Revenue Collection, Public Investment and Debt

Bangladesh Economic Update

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For orders and request, please contact:
UNNAYAN ONNESHAN
16/2, Indira Road, Farmgate Dhaka-1215, Bangladesh
Tell: + (880-2) 8158274, 9110636
Fax: + (880-2) 8159135
E-mail: info@unnayan.org
Web: www.unnayan.org

1. INTRODUCTION

The current Bangladesh Economic Update reveals that fall in growth in collection of revenue, rising per capita debt burden and shrinking public sector investment may contract expansion of gross domestic product (GDP).

The current Bangladesh Economic Update reveals that fall in growth in collection of revenue, rising per capita debt burden and shrinking public sector investment may contract expansion of gross domestic product (GDP). Accordingly, the Update finds out contribution of different sources of revenue and searches the pattern of expenditure. In addition, the Update probes into the matter of 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.

There has been found a reduction in investment and growth for the successive three years from those of the preceding ones. In FY 2010-11, the GDP growth rate was 6.71 percent, which declined to 6.23 percent in FY 2011-12, and further fell to 6.03 percent in FY 2012-13. The Unnayan Onneshan (UO) anticipates that the rate of growth in GDP in the current fiscal may fall below the decadal average of six percent and may reach as low as 5.65 percent.

During July-December 2013-14, revenue collection stood at Tk. 5038.29 crore which is higher by Tk. 5473.36 crore compared to the same period of the previous fiscal year. In FY 2012-13, the target of collecting tax revenue was Tk. 116824 crore against the target of Tk. 112746.3 crore. In case of National Board of Revenue (NBR) and non-NBR tax collection, the actual collection were Tk. 108619 crore and Tk. 4128 crore in FY 2012-13 against the target of Tk. 112259 crore and Tk.4565 crore respectively. If the present trend continues then in FY 2013-14, total tax revenue collection might be Tk. 123246 crore against the target set at Tk. 136090 crore.

Moreover, during July-December of FY 2013-14, revenue earnings from export duty observed a negative growth of

26.83 percent, supplementary duty in import arena 7.85 percent while excise duty collection fell by 14.49 percent. Observing the current trend in revenue collection, government is going to revise the target by reducing about Tk. 20,000 crore where as target was Tk. 1, 36,090 crore.

The pressure in revenue collection is likely to add up to budget deficit, which is targeted at 4.6 per cent of gross domestic product (GDP) in FY 2013-14.

The pressure in revenue collection is likely to add up to budget deficit, which is targeted at 4.6 per cent of gross domestic product (GDP) in FY 2013-14. In FY 2013-14, total public borrowing is targeted at Tk. 55032 crore, which is Tk. 3986 crore greater than the previous fiscal year. Moreover, due to the continuation of deficit in budget, the trend of per capita debt burden appears to be increasing. In FY 2013-14, per capita debt burden is projected to increase to Tk. 3582.8 from Tk. 3389.8 in FY 2012-13. In fiscal year 2011-12, per capita debt burden was Tk. 2982.2.

The social and physical expenditure is suffering because of lower revenue collection. Spending on education and health and family welfare are only 5.92 and 4.26 percent as a percentage of total budget in FY 2013-14. These are 0.12 and 0.61 percentage points lower than the last fiscal year. Additionally, actual ADP implementation has seen a large fall in recent time from Tk. 31089 crore in FY 2012-13 from Tk. 38020 crore in FY 2011-12.Moreover, the actual ADP implementation up to January 2014 is Tk. 16748.4 crore against the revised allocation of Tk. 54000 crore.

2. STATUS OF REVENUE INCOME AND EXPENDITURE

The government frames a policy described as fiscal policy to raise sufficient government revenue to finance government expenditure. Generally, a government uses different fiscal policy tools to mobilise resources with a view to financing its expenditure. Bangladesh government has also been using its fiscal policy to channel adequate resources to meet the national development projects. The recent change in macroeconomic policy regime in Bangladesh, however, has been being questioned as regards management of economy in meeting the expenditure, since an increasing trend of gap between total revenue and total expenditure has been noticed recently. Accordingly, this section looks into the heads and pattern of government revenue, government expenditure, budget deficit, and debt developments in recent time.

2.1 Overall Revenue and Expenditure

Both the total revenue and total expenditure have an increasing trend, though an increasing gap between the two is obvious. In fiscal year 2013-14, the total targeted revenue is Tk. 167459 crore against the expenditure of Tk. 222491 crore. The growth rate of expenditure is 17.5 percent where the gap between revenue and expenditure is Tk. 55032 Core.

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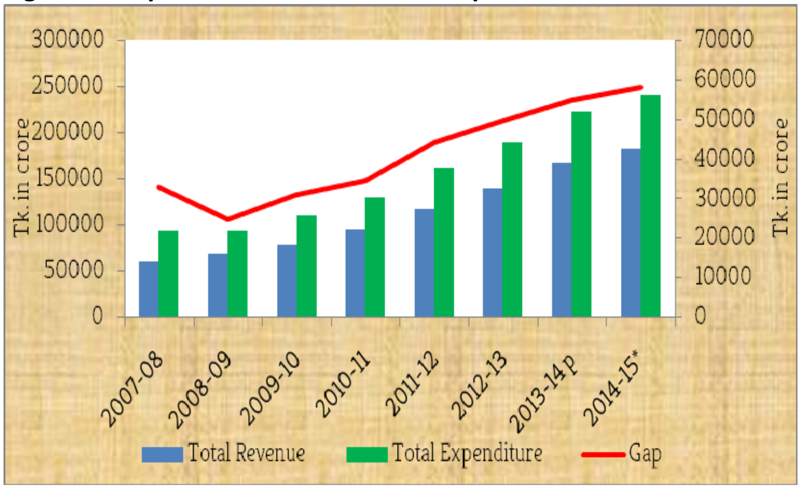
Figure 1: Gap between revenue and expenditure



Source: Budget in brief from FY2008-09 to FY2013-14
Here P denotes proposed

Since the revenue target of the government seems to be ambitious, the government may be forced to cut the spending level in FY 2013-14 to keep the deficit in budget at the targeted level. The three fiscal targets related to revenue earning, revenue expenditure, and budget deficit thus fell 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.

Hence, the fiscal targets in FY 2013-14 are unlikely to be achieved as well. According to the provisional data, the actual total expenditure at the end of FY 2012-13 stood at Tk. 189,326 crore, or 18.2 percent of GDP. In fiscal year 2011-12, total revenue was Tk. 117033 crore and total expenditure was Tk.

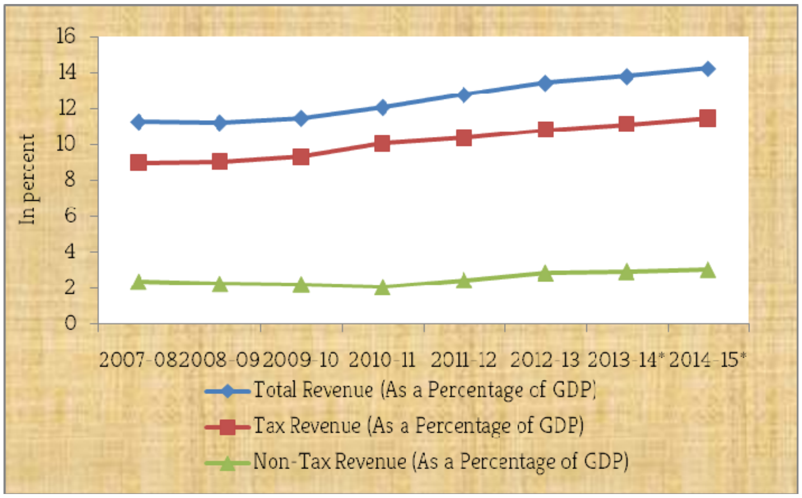
161213 crore whereas the growth rate of expenditure was as high as 24.1 percent. The target of total revenue collection for FY 2013-14, on the other hand, has been set at 19.9 percent higher than that of the previous year. For FY 2013-14, the revenue income is estimated at Tk. 167,459 crore which requires revenue collection to increase to 14.1 percent of GDP. In contrast, the revenue collection target in the previous budget for 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.

Although an increasing trend of collection in tax revenue continues in Bangladesh, the country still lags behind other developing countries in collecting taxes.

2.2 Tax and Non-Tax Revenue

Revenue earning of government largely depends on the collection of taxes. Although an increasing trend of collection in tax revenue continues in Bangladesh, the country still lags behind other developing countries in collecting taxes. Of the total revenue collection targeted at Tk. 167,459 crore in FY 2013-14, Tk. 136090 crore is supposed to be collected from taxes and Tk. 31369 crore is supposed to come from non-tax revenue. In FY 2013-14, total revenue, tax revenue and non-tax revenue as a percentage of GDP might increase to 13.81, 11.12 and 2.92 percent from 13.45, 10.81 and 2.84 percent in FY 2012-13 respectively.

Figure 2: Tax revenue and non tax revenue as a percentage of GDP



Source: Authors calculation based on Budget from FY2008-09 to FY2013-14

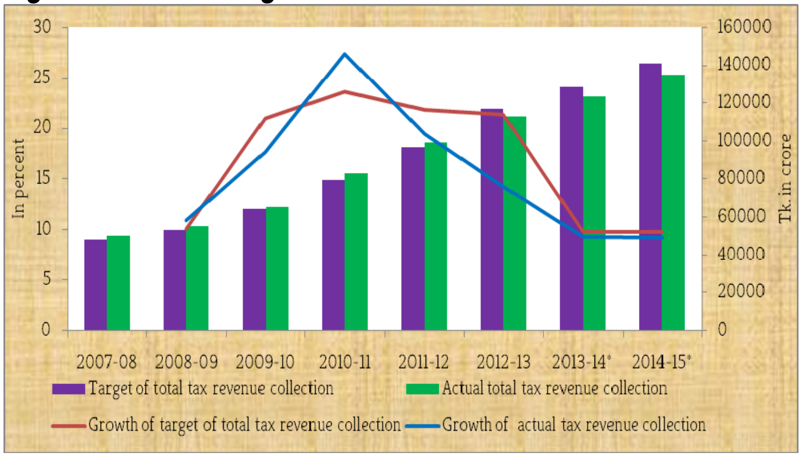
2.3 Target and Actual Achievement of Tax and Non-Tax Revenue

Actual tax revenue collection has seen to have fallen short of target in recent years. Actual NBR tax revenue surpassed the targeted amount from FY 2007-08 to FY 2011-12, and in FY 2012-13, actual collection stood at Tk. 108618.6 crore against the target of Tk. 112256 crore.

If the present trend continues then in FY 2013-14, total tax revenue might be Tk. 123246 crore against the target set at Tk. 136090 crore.

In FY 2012-13, the actual collection of tax revenue was Tk. 112746.3 crore whereas the target was Tk. 116824 crore. In case of collection of NBR and non-NBR taxes, the actual collection were Tk. 108619 crore and Tk. 4128 crore in FY 2012-13 against the target of Tk. 112259 crore and Tk.4565 crore. If the present trend continues then in FY 2013-14, total tax revenue might be Tk. 123246 crore against the target set at Tk. 136090 crore. In addition, if the present trend continues rate of growth of actual revenue collection might fall to 9.3 percent in FY 2013-14 from 14.2 percent in FY 2012-13.

Figure 3: Overall Target and Actual Tax Revenue Income



Source: Major Economic Indicators January, Bangladesh Bank, 2014

2.4 Target and Actual Revenue Collection by Sources

The major sources of revenue collection are taxes (direct: income tax, wealth tax etc., indirect: VAT, tariff, excise duty etc.) and non-tax revenue (Fees and charges: registration, sales of forms, stamps etc., fines: mobile court fines, police fines etc.), whereas tax revenue plays the main role. Public revenue principally consists of direct and indirect taxes and they account for more than 80 percent of the total receipts. The rest

In FY 2013-14, actual revenue collection is Tk. 50363.6 crore (till December, 2013), which is only around 37 percent of the target of Tk. 136090 crore for the whole year.

comes from different non-tax collection such as fee, charge, toll etc.

In FY 2013-14, actual revenue collection is Tk. 50363.6 crore (till December, 2013), which is only around 37 percent of the target of Tk. 136090 crore for the whole year. Among the main sources of revenue in FY 2013-14, NBR revenue from income tax, VAT (local), and import duty is targeted at Tk. 48300 crore, Tk. 12385.5 crore and Tk. 14629 crore respectively whereas actual revenue collected till December, 2013 is Tk. 15634.21 crore, Tk. 32590.95 crore and Tk. 6383 crore, respectively. Large shortage may result in case of VAT (import), VAT (local) and income tax.

Table 1: Target and Actual Revenue Collection by Different Sources

Sectors of Revenue Income	FY 2013-14			FY 2012-13		
	Target of Revenue Income	Actual till December, 2013	Gap Between Target and Actual	Target of Revenue Income	Actual till December, 2012	Gap Between Target and Actual
Import Duty	14629	6383	8246	15419.1	6325.83	9093.3
VAT (Import)	16125	7242.6	8882.36	14713.7	6817.07	7896.6
Supplement (I)	4991	2085.1	2905.9	5467.13	2262.69	3204.4
Export Duty	45	17.37	27.63	0	23.74	-23.74
Excise Duty	758.56	90.5	668.02	997.1	105.88	891.22
VAT (Local)	32590.95	12385.5	20205.3	24628	10937.17	13690.8
Supplement (L)	17642.6	6217.5	11425.02	14768.99	5162.34	9606.6
Turn Over	7.89	1.8	6.09	5.91	1.54	4.37
Income Tax	48300	15634.2	32665.7	35300	12925.5	22374.4
Travel Tax	999.75	305.8	693.95	958.75	303.02	655.7
Others	0.25	0.01	0.24	0.25	0.06	0.19
Total Revenue	136090	50363.6	85726.3	112259	44864.9	67394.1

Source: Revenue Statistics 2014, National Board of Revenue

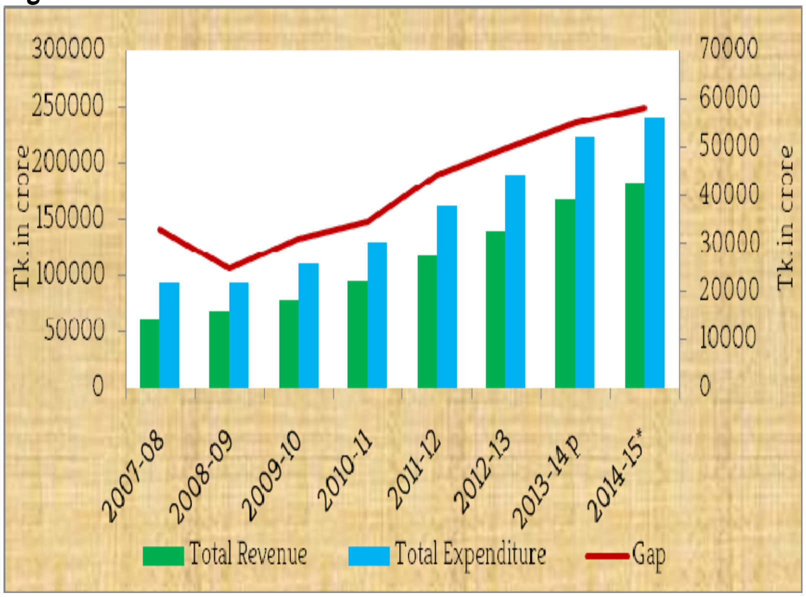
2.5 Overall Balance of Deficit

The issue of deficit in the budget of government has been drawing much public attention these days. Though there are arguments both for and against maintaining a deficit in government budget, a rising trend of deficit in budget may cause the government to reduce development expenditure, since the government has to borrow loan from foreign countries, which, in turn causes the government to pay a large interest payments that increases non-development expenditure in the country. On the other hand, the crowding out effect of deficit-induced borrowing by the government from private sector also poses serious challenge for managing the stability of the economy.

If the present trend continues then in FY 2014-15, total revenue, total expenditure and gap might increase to Tk. 182733 crore and Tk. 240903 crore and Tk. 58170 crore respectively.

The overall deficit in budget for FY 2013-14 has been estimated at Tk. 55,032 crore, which is 4.6 percent of GDP. The revised budget for FY 2012-13 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. If the present trend continues then in FY 2014-15, total revenue, total expenditure and gap might increase to Tk. 182733 crore and Tk. 240903 crore and Tk. 58170 crore respectively. Of this total deficit in FY 2013-14, government will take Tk. 25,993 crore from internal sources and the rest of the financing is to be collected from external sources.

Figure 4: Trend of Deficit



Source: Authors Calculation Based on Budget in Brief from FY 2008-09 to FY 2013-14

The deficit has two clear costs for the economy. First, higher borrowing by the government from domestic sources has been crowding out the investment in private sector. Second, policy costs are included in the deficit as the country has increasingly become subjected to IMF regulations. Finally, the government may be forced to cut expenditure, particularly in social sectors.

3. DEFICIT FINANCING

The deficit has two clear costs for the economy. First, higher borrowing by the government from domestic sources has been crowding out the investment in private sector. Second, policy costs are included in the deficit as the country has increasingly become subjected to IMF regulations.

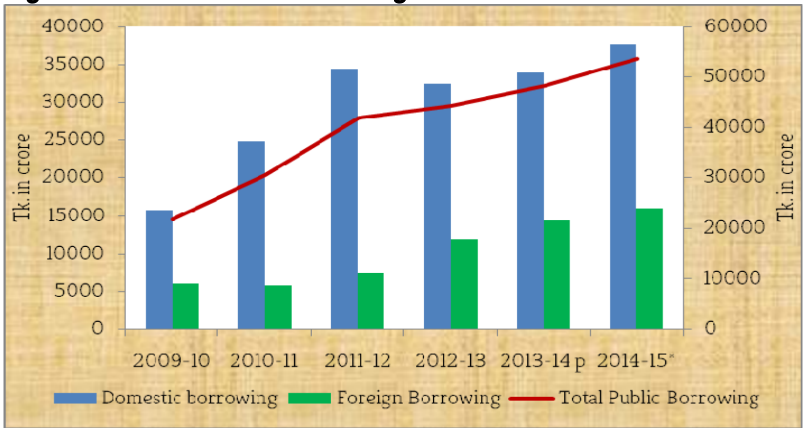
In order to finance deficit in budget balance, government has to rely mainly on two sources, namely domestic source and foreign source. In fiscal year 2013-14, deficit is Tk. 55,032 crore and this deficit will be financed by Tk. 21068 crore and Tk. 33,964 crore from external and internal sources respectively. Internal sources include banking sector and from these sources government will take Tk. 25,993 crore in FY 2013-14 which is Tk. 2993 crore higher than the previous fiscal year.

Government borrows to invest in public services like health, education and infrastructure etc. Generally, government wants to increase productive capacity and enable a higher rate of economic growth. However, if the government borrows to finance transfer payments, e.g. pensions and health care to aged people there would be shortage of fund to use in enhancing productive capacity.

3.1 Domestic Borrowing and its Implications

There are two sources of debt financing; one is external and another is internal. Bangladesh bank, scheduled banks, and non-bank financial institutions are the main sources of the domestic borrowings. In fiscal year 2013-14, total public borrowing assumed to Tk. 55032 crore and which is Tk. 5376 crore greater than the previous fiscal year. Since FY 2009-10 it has been increasing at an alarming rate. This increasing public borrowing signals that capacity of deficit financing through revenue collection is not increasing sufficiently.

Figure 5: Total Public Borrowing



Source: Finance Division, 2014

Fiscal policy adopted by government induces the burden of higher electricity prices on general people. On the other hand, because of lesser public investment on energy and social sectors, inflation has been created which resulted in macro-economic instability.

Borrowing by the government from domestic sources might increase to Tk. 33964 crore in FY 2013-14 from Tk. 33964 crore in FY 2012-13. Fiscal policy adopted by government induces the burden of higher electricity prices on general people. On the other hand, because of lesser public investment on energy and social sectors, inflation has been created which resulted in macro-economic instability. In the current FY 2013-14, government is thinking to increase electricity price which might further increase the price level.

Table 2: Domestic Borrowing (Tk. in crore)

Fiscal Year	Domestic borrowing
2009-10	15820
2010-11	24817
2011-12	34469
2012-13	32473
2013-14	33964 (Proposed), 36636 (Projected)

Source: Author's Calculation Based on Finance Division, 2014

3.2 Foreign Aid and its implications

A large portion of foreign aid in Bangladesh is utilised to finance deficit in government budget. Consequently, financing development expenditure falls short. This payment of principle and interest tends to assume a vicious cycle which causes the burden of debt to assume an increasing trend over the years. So the expenditure on development sector is being deprived for over the years. Moreover, net foreign aid during July-

November (FY 2013-14) decreased to USD 441.69 million from USD 611.08 million in the same period of the previous fiscal year.

Bangladesh is a developing country and characterised by inadequate capital formation due to low savings resulting low investment.

Table 3: Net Foreign Aid (In million USD)

Months	FY 2012-13 (Net foreign aid)	FY 2013-14 (Net foreign aid)
July	156.83	-73.18
August	69.39	61.06
September	130.95	119.84
October	198.29	50.2
November	55.62	283.77
July - November	611.08	441.69

Source: Major Economic Indicators, January 2014

External debt is badly needed for the capital formation of any country. Bangladesh is a developing country and characterised by inadequate capital formation due to low savings resulting low investment. This resource capacity gap needs technical and financial support from developed countries. Bangladesh significantly relies on external finances for financing its development projects like roads, power generation plants, and industrial sector. Such external financial support usually takes the form of external loans. In FY 2013-14, external borrowing might decline from Tk. 14398 crore to Tk. 13370 if the business as scenario continues.

Table 4: Borrowing From External Sources (Tk. in crore)

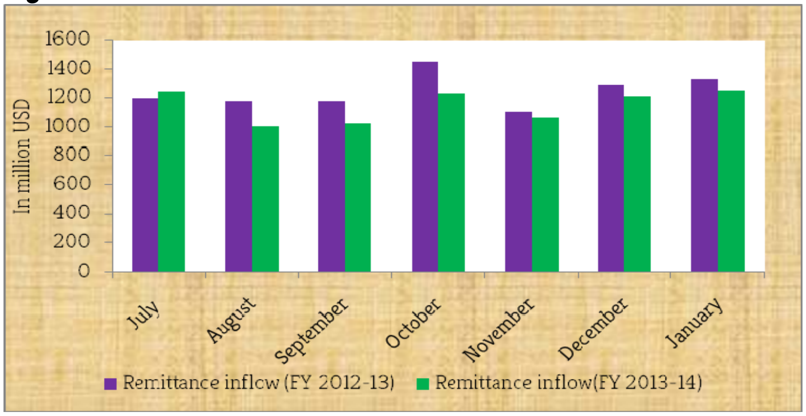
Fiscal Year	Foreign Borrowing
2009-10	6036
2010-11	5783
2011-12	7399
2012-13	11903
2013-14	14398 (Proposed), 13370 (Projected)

Source: Authors calculation based on Finance Division, 2014

During July-January in FY 2013-14, the remittance inflow stood at USD 8022.23 million, which is USD 706.54 million lower compared to same period of the previous fiscal year. Remittance flow to Bangladesh continues to slide, dropping 5.3 percent in January on the back of declining numbers of migrant workers. The country received USD 1.25 billion in remittance last month against USD 1.32 billion in January 2013.

The central bank called for a coordinated effort to boost export of manpower, upgrade skills of migrants and enhanced incentives to use formal channels to remit and invest funds.

Figure 6: Trend of Remittances Inflow



Source: Major Economic Indicators, January 2014

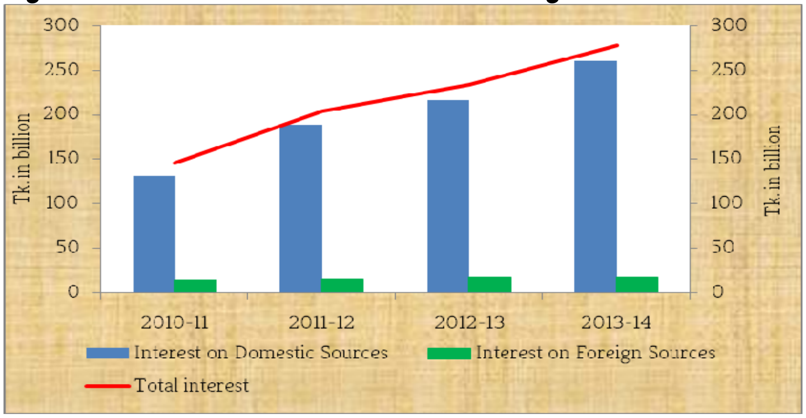
3.3 Expenditure on Interest rate

In FY 2013-14, the total expenditure on interest payment assumed at Tk. 277.43 billion which is 18.83 percent higher than that of FY 2012-13.

In case of non-development expenditure, usually the highest allocation goes to interest payment, both the domestic and foreign sources. This expenditure reduces the expenditure capacity in the development sector.

In FY 2013-14, the total expenditure on interest payment assumed at Tk. 277.43 billion which is 18.83 percent higher than that of FY 2012-13. In FY 2011-12, the interest payment on domestic and foreign sources were Tk. 216.04 billion and Tk.17.43 billion respectively. Interest payment reduced the spending on social expenditure.

Figure 7: Interest rate on domestic and foreign sources



Source: Budget in Brief, 11-12, 13-14

3.4 Overall and Per Capita Debt

Per capita debt burden is the sum of per capita domestic debt as well as per capita external debt. The trend of per capita debt burden appears to be increasing. In FY 2013-14, per capita debt burden of Bangladesh might increase to Tk. 3582.8 from Tk. 3389.8 in FY 2012-13. In fiscal year 2011-12, per capita debt burden was Tk. 2982.2 since FY2008-09; per capita debt burdens have been showing a sharp increasing trend. The ever-rising public debt has been exerting a serious pressure on the macro-economic stability of the country. It puts an upward pressure on real rate of interest by crowding the private investment out.

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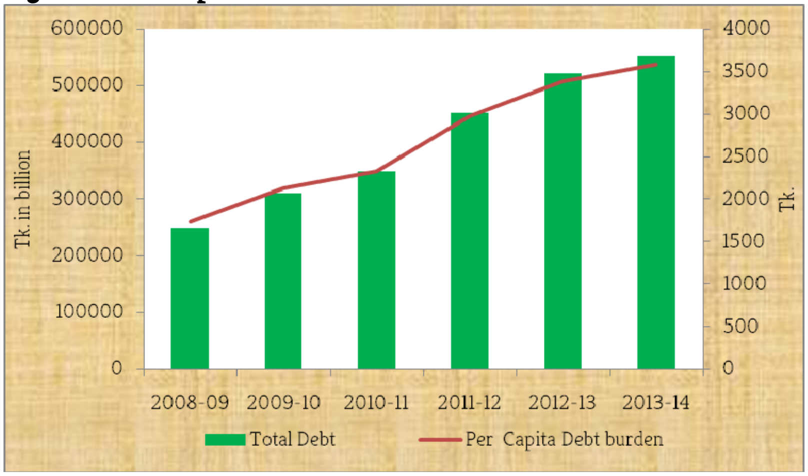
Figure 8: Per capita debt burden



Source: Authors Calculation Based on Bangladesh Economic Review, 2013 and budget in brief FY 2012-13 and 2013-14

High public debt could ultimately lead to high taxes and put upward pressure on real interest rates which may aggravate the crowding out effect. When a government is no longer able to finance its deficit, it is forced to cut spending or to raise revenues, often at a time when fiscal policy is needed to help stabilise the economy.

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4. IMPLICATIONS ON PUBLIC INVESTMENT

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.

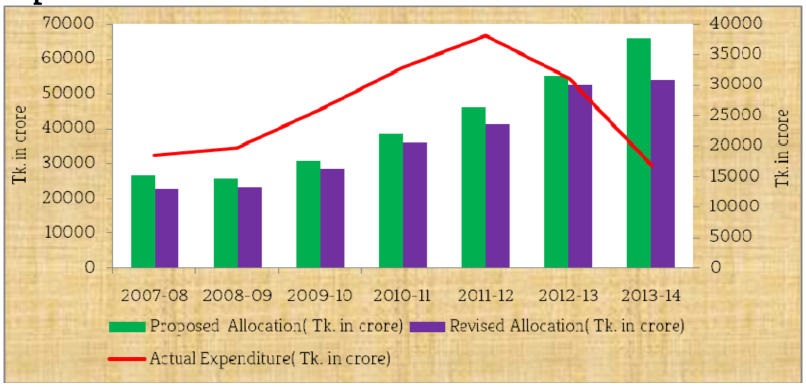
4.1 ADP Implementation Status

As a consequence, implementation of the annual development programme (ADP) suffered a setback while private credit growth and imports slowing down in the first six months of the current fiscal year.

Successful implementation of development projects depends on full utilisation of Annual Development Program budget. According to Implementation Monitoring and Evaluation Division (IMED), the ministries and agencies of government spent only 27 per cent of Tk. 658.72 billion Annual Development Programme (ADP) in the first half of the current fiscal year, where 33 percent funds would come from foreign assistance. As a consequence, implementation of the annual development programme (ADP) suffered a setback while private credit growth and imports slowing down in the first six months of the current fiscal year.

In fiscal year 2013-14, real expenditure of ADP on human resource as well as agriculture and rural development has declined to 23 percent and 25.4 percent from 23.5 percent and 30.9 percent respectively from that of previous fiscal year. On the other hand, comparatively higher ADP allocation on power sector is 17.2 percent as a percent of total allocation in FY 2013-14 compared to previous fiscal year. Communication infrastructure got higher ADP allocation for the Padma Bridge and this is 7.4 percentages higher than that of previous fiscal year.

Figure 9: Trend of Proposed, Revised Allocation and actual Expenditure of ADP



Source: Implementation Monitoring and Evaluation Division (IMED), 2014

Furthermore, revised allocation as well as actual expenditure has been decreasing compared to proposed allocation of ADP for over the years.

Furthermore, revised allocation as well as actual expenditure has been decreasing compared to proposed allocation of ADP for over the years. In FY 2012-13, proposed allocation was Tk. 55000 crore and in revised allocation decreased by Tk. 2634 crore. Also in FY 201314, the proposed ADP allocation given Tk. 65870 crore and there is plan of government to lowered Tk. 54000 crore whereas actual expenditure up to January, 2014 is Tk. 16748.4 crore.

4.2 Public Investment on Infrastructure

Although government has proposed a deficit budget in FY 2013-14, the key issue is that such deficit has not been meant to augment multiplier effects in the economy rather has financed consumption as opposed to paying for infrastructure to remove supply side constraints. This continuation of present deficit has its roots in maverick decision to install rental and quick rental power plants at the cost of long run solutions. A part of the deficit is financed by borrowing from the domestic banking sector and this has reduced the capacity of banking sector to make available credit to the private sector. In the wake of less availability of resources due to service debts and subsidy payments, the capacity of government to invest in physical and social infrastructure has also decreased.

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Compared to the other sectors, the infrastructure sector (Transport and Communication) and the power sector are more capital centric. The proposed allocation in these two sectors stood at Tk. 20,596 crore and Tk. 11,351.20 crore respectively. These are higher than the allocation in the budget of FY 2012-13 by Tk. 7,358 crore and Tk. 1,358 crore, respectively. Special allocation for the Padma multipurpose Bridge is Tk. 6,852 crore and is included in infrastructure. In terms of budgetary allocation, although the infrastructure sector has seen one of the highest increases in recent times, the effectiveness of this amount, however, would depend on how the money is capitalised. If the money is used to build new roads, railways, etc, the possibility of a greater fiscal multiplier would be created. Moreover, one flaw in the government's infrastructure development plan is its reliance the PPP initiative, which has already failed to produce real results. For example, despite allocating Tk. 30 billion for 16 PPP projects in FY 2011-12, the funds remained unspent.

Public expenditure in education and health has not yet reached at a satisfactory level. Expenditure in these sectors is inadequate for achieving the objectives set by the government itself.

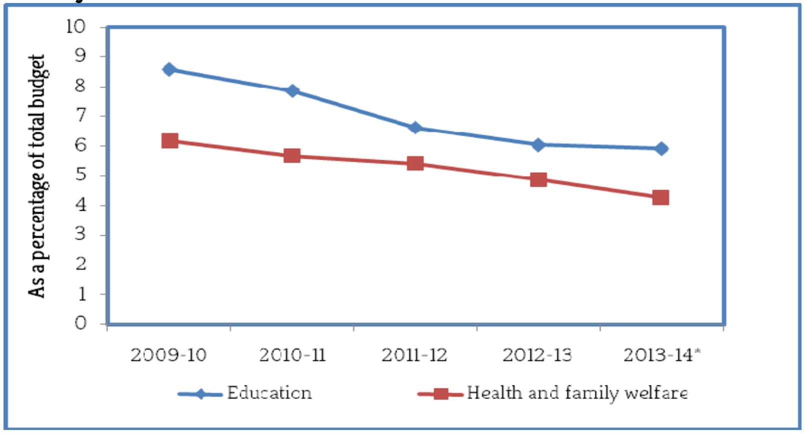
4.3 Social Sector Spending

Public expenditure in education and health has not yet reached at a satisfactory level. Expenditure in these sectors is inadequate for achieving the objectives set by the government itself. The rate of utilisation of the funds has also been poor. In the national budget 2013-14, Social service sector i.e. education and health and family welfare got the lower allocation compared to previous year as well as other sector in current fiscal year.

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 was Tk. 9470 crore (including development and non-development budget). These represent increase of Tk. 3948 crore and Tk. 137 crore for education and technology sector and health sector respectively from the preceding year.

However, expenditure on education and health is increasing in volume but the rate of growth on education and health expenditure is decreasing over the last two fiscal years. Thus, spending on education and health and family welfare are only 5.92 and 4.26 percent as a percentage of total budget in FY 2013-14. These are 0.12 and 0.61 percentage points lower than the last fiscal year. Above the graph it is clear that day by day budgetary allocation is decreasing which is not a good sign for the economy.

Figure 10: Budgetary allocation for social sector in different fiscal year



Source: Budget in brief from FY 2009-10 to FY 2013-14

Moreover, the proposed public investment in education and health sector has negative revision during most of the period between fiscal year 2006-07 and fiscal year 2013-14.

Moreover, the proposed public investment in education and health sector has negative revision during most of the period between fiscal year 2006-07 and fiscal year 2013-14. Through the weighted mean calculation it can be anticipated that from the proposed Tk. 26093 crore and Tk. 9470 crore as in FY 2013-14 approximately Tk. 26286 and Tk. 9036 crore may remain as revised allocation for education and health sector (*Bangladesh Economic Update, June 2013, Unnayan Onneshan*).

On the other side, the share of power and energy sector as percent of public expenditure has seen increasing trend and thus education and health sector are deprived from sufficient budgetary allocation. In FY 2013-14, budget expenditure is mainly expanded on interest payment, subsidy on power sector and on the other hand social expenditure on health, education and agriculture is seen as decreasing trend. Thus, public expenditure in social sectors has decreased due to the increase in allocation of energy and fuel sectors.

4.4 Condition of Social Security

The country has made a substantial progress in reducing poverty over the last few decades, yet the rate of decrease has slowed down in the recent years. Thus the number of population living under the poverty line is still increasing. The rate of decline in poverty in Bangladesh has slowed down in recent years. Poverty reduced by 8.9 percentage points during the five years of 2000-2005 while during the next five years

(2005-2010), the total decline was 8.5 percentage points. The slower rate of poverty reduction is the result of inequality, low public expenditure in the recent years, and increased trend of unemployment, rural urban differentials and a tendency of increased non-development expenditure over development expenditure.

It is observed that reasonable growth rates have led to declines in the percentage of poor but actual numbers of the poor have not declined while expenditures on safety nets have fallen at the same time.

The main tool that the government uses for a social security purpose for the poor is the provision of Social Safety Net Programmes (SSNPs). These SSNPs are mainly delivered on an ad-hoc basis to cope with sudden vulnerabilities. It is observed that reasonable growth rates have led to declines in the percentage of poor but actual numbers of the poor have not declined while expenditures on safety nets have fallen at the same time. Though safety net programmes are important components of the social protection strategy, expenditure on the programmes is fairly low.

The proposed budgetary allocation for the reduction of poverty and social security and welfare in current fiscal year is Tk. 115237 crore and Tk. 12366 crore respectively. Based upon historical track record, in most of the cases, the proposed budgetary allocation has witnessed a negative revision. By calculating weighted mean, it might be said that the proposed allocation for social security and welfare would be approximately Tk. 12268 crore as revised allocation. The current budget shows an expenditure of 51.79 percent in relation to poverty reduction. This allocation as a percentage of total budget is lower than that of the previous year (FY 2012-13) which was 52.68 percent *(Bangladesh Economic Update, December 2013, Unnayan Onneshan).*

The economy has been witnessing a decelerated rising trend of collection of tax revenue which does not comply with the increased demand for expenditure of the government.

4.5 Changes in Policy

Channeling adequate resources into prioritised productive sectors of the economy essentially depends on revenue earning of government. The major share of revenue earning comes from taxes. The economy has been witnessing a decelerated rising trend of collection of tax revenue which does not comply with the increased demand for expenditure of the government. As a result, a rising trend of gap between total revenue and total expenditure has been noticed over the recent periods. In the backdrop of this decelerated rise of revenue collection vis-à-vis increased demand for government expenditure, the government has to rely on borrowings from both domestic and foreign sources in order to finance the deficit in budget, in other words, gap between its total revenue earning and total expenditure. This policy of borrowing from both domestic and foreign sources to finance the deficit in government budget balance causes the economy to experience two particular impacts that adversely affect the fiscal management in the country.

This policy of borrowing from both domestic and foreign sources to finance the deficit in government budget balance causes the economy to experience two particular impacts that adversely affect the fiscal management in the country.

First, borrowing by the government from domestic sources may come from commercial banks as well as central bank. Borrowing from commercial banks creates a crowding out effect causing unavailability of funds for private investments in the economy. As a result, private investment falls and the economy has already been experiencing a decline in its private investment that eventually causes the rate of growth to turn down. On the other hand, dependence on central bank for financing budget deficit causes the bank to print new money that, in turn, creates an inflationary pressure leading to disrupts in fiscal management in the economy.

Second, the government has largely been relying on foreign sources in order to finance the deficits in its balance of budget, which reckons a much worrying scenario for the economy as regards rising payment of both principal and interest on foreign loans. The country has been repaying its large foreign loans with higher amount of interest payments that causes the non-development expenditure to increase. As a result, increased non-development expenditure does not allow the government to allocate adequate resources for development activities in the country. Consequently, the development expenditure falls and falling development expenditure causes the rate of growth to decline in the economy.

However, another important issue of financing budget deficit should not remain unnoticed. The country has been receiving a notable amount of foreign aid since its independence. Of late, a significant amount of this foreign aid has been being utilised in financing the deficits in the budget. As a result, a large portion of such aids goes in the form of non-development expenditure and, therefore, the implementation of development projects loiters due to lack of finance in the economy as well.

Finally, a major portion of tax revenue comes from indirect sources. In FY 2013-2014 (up to January 2014), the collection of indirect tax is as high as 69 percent vis-à-vis a direct tax of only 31 percent of total tax collection.

Finally, a major portion of tax revenue comes from indirect sources. In FY 2013-2014 (up to January 2014), the collection of indirect tax is as high as 69 percent vis-à-vis a direct tax of only 31 percent of total tax collection. While direct tax causes the rich to pay tax on their income, indirect tax exerts much pressure on the meagre income of the marginalised people in the country. Therefore, it is obvious from the current scenarios of tax collection that a large burden of indirect tax to be paid by the marginalised people essentially exacerbates the economic hardship of them in the society, while many eligible people for paying direct tax remain untaxed. Such low level of direct tax collection is attributed to weak legal and institutional arrangements by the government, while another reason is the lack of goodwill among the rich to pay direct tax.

5. CONCLUSIONS

The study finds that the gap between revenue collection and expenditure is getting wide over the years and also projects that the gap will be wider in the upcoming fiscal year.

The study finds that the gap between revenue collection and expenditure is getting wide over the years and also projects that the gap will be wider in the upcoming fiscal year. Falling 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 slow growth rate in revenue collection has also been exposing the country to external terms and conditions in implementing its domestic economic policy. Additionally, regressive nature of the tax system has diminished the capacity of the state to raise revenue while putting pressure on the marginalised.

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.

In addition, expenditure on subsidy and current transfer and on goods and services might be reduced through increasing the efficiency and capacity. With a view to obtaining this goal, achieving the enhancement of the effectiveness of public expenditure, especially in physical infrastructure as well as in social infrastructure, i.e. education and health is important. Furthermore, regressive tax structure including indirect tax needs to be reconsidered. Exploring effective options to increase the other internal resources other than borrowing from banking sector has to be carried out.

Finally, it can be said that although deficit financing is weak fiscal tool for fostering economic growth of any country. However, it can be used properly to mobilize additional resources for economic and social development, and most importantly, in the creation of employment.

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UNNAYAN ONNESHAN
16/2 Indira Road, Farmgate
Dhaka-1215, Bangladesh
Tel.: +880 (2) 8158274, +880 (2) 9110636
Fax: +880 (2) 8159135
Email: info@unnayan.org
Web: www.unnayan.org