure and decrease the dependency on aid. To achieve this goal government sets ambitious fiscal targets of revenue collection every year and has continuously been failing to achieve the target in recent years. Government cannot turn up its all the expenditure because of this shortfall. Revenue budget cannot be cut so the adjustment is made through lowering the public investment. Increased deficit in the budget of the government leading to slimming down of private investment on the one hand and retrenchment of development expenditure on the other hand, since the government borrows from abroad to finance deficit and has to repay the loan with large amount of interest payment that increases non-development expenditure and causes government to reduce its development expenditure.

2. COLLECTION OF REVENUE: TARGET VIS-À-VIS ACTUAL

Revenue has been falling short of target continuously since FY 2012-13 due to mainly fall in domestic consumption, sluggish economic activities and political uncertainty.

Revenue has been falling short of target continuously since FY 2012-13 due to mainly fall in domestic consumption, sluggish economic activities and political uncertainty. In the present fiscal year the gap between the target and the actual will be further widen because of prevalent political unrest. First, domestic consumption has been falling for three years. In FY 2010-11, the domestic consumption was 79.30 percent down to 77.96 percent in FY 2012-13 and to 76.57 percent in FY 2013-14. Second, sluggishness in private investment along with very tiny public investment slows the production. Third, the most important reason in shortfall in FY 2013-14 is the political turbulence in 2013.

In FY 2013-14, 85 percent of the total revenue was collected where actual revenue collection was 141603 crore against the target of Tk 1,67,459: a shortfall of 25856 crore or 15 percent of the target remained uncollected. In the previous FY 2012-13, 92.33 percent of the total revenue was collected where the actual collection of revenue was Tk. 128823 crore against the target Tk. 139670 crore; a shortfall of Tk 10847 crore or 7.77 percent target remained uncollected. In FY 2013-14, the target of tax revenue collection was Tk. 130178 crore and the actual collection was Tk. 125125.47 crore - a shortfall of Tk. 5052.3 crore. It is found that the rate of growth in revenue mobilisation has been on the decline since FY 2011-12. Actual mobilisation of total revenue grew by 23.3 percent in FY 2011-12, whereas the rate of growth decline in the subsequent years and stood at 11.8 and 9.4 percent in FY 2012-13 and FY 2013-14 respectively.

Of the total tax revenue, NBR tax revenue grew by 20.16 percent in FY 2011-12, 12.82 percent in FY 2012-13, and 7.83 percent in FY 2013-14 while Non-NBR tax revenue grew by 9.33 percent, 13.43 percent, and 11.84 percent respectively during the corresponding period.

Table 1: Revenue collection: target, actual, and growth (in billion tk.)

	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14	FY2014-15 (until March'15)
Revenue Target as Per Original Budget	794.6	928.5	1183.9	1396.7	1674.6	1829.5
Revenue Target as per Revised Budget	794.8	951.9	1148.9	1396.7	1566.7	1633.7
Actual Mobilisation	759.1	929.9	1146.8	1282.6	1403.8	1032.1
Growth (%)	17.6	22.5	23.3	11.8	9.4	-

Source: Ministry of Finance, 2015a

3. COLLECTION OF REVENUE: DECOMPOSITION OF SOURCES

The revenue structure in Banladesh is not so strong because of its high dependency on one or two sources. Revenue needed for expenditure purposes is collected mainly from three sources-Tax revenue, non tax revenue and the exrternal source that is foreign aid and grants. Total revenue is collected either from tax or from non-tax sources. In total revenue, tax revenue consisted of 80.9 to 83.42 percent over the period between FY 2007-08 and FY 2012-13 and the remaining came from non-tax sources. Of the total tax revenue, nearly 95-96 percent is collected by National Board of Revenue (NBR). NBR taxes mainly come from income and profit, value added tax (VAT), import duty, export duty, excise duty, supplementary duty and other taxes and duties. In contrast, non-NBR taxes consist of narcotics duty, motor vehicles tax, land tax and stamp (non-judicial). Non-tax revenue is collected from dividend and profit, interest, administrative fees, penalty and forfeiture, services, rent and leasing, tolls and levies, non-commercial sale, defense, non-tax receipts, railway, post office department, T&T Board, and capital receipts.

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Table 2: Sources of revenue collection (in billion tk.)

Revenue Sources	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15 (until March'15)
Total Revenue (a+b)	759.04	929.93	1146.74	1282.57	1403.73	1032.1
a. Tax Revenue (a1+a2)	624.84	795.48	952.27	1074.52	1160.31	903.9
a1. NBR Tax Revenue	597.42	762.25	915.94	1033.32	1114.23	870.2
a2. Non-NBR Taxes	27.43	33.23	36.33	41.21	46.09	33.7
b. Non-Tax Revenue	134.2	134.45	194.46	208.05	243.42	128.2

Source: Ministry of Finance, 2015a

From FY 2007-08 to 2011-12, the NBR revenue collection surpassed the targets, but from FY 2008-09, non-NBR revenue started to fall short of the target, although it was above the target in previous years.

From FY 2007-08 to 2011-12, the NBR revenue collection surpassed the targets, but from FY 2008-09, non-NBR revenue started to fall short of the target, although it was above the target in previous years. Total tax collection has started to fall below the target since 2012-13. In case of collection of NBR and non-NBR taxes, the actual collections were Tk. 120819.8 crore and Tk. 4612 crore in FY 2012-13 against the target of Tk. 125000 crore and Tk.5178 crore. Moreover, in FY 2012-13 both NBR and non-NBR have failed to satisfy the target of revenue collection with total shortage of Tk. 40777.5 crore. It is however shown that the total collection of NBR-Tax stood at Tk. 1180.42 billion until May'15 of FY 2014-15 against the original target of total NBR-Tax of Tk. 1497.2 billion set in the budget of FY 2014-15 and the revised target of Tk. 1350.28 billion.

Taking account of the unsatisfactory collection of revenue from income tax which is proposed to be the largest source of revenue and is critical to the total revenue mobilisation, it is evinced that against the original target of Tk. 565.8 billion and the revised target of Tk. 483.44 billion in FY 2014-15, the actual collection of income tax stood at Tk. 377.40 billion until May'15, which is 66.7 percent and 78 percent of original and revised targets respectively.

On the contrary, the actual collection of Value Added Tax (VAT) at the local level vis-à-vis the target is satisfactory. Against the original target of Tk. 387.8 billion and the revised target of Tk. 324.08 billion in FY 2014-15, the actual collection stood at Tk. 297.03 billion until May'15. Unsatisfactory performance in collection of revenue from income tax compared to that from VAT implies higher tax burden on low income groups than high income ones.

As regards the total non-NBR tax, it is found that against the revised target of Tk. 56.5 billion in the FY 2014-15, the actual collection of non-NBR tax stood at Tk. 33.7 billion until March'15 representing 59.65 percent of the revised target. In view of the sluggish collection of non-tax revenue, it is further demonstrated that the actual collection of non-tax revenue stood at Tk. 128.2 billion until March'15 against the original target of Tk. 276.62 billion and the revised target of Tk. 226.9 billion for the FY 2014-15.

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Table 3: Sources of revenue: targets and mobilisation in fy 2014-15 (until may'15)

	Target	Revised Target	Mobilisation
Import Duty	14376.8	15188.39	13554.18
VAT (Import)	16897.9	17329.88	15974.72
Supplement (I)	4415.25	4950.95	4692.57
Export Duty	30	30.78	38.32
Excise Duty	1063.7	939.95	945.69
VAT (Local)	38780.4	32407.83	29703.23
Supplement (L)	16649.3	14911.34	14593.49
Turn Over	6.61	4.87	4.18
Income Tax	56580	48344	37740.17
Travel Tax	919.8	919.8	795.68
Others	0.2	0.2	0.09
Total NBR Tax	149720	135027.99	118042.32
Total Non-NBR Tax	5572	5650	3370 (March'15)
Total Tax Revenue	155292	140677.99	
Total non-Tax Revenue	27662	22690	12820 (March'15)
Total Revenue	182954	163367.99	

Source: National Board of Revenue, 2015

4. REVENUE-GDP RATIO: CROSS-COUNTRY COMPARISON

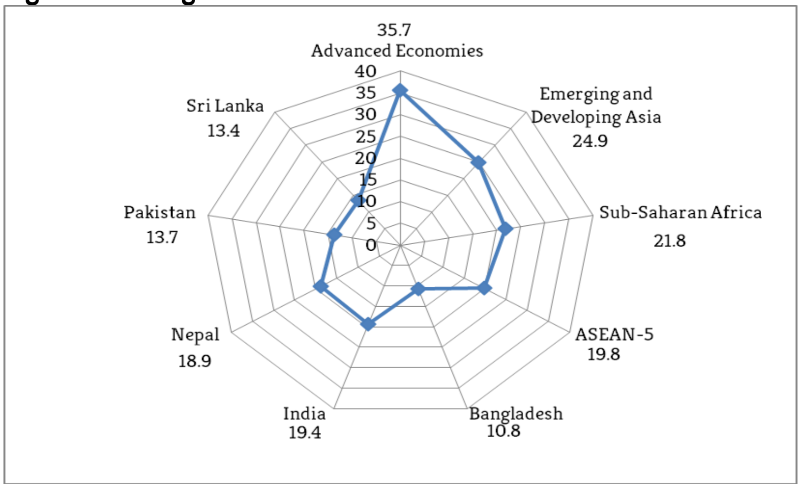
The tax-GDP ratio is very low with about 10 percent of the GDP in Bangladesh, but keeps improving at a slow pace.

Tax-GDP ratio of a country shows the financial capability of the government to finance its expenditure. Low tax-GDP ratio implies stringent financial constraint for the government which shrunken the capital expenditure. The tax-GDP ratio is very low with about 10 percent of the GDP in Bangladesh, but keeps improving at a slow pace. Low per capita income, corruption and inefficiency in tax management system keep the tax collection low and unsatisfactory. To increase the contribution of tax in GDP the collection of tax must be accelerated through proper management in tax collection and tax policy reform.

Low per capita income, corruption and inefficiency in tax management system keep the tax collection low and unsatisfactory.

in view of the fact that Bangladesh lags far behind other developing countries in terms of the total general government revenue as percentage of gross domestic product (GDP), the research organisation finds that the average total revenue for the period from 2010 to 2014 as percentage of GDP was 35.7 percent in advanced economies, 24.9 percent in emerging and developing Asia, 21.8 percent in Sub-Saharan Africa, 19.8 percent in ASEAN-5, 19.4 percent in India, 18.9 percent in Nepal, 13.7 percent in Pakistan, and 13.4 percent in Sri Lanka, whereas in Bangladesh, the average total government revenue as percentage of GDP for the corresponding period was only 10.8 percent.

Figure 1: Average total revenue as % of GDP for 2010-14



Source: Ministry of Finance, 2015b

In FY 2013-14, the tax was 9.6 percent of GDP where the target was set to 11 percent in MTTF; 1.4 percentage point less than the target. In current fiscal year, the target for Tax-GDP ratio is 11.6 percent. Taking account of the annual growth rate in tax-GDP ratio from FY 2005-06 to FY 2013-14, it is projected that the Tax-GDP ratio might be 9.94 percent and 10.27 percent in FY 2014-15 and 2015-16 respectively.

5. EXPENDITURE STATUS: DEVELOPMENT AND NON-DEVELOPMENT

Expenditure of government includes both the purchase of final goods and services, and transfer payments. Expenditures help government to undertake key functions, such as national defense and education subsidies, interest payment, social security and welfare, health, agriculture, public administration, local government and rural development, transportation and communication, industrial, energy and power, culture and religious affairs, and pension. The implementation of ADP is also important for increasing the productive capacity of the country.

In 2014-15, government set target to spend Tk. 250506 crore (18.54 percent of the GDP) where it was 222492 crore in FY 2013-14 that expenditure has increased by 12.59 percent where the growth rate in revenue increases by 9.25 percent so there is a lack of prudent laity in target setting. Largest portion of the government income goes to finance the non development expenditure. In 2014-15, government allocates Tk. 15414 crore for non development expenditure which was 134449 crore in FY 2013-14 budget. On the other hand the development expenditure is 86345 crore in which 80315 crore is allocated for the implementation of ADP. Public Adminstration is allocated the highest amount f 15.3 percent of the total budget where 13.1 percent 12.4 percent 9.8 percent go to education, interest payment and transport & communication respectively.

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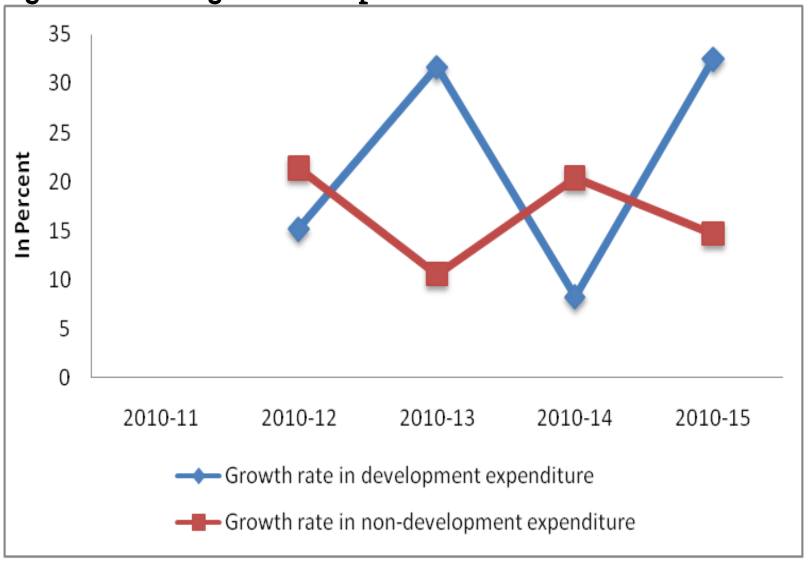
Both development and non development expenditure are increasing in terms of absolute amount, but the rate of growth in non-development expenditure is higher than that of development expenditure. The rate of growth in non-development expenditure has increased to 20.39 percent in FY 2013-14 from 10.56 percent in FY 2012-13, the rate of growth in development expenditure has decreased to 8.33 percent in FY 2013-14 from 31.73 percent in FY 2012-13. The non development expenditure is much higher than the development expenditure. In 2012-13 and 2013-14, the non development budget were 12.1 percent and 13.2 percent of total GDP, where the ADP was only 4.7 percent and 5.1 percent respectively during the same time periods. In FY 2014-15, the allocation for the non development expenditure and ADP expenditure is 12.7 percent and only 6.3 percent of the total GDP respectively. Increasing allocation for non-development expenditure due to financing the deficit does not allow the government to allocate adequately for development expenditure resulting in barrier to the expansion of productive capacity in the economy.

Figure 2: Rate of growth in expenditure



Source: Ministry of Finance, 2014a

6. BUDGET DEFICIT AND ITS COST

The gap between total expenditure and total revenue is getting bigger over the years due to low collection of revenue, causing fiscal deficit-induced macroeconomic underperformance and higher non-development expenditure. The overall budget deficit for FY 2014-15 is estimated at Tk. 67552 crore that represents 5 percent of GDP. The revised deficit in FY 2013-14 was Tk. 59551 crore (5 percent of GDP), which was Tk. 55,032 crore (4.6 percent of GDP) in the proposed budget. Since the revenue collection target of the government seems to be ambitious, the government may be forced to cut the expenditure level in FY 2014-15 to keep the budget deficit within the target and the cut will be ADP. The three fiscal targets related to revenue earning, revenue expenditure and budget deficit thus has not been achieved and the government had to revise these by a significant margin.

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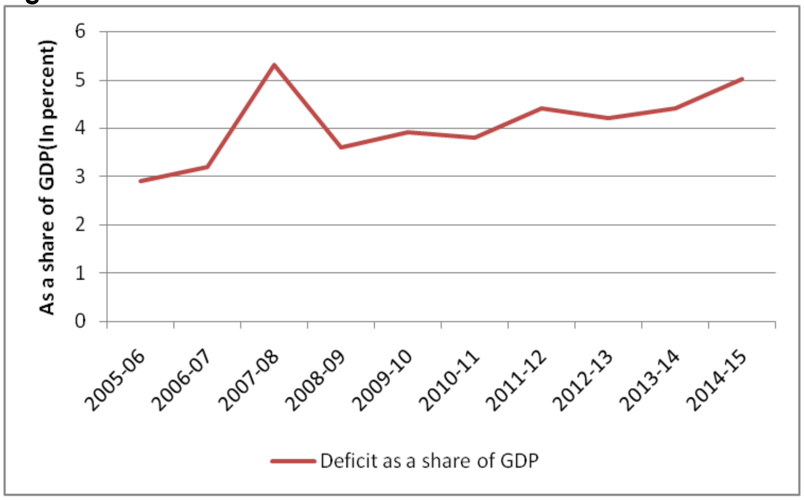
Figure 3: Debt-GDP ratio



Source: Ministry of Finance, 2014b

The domestic resources are always considered as key source of the government for deficit financing. The government finances the lion's share of the deficit from the domestic source especially from the banks. Total domestic financing has been showing an increasing pattern from FY 2009-10 because of increase in deficit. Domestic borrowing in FY 2009-10 was Tk.78980.14 crore and became Tk. 20760.61 crore in FY 2012-13 and Tk.20859 crore in FY 2013-14.

The proposed target of domestic borrowing for FY 2014-15 in budget is Tk.43277 crore where 9174.81 crore is borrowed till July-November, which is 1755 crore h or 23.65 percent higher than the same period of the current fiscal year. In FY 2012-13, the total net borrowing from the banking system was Tk. 17873 crore which stood at Tk. 6705.9 crore in FY 2013-14(a 62.5 percent decrease). Among the domestic sources, borrowing from the banking system does not increase much, whereas the borrowing from the non banking sources has increased drastically specially from selling the NSD certificates.

Table 4: Total domestic and foreign borrowing

Year	Net borrowing of the Govt. from the banking system	Net non-bank borrowing of the Govt. from the public	Total domestic financing	Total Foreign Borrowing
2009-10	-4376.00	12256.14	7880.14	10218
2010-11	19384.10	3012.93	22397.03	7470
2011-12	18875.00	2327.38	21202.38	9714.35
2012-13	17873.00	2887.71	20760.71	15080.19
2013-14	18168.4	19967.4	41485	11939.3
2014-15 (up to March'15)	2962.8	9826	12788.8	7564

Source: Ministry of Finance, 2015a

External borrowing has played role in the economic development of Bangladesh assisting in bridging the internal gap (savings-investment gap) and external gap (export-import gap). Borrowing from the foreign debt partner is much lower than the domestic one but the dependency is high. In FY 2013-14, the total external financing were Tk. 14603 crore (provisional) where it was Tk. 15080 crore in FY 2012-13. Outstanding of external debt stood at USD 23250 million in FY 2013-14 which was 22381.4 million in FY 2012-

13 a 3.88 percent increase in external debt in FY 2013-14. From FY 2002-03 to FY 2006-07, the external debt increased at an annual rate of 6.37 percent, then deceased to 2.93 percent for the period FY 2007-08 and FY 2008-09 and again increased to 3.58 percent for the period of FY 2009-10 to FY 2013-14. The fluctuation in the rate of growth in external debt arouse from political unrest in different time and also from the diplomatic tactics.

Table 5: Payment of interest on government borrowing

	Actual 2013	Budget FY 14	Revised Budget FY 14	Actual FY 14	Budget FY 15	Actual FY 15 (up to March'15)
Interest Payment	24273.8	27743.2	26540.5	28205.5	31042.6	20323.3
Domestic	22503.5	26003.2	24854.2	26601.1	29304.5	19023.3
Foreign	1770.3	1740	1686.3	1604.4	1738.1	1299.9

Source: Ministry of Finance, 2015b

Higher interest payment is considered to result in the increase in total non-development expenditure every year causing the government to become unable to allocate adequately for development expenditure in the country.

As regards the higher interest payment due to deficit financing induced government borrowing from both domestic and foreign sources, it is shown that against the target of total interest payment of Tk. 310.42 billion set in the budget of FY 2014-15, which is 20 percent of the total non-development expenditure of the fiscal year, the expenditure on interest payment reached Tk. 203.23 billion until March'15 constituting 24.8 percent of the corresponding period's total non-development expenditure. Higher interest payment is considered to result in the increase in total non-development expenditure every year causing the government to become unable to allocate adequately for development expenditure in the country.

7. CONCLUSIONS

Government has tried to boost up the revenue collection but the revenue collection in current fiscal year may have big shrinkage due to current political unrest. This shortfall of revenue may force government to cut its investment on different sectors like education, health, infrastructure etc. In addition, failing in collecting the adequate revenue has been resulting in rising per capita debt burden, increasing pressure on the ability of the government to carry out regular as well as developmental projects, and crowding out of private investment. The falling rate of growth in revenue collection has also been exposing the country to external terms and conditions in implementing its domestic economic policy.

The falling rate of growth in revenue collection has also been exposing the country to external terms and conditions in implementing its domestic economic policy.

The collection of tax is significantly lower for a number of reasons. The country has a narrow tax base. There exist wide opportunities of evading and avoiding tax. Finally, structural weaknesses of the economy have added further difficulties to tax collection. For example, more than 69 percent of total tax comes from indirect sources in Bangladesh. Therefore, strengthening of regulatory policy along with structural reforms, and innovation in the tax system is the requirement of time putting pressure on the marginalised.

It is also found that the gap between revenue collection and expenditure is getting wide over years and also projects that the gap will be wider in the upcoming fiscal year. For the promising economic performance, this gap needs to be shrunk without the contraction of the public invest or the development expenditure. To optimise economic performance through shrinking the gap between revenue collection and expenditure, two dimensional steps should be taken – one is from the revenue collection side and the other is from revenue spending. There is no alternative rather than to increase the size of tax base. New steps, therefore, should be included with present efforts to widen the tax base, especially through raising public awareness and ensuring imposition strict law and order.

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It is, therefore, suggested that the government must administer its fiscal management in a way that would broaden the taxpayers' 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.

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