Revenue Mobilisation and Economic Growth

Bangladesh Economic Update

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1.INTRODUCTION

This issue of Bangladesh Economic Update probes into the tax system of Bangladesh in the backdrop of falling investment, missing revenue target and growing pressure on revenue.

This issue of Bangladesh Economic Update probes into the tax system of Bangladesh in the backdrop of falling investment, missing revenue target and growing pressure on revenue. Bangladesh has comparatively lower tax to GDP ratio, even compared to most of its South Asian counterparts. For example, tax to GDP ratio in Bangladesh was 6.74 percentage points lower than India in FY 2012-13. The gap between the total expenditure and total revenue is increasing over the years. If the same trend continues, it can be anticipated that the gap may become further wider to Tk. 558.5 billion in FY 2013-14 from the targeted Tk. 550.32 billion. The budget deficits may increase by 1.5 per cent against the targeted expenditure of TK 2224.91 billion in the current budget. At the current rate of revenue realisation, the gap between targeted and actualized revenue may increase by 0.5 percent against the target of current budget TK 1674.59 billion. 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 million.

In the first quarter of the current fiscal year, tax revenue from sources, such as supplementary duty (import) and excise duty, has depicted a negative growth rate at 5.66 percent and 24.03 percent, respectively from first quarter of FY 2012-13. Besides, relatively lower growth rate has been observed in custom duty and VAT than the growth rate achieved in the previous fiscal year. Growth rate of custom duty and VAT is 4.52 and 16.63 in first quarter of FY 2013-14 which was 7.69 and 19.13 in the first quarter of previous fiscal year. In FY 2012-13, 92.2 percent target has been satisfied of total revenue target. In this fiscal year, NBR achieved 92.1 percent target and non-tax revenue sector achieved the target of 93.5 percent.

In recent three consecutive fiscal years (FY 2010-11 to FY 2012-13), rate of growth of tax falls by 2.27 percentage points after reaching a maximum growth rate of 23.59 percent in FY 2010-11. Moreover, growth of indirect tax from export-import sources has been showing a lower growth rate over time than the growth rate of taxes from local sources. To support trade liberalisation, share of export-import tax to total revenue declined to 23 percent in FY 2012-13 from 38 percent in FY 2001-02 while in local level it increased to 28 percent from 21 percent of the respective period. Indirect tax remains the largest source of tax revenue, and subsequently, the lower earning groups bear the maximum burden.

The first concern is the prevalence of narrow tax net which acts as a hindrance to having a stronger revenue base in the country.

Several structural issues have also gained importance in recent times. The first concern is the prevalence of narrow tax net which acts as a hindrance to having a stronger revenue base in the country. Only 1.4 percent people are under income tax payer unit while less than 1 percent pays their tax. Only 1.1 million pay taxes out of 3.5 million tax payer identification number (TIN).

The revenue collection through VAT imposes extra burden to the marginalised. The policy of the government to liberalise international trade has also affected the composition of tax revenue. For example, the rate of growth of local taxes has been 13.58 percent between FY 2011-12 and FY 2012-13, compared to the rate of growth of 2.97 percent in the same period in export-import taxes.

The dependence on other sources to maintain public expenditure has its own costs. For instance, the payment of interest rate has increased from Tk. 203.504 billion in FY 2011-12 to Tk. 239.968 billion in FY 2012-13. Interest payment for domestic sources increased to TK 225.049 billion from TK 188.028 billion in 2012-13 but the foreign sources reduce to TK 14.919 billion from TK 15.477 billion. Similarly, foreign debt has grown from USD 22.1 billion in FY 2011-12 to USD 22.77 billion in FY 2012-13.

On the other hand, borrowing by the government from domestic sources has crowded out private investment.

On the other hand, borrowing by the government from domestic sources has crowded out private investment. Social and physical infrastructures receive lower allocation which is a probable outcome of lower tax collection. In the proposed budget of FY 2013-14, 19.6 percent allocation has been set for human development sector which is 20.22 percent of total budget in FY 2012-13. The ADP allocation for human resource, agriculture, and rural development has been reduced to 23 and 25.4 percent from 23.5 and 30.9 percent respectively of the allocation of the previous year. Similarly, the infrastructural sector receives 2.6 percentage points lower allocation than FY 2012-13. The expenditure on education and technology, and health and family welfare are 5.92 and 4.26 percent respectively of total budgetary allocation, which are 0.12 and 0.61 percentage points respectively lower than that of FY 2012-13. Expected expenditure in FY 2013-14 is lower than or similar to the rate of FY 2012-13 for pay and allowances, goods and services, interest payment.

2. Revenue Scenario and Tax Structure

This section positions the importance of taxes among the different sources of revenue and then discusses tax structure by dividing it into different analytical categories, such as composition and target. It also provides some projections on future scenario and presents the cross country scenario of tax, the pattern of source and collection, and the impact of the structure on different groups.

The gap between total expenditure and total revenue is getting bigger over the years.

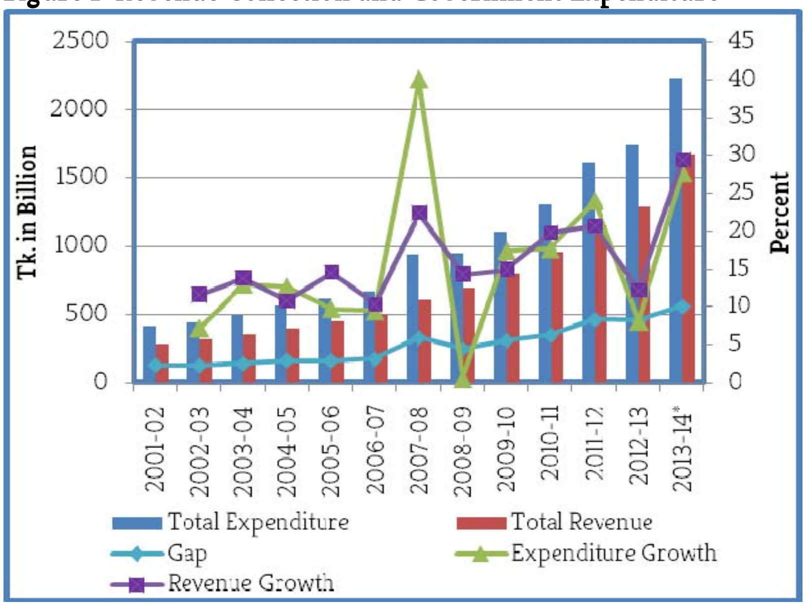
2.1. Overall Revenue, Expenditure and Tax

The gap between total expenditure and total revenue is getting bigger over the years. This is seen due to the rapid increase in the government expenditure rather than the earnings, demanding the strengthening of tax collection in the economy. In FY 2013-14, the gap between total expenditure and revenue has been aimed at Tk. 550.32 billion which is 10.83 percent higher than that of Tk. 496.56 billion of the revised budget of FY 2012-13. In FY 2013-14, the total targeted revenue is Tk. 1674.59 billion against the expenditure of Tk. 2224.91 billion. If the present trend continues, the gap may further increase to tk. 558.5 billion in FY 2013-14 holding FY 2007-08 as the base year.

2.2 Tax and Non-tax Sources of Revenue

The government has been struggling to boost up its revenue earning. 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 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.

Figure 1: Revenue Collection and Government Expenditure



*Projection

Source: Authors` Calculation from the Data of Ministry of Finance 2013

The first concern is the prevalence of narrow tax net, which acts as a hindrance to having a stronger revenue base in the country.

Several issues have gained importance in recent times. The first concern is the prevalence of narrow tax net, which acts as a hindrance to having a stronger revenue base in the country. The second important concern includes the issue of tax burden and tax incidence. Although the government is giving emphasis on direct tax i.e. income tax, still, the revenue collection of the country largely depends on the indirect taxes i.e. VAT. Thirdly, from FY 2008-09, non-NBR revenue started to fall short of the target, although it was above the target in previous years. 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 million. Finally, in the first quarter of the current fiscal year, tax revenue from some sources has depicted a negative growth. Growth rate of custom duty and VAT in the first quarter of current fiscal year is lower than that of the corresponding period of previous year. Even, supplementary duty (import), excise duty, travel tax and some other tax growth are negative in the first quarter than that of the same period in the previous year.

Table 1: Different Sources of Revenue as Percent of GDP

Particulars			2008	2009	2010	2011	2012	2013
Tax Revenue	NBR Tax	Income Tax	2.15	2.25	2.46	2.46	3.06	3.4
		Value Added Tax	3.24	3.28	3.53	3.83	3.74	3.9
		Supplementary Tax	1.42	1.38	1.56	1.74	1.77	1.92
		Excise Duty	0.04	0.04	0.05	0.06	0.05	0.1
		Import-Export Duty	1.76	1.52	1.3	1.37	1.38	1.4
		Other Taxes & Duties	0.08	0.07	0.06	0.05	0.07	0.09
		Total	8.69	8.54	8.96	9.51	10.07	10.81
	Non-NBR Tax		0.4	0.4	0.4	0.4	0.4	0.4
	Total		8.8	9	9.2	9.91	10.47	11.3
Non-Tax Revenue			2.3	2.2	2.2	2	2	2.2
Total Revenue			11.1	11.3	11.4	11.9	12.5	13.5

Source: NBR 2010-11, Ministry of Finance 2013

Tax to GDP ratio in Bangladesh is significantly lower than that of the other Asian countries except Pakistan (Figure 2).

2.3 Cross Country Tax to GDP Ratio

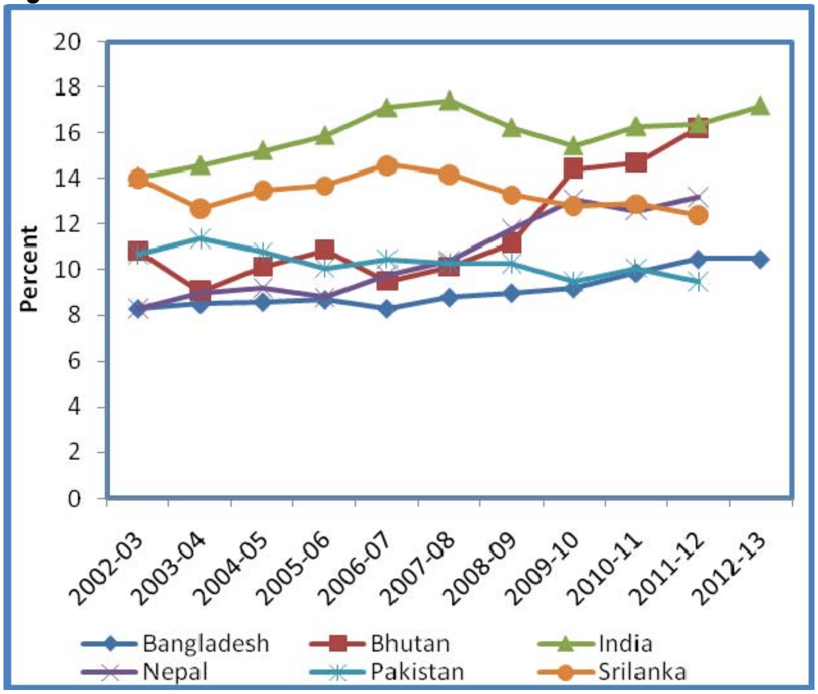
Tax to GDP ratio in Bangladesh is significantly lower than that of the other Asian countries except Pakistan (Figure 2). For example, tax to GDP ratio stood at 17.24 percent in India in FY 2012-13, much higher than the ratio 10.5 percent of Bangladesh in the same fiscal year. In FY 2001-02, tax to GDP ratio was 7.8 and 13.39 percent in Bangladesh and India respectively. Not only this ratio was significantly high in India in FY 2002-03, the percentage changes up to FY 2012-13 is 3.85, while, for Bangladesh it is 2.2. The distance between Bangladesh and India is 6.74 percentage points in tax to GDP ratio in FY 2012-13. It is to be noted here that the ratio of Bhutan was significantly lower than that of India in FY 2002-03, but with significant growth rate, it has almost converged with the Indian level.

Table 2: Realisation of Target of Different Revenue Sources

Particulars	FY 2012-13 (Tk. Million)				First Quarter of FY 2013-14 (July-September)	
	Target	Realisation	Gap Between Target and Realisation	% Change from Previous Year	Realisation (Tk. million)	% Change from Corresponding Period of 2012-13
Import Duty	154191.7	133076.8	-21114.9	1.17	33096.2	3.89
VAT (Import)	147137.0	148004.2	867.2	7.31	36946.3	8.88
Supplement (I)	54671.3	42016.9	-12654.4	-3.80	10931.3	-5.66
Export Duty	0.0	298.5	298.5	-23.36	110.0	0.55
Excise Duty	9971.0	7725.2	-2245.8	16.98	393.2	-24.03
VAT (Local)	246280	263641.1	17361.1	19.92	61069.0	21.88
Supplement (L)	147689.9	119852.5	-27837.4	0.51	29119.8	22.83
Turn Over	59.1	37.6	-21.5	7.74	8.4	33.33
Income Tax	353000	365655.9	12655.9	27.62	73161.6	28.29
Travel Tax	9587.5	5838.9	-3748.6	21.38	1434.3	-2.47
Others	02.5	1.3	-1.2	18.18	0.1	-83.33
Total NBR Tax	1122590	1086148.9	-36441.1	14.26	246270.2	17.09
Total Non-NBR Tax	45650	41210	-4440	13.43	n/a	n/a
Total Tax Rev	1168240	1074580	-93660	12.84	n/a	n/a
Total non-Tax Revenue	228460	213650	-14810	14.26	n/a	n/a
Total Revenue	1396700	1288230	-108470	12.34	n/a	n/a

Source: NBR 2013; BB 2013; Ministry of Finance 2013

Figure 2: Tax to GDP Ratio of Some South Asian Countries



Source: Ministry of Finance of Respective Countries

2.4 Direct and Indirect Tax

The largest share of indirect tax imposes extra burden on marginalised people rather than the rich people.

In Bangladesh, the bulk of the tax comes from indirect sources, which constituted about 73 percent of total tax since FY 2006-07. Before FY 2004-05, turn over tax was merged with different items of direct tax and since FY 2004-05 it has been posited as different item in indirect tax. The largest share of indirect tax imposes extra burden on marginalised people rather than the rich people. At present, the government is willing to collect tax based on the ability to pay and accordingly has been giving emphasis on the role of direct taxes. However, no noticeable difference in tax structure in this regard has been achieved so far. In recent three consecutive fiscal years (FY 2010-11 to FY 2012-13), rate of growth of tax falls by 2.27 percentage points after reaching a maximum growth rate of 23.59 percent in FY 2010-11.

Table 3: Direct and Indirect Tax to Total Revenue and Growth

Year	Total Tax	Direct Tax		Indirect Tax	
		Total	% of Total Tax	Total	% of Total Tax
2006-07	37,219.32	9,050.05	24.31546304	28,169.27	75.68
2007-08	47,289.12	12,041.94	25.46450431	35,247.18	74.54
2008-09	52,525.61	14,273.27	27.17392525	38,252.34	72.83
2009-10*	41,673.53	10,112.54	24.26609889	31,560.99	75.73
2010-11*	53,043.84	13,530.88	25.5088621	39,512.96	74.49
2011-12*	62,857.78	17,317.38	27.54850712	45,541.40	72.45
2012-13*	73,217.39	22,955.15	31.35204628	50,262.24	68.64

Note: * denotes up to March
Source: Ministry of Finance 2013

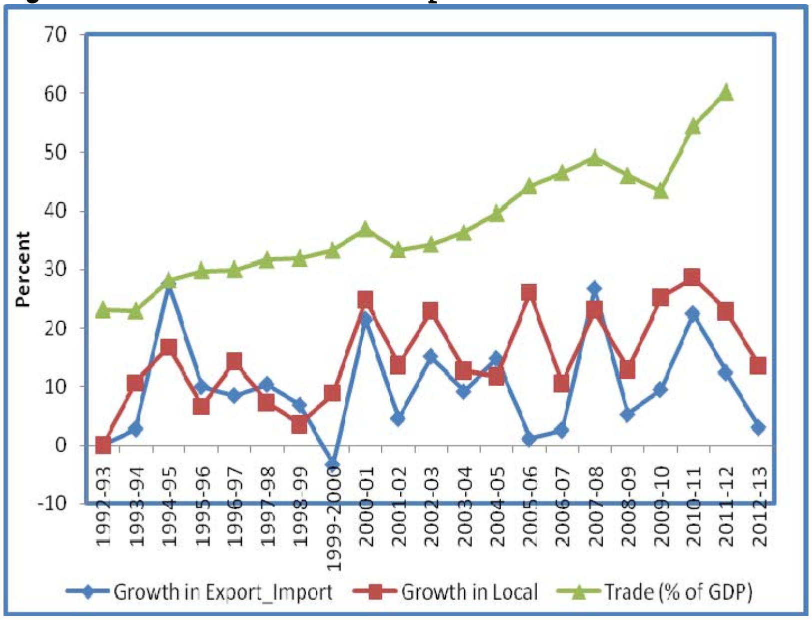
Growth of tax in local and export-import level is oscillating over time nearly in the same direction.

2.5 Local and Export-Import Tax

Growth of tax in local and export-import level is oscillating over time nearly in the same direction. As with increasing trade openness, the growth in indirect tax from import and export sector has been observing lower growth rate than the growth of local indirect tax, especially since FY 2007-08 (Figure 3). As share of total revenue, the tax from export and import is following a declining trend, whereas it is following an increasing trend from local indirect sector. In FY 2012-13, export-import level tax share of revenue declined to 23 percent from 38 percent in FY 2001-12 but local level tax reached at 28 percent from 21 percent during the same period. The growth rate of local taxes has been 13.58 percent between FY 2011-12 and FY 2012-13, compared to the growth rate of 2.97 percent in the same period in export-import taxes.

In local level, VAT, supplementary duty, excise duty, and turn over taxes are the main sources of revenue. Whereas, in export-import level, the major taxes are import duty, supplementary duty, VAT, sales tax, export duty. Sales tax was eliminated with the initiation of VAT and supplementary duty on July 1, 1991.

Figure 3: Indirect Tax and Trade Openness



Source: Authors' Calculation from NBR, WDI Data

3. Shortcomings in Tax Collection

The reasons for increasing pressure on revenue collection are several. The tax base in Bangladesh is undoubtedly narrow. The wide opportunities of evading and avoiding tax along with structural weakness in the system have added further difficulties to this situation.

The prevalence of narrow tax net is complicating the revenue collection effort of the government.

3.1 Narrow Tax Base

The prevalence of narrow tax net is complicating the revenue collection effort of the government. These complications are arising from several sources. Firstly, a large number of people and business entities still do not pay taxes. The population under the direct income tax net is only 1.4 percent while only less than one percent people pay their tax. Total holder of Taxpayers Identification Number (TIN) is only 3.5 million, of Which, only 1.1 million submit their tax returns. By September 2012, the number of registered value added tax (VAT) companies is 75 thousand of which only 50 to 60 thousand companies have submitted their VAT returns which is only

66.66 to 80 in percentage. According to NBR report of FY 2010-11, out of total 2075260 income tax payer units, 1.32 percent units enjoy income level above Tk. 1000000, 39.19 percent between Tk. 100001-1000000, 6.96 percent between Tk. 80001-100000, 3.77 percent between 50001-80000, 1.91 percent between Tk. 40000-50000, 6.19 percent below Tk. 40000. Income tax has been determined on five slabs progressively with income level. But when the collection of VAT is considered with direct tax, the higher burden of tax on marginalised group seems apparent. Moreover, certain types of taxes such as the inheritance tax are absent in Bangladesh which could be supportive to enhance the tax base.

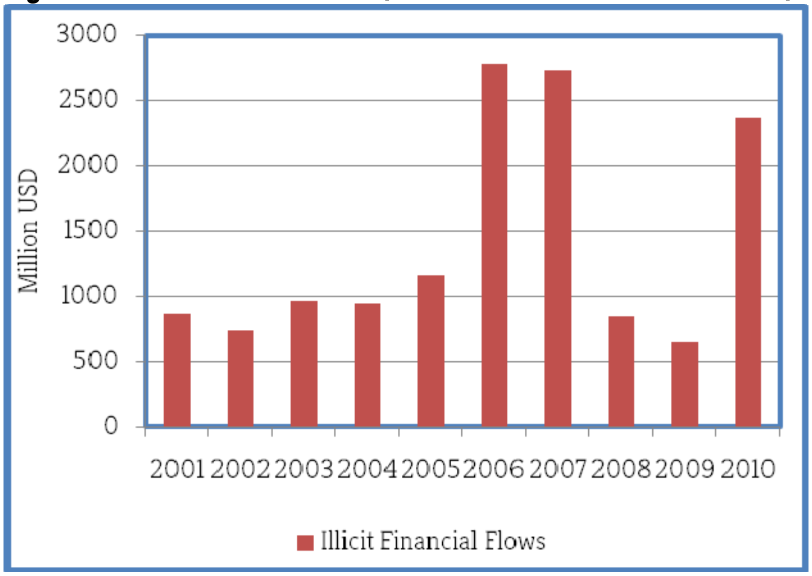
3.2 Tax Evasion and Avoidance

Tax avoidance is the way to reduce tax through using the loopholes of law, while tax evasion does the same by violating the law. These have been taking place through understatement and concealment of taxable objects, property transfer, and so on. Tax evasion and tax incentive eliminate the 5 percentage points of tax GDP ratio which is about Tk. 400 billion (NBR 2011).

The incidences of money laundering as well as the practice of disguising the origins of illegally-achieved money are high in Bangladesh.

The incidences of money laundering as well as the practice of disguising the origins of illegally-achieved money are high in Bangladesh. According to Global Finance Integrity (2001-2010), average illicit financial flow from Bangladesh was USD 1406 million and the cumulative amount is USD 14059 million for the period from 2001 to 2010. Bangladesh was top illicit capital out flower in the period of 1990-2008 with the amount of USD 34.8 billion. The position of Bangladesh is second among the South Asian countries and 44th among the 143 developing countries. Nepal, Pakistan and Sri Lanka are ranked with 58, 94, and 105 positions consequently which states that the highest amount of money has been laundered from Bangladesh.

Figure 4: Illicit Financial Flow (HMN and GER Non-Normalised)



Source: Global Financial Integrity, December 2012

Legal tax payer pays 25 percent in the first year, whereas illegal tax payers pay 10 percent in the next year enjoying 15 percent profit in the present treatment of unreported money.

The amount of unreported money is within 45 percent to 81 percent of gross domestic product in 2011 (MoF, 2011). According to the report of Tax Justify Network (TJN) of 2011, the size of shadow economy in Bangladesh is 35.3 percent and the amount is USD 35327 million. Shadow economy of Bangladesh as a percent of health care spending is 94 percent as total health care spending is USD 3303 million. Cost of tax evasion is Tk. 214504 million. Bangladesh is ranked as 65 under the consideration of total tax evasion but tax proportion as a health care spending, it is in the position of 74 (TJN 2011). The persons who can pay tax Tk. 1 crore annually are around 50,000 in Bangladesh whereas only 46 persons pay such amount of tax.

Legal tax payer pays 25 percent in the first year, whereas illegal tax payers pay 10 percent in the next year enjoying 15 percent profit in the present treatment of unreported money. This type of treatment reduces the incentive of paying tax and encourages the evasion and avoidance.

3.3 Growing Informal Sector and Other Structural Issues

Some structural issues are involved behind low tax base in Bangladesh as well.

Some structural issues are involved behind low tax base in Bangladesh as well. Aligned with the characteristic problem of developing countries, the informal sector of Bangladesh has been growing up while the formal sector, declining. The formal sector has long been unable to absorb new labourers. Total civilian labour force in Bangladesh grew from 46.3 million to 57.1 million between FY 2002-03 and 2010 at a rate of 23.32 percent. However, the formal sector employed only 9.2 million labours in FY 2002-03 and 6.8 million labours in 2010, representing a 26.09 percent decrease. On the other hand, the informal sector grew by 34.76 percent between FY 2002-03 and 2010 to accommodate a massive 47.3 million labours, against a total of 35.1 million labours in the former year (BBS, 2011).

4. Tax, Resource Mobilisation and Its Implications on Growth

The inability to raise taxes at a higher rate is affecting the ability of the government to fund critical sectors for economic development. Especially, expenditure on investment and social and physical sectors are the most suffered sectors.

4.1 Tax and Growth

The inability to raise taxes at a higher rate is affecting the ability of the government to fund critical sectors for economic development.

The size of GDP has significantly high positive correlation with government expenditure. The correlation emphasises the necessity of government spending in the economy to boost up the GDP growth. In addition, causality between GDP and tax shows unidirectional effect from tax to GDP. That means, taxing the economy to increase government expenditure in crucial sectors produces positive benefits for the economy.

Borrowing can take place from different domestic and international sources. However, loans from domestic banking sector destabilise the financial market through increasing interest rate and crowding out private sector investment. At present, the scenario is more concerning as the economy has been trapped into a vicious cycle with high government borrowing of Tk. 178.02 billion in FY 2012-13 from banking sector, more interest on savings instruments than bank deposit, high interest rate for investment, destructive political state, least investment demand, excess liquidity in banking system, and resultant depressing economic growth.

Non-tax revenue sources are not large enough in Bangladesh but there is scope to enlarge the size of revenue from the available sources.

Non-tax revenue sources are not large enough in Bangladesh but there is scope to enlarge the size of revenue from the available sources. To comply with the necessity of higher revenue, the non-tax revenue sources need to improve the efficiency and accuracy. The deficit finance of loan from certificates, and taking aid from foreign sources have caused some inauspicious situations in the recent time. Tax is the most reliable and largest source of government revenue. Foreign aid in Bangladesh has been associated with three fold problems for the policymaking. The first one is uncertainty from international economy. Secondly, lower disbursement than commitment and the last one is increasing debt outstanding.

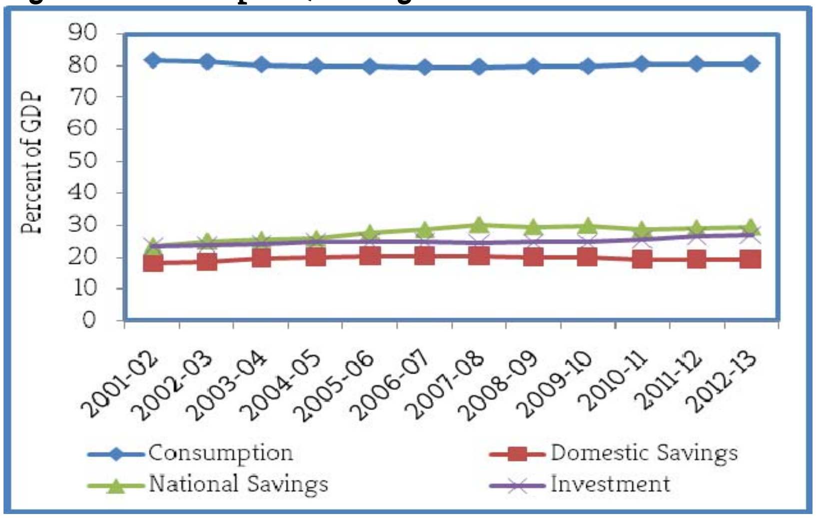
4.2 Revenue Mobilisation and Investment

Nearly 80 percent of total GDP is used as consumption and 20 percent as savings in Bangladesh. This consumption driven aggregate demand ends in high inflation and lower GDP growth contrasted with supply shortfall. Domestic savings to GDP ratio is much lower in Bangladesh. Although national savings is somewhat above the domestic savings but still it is low. This lower savings have repeatedly failed to turn into investment in most of the years and in recent periods the gap has got larger (Figure 7). As a result, capacity of the economy is in-built low level equilibrium trap.

The increased tax facilitates government to spend on infrastructure development and to invest directly in productive activities. The increased expenditure of government has two sided impact on GDP growth. First, to facilitate private sector investment through infrastructural development and second direct government investment accelerate output growth.

With the incremental capital output ratio (ICOR) of FY 2012-13 level, to achieve the targeted GDP growth for fiscal year FY 2013-14, the investment requirement is 32 percent. The targeted investment in the budget is 26.85, with this level of investment ICOR should be 3.729 which is yet ever achieved over the period (Table 4). ICOR lower than 4 is very infrequent over the time specially in this regime of present government. Investment is the unique solution to overcome the shortfall of targeted growth. Public investment is increasing but with the cost of private investment. As a result total investment is not increasing at expected level. To increase private investment in line with public investment, public investment should play a more crucial role. Doing this way is possible by following the public finance policy of government that keeps focus on tax income.

Figure 7: Consumption, Savings and Investment



Source: Ministry of Finance 2013

Moreover, real estate favouring investment tendency instead of supporting other crucial sectors of industrialisation is aggravating the existing problems.

Moreover, real estate favouring investment tendency instead of supporting other crucial sectors of industrialisation is aggravating the existing problems. For example, the pressure of increasing population as well as income have contributed to a hasty growth of land prices, especially in the major metropolitan areas like the capital city, Dhaka and Chittagong. For example, between 1972 and 2010, land prices in Dhaka city increased by an average of 100 to 125 percent per year. Allowing for the average inflation rate of 9 percent between 1972 and 2010, real land prices in Dhaka have increased by a whopping 91 percent per year.

Table 4: Incremental Capital Output Ratio

Year	GDP Growth	Investment Share on GDP	ICOR
2001-02	4.42	23.1	5.226
2002-03	5.26	23.4	4.449
2003-04	6.27	24.00	3.828
2004-05	5.96	24.5	4.111
2005-06	6.63	28.7	3.725
2006-07	6.43	24.5	3.810
2007-08	6.19	24.2	3.910
2008-09	5.74	24.4	4.251
2009-10	6.07	24.4	4.0198
2010-11	6.71	25.2	3.756
2011-12	6.23	26.5	4.254
2012-13	6.03	26.8	4.444
2013-14	7.2	32** (26.85)	(3.729)** 4.444+
2015	6.27*	27.875*	4.444+
2016	6.415*	28.51*	4.444+

** Estimated investment and ICOR, *IMF outlook, +ICOR of 2012-13

Source: Authors` Calculation from Data of Ministry of Finance 2013 and IMF Outlook

Social and physical infrastructure receives the lower allocation for lower tax collection.

4.3 Revenue Mobilisation and Public Expenditure

The pressure on the revenue sector is affecting the capacity to fund important areas of public spending. Social and physical infrastructure receives the lower allocation for lower tax collection. In the proposed budget of FY 2013-14, 19.6 percent allocation has been set for human development sector which is 20.22 percent of total budget in FY 2012-13. The ADP allocation for human resource, agriculture and rural development has been reduced to 23 and 25.4 percent from the previous year allocation of 23.5 and 30.9 percent respectively. Similarly, the infrastructural sector receives 2.6 percentage points lower allocation than FY 2012-13. The expenditure on education and technology, and health and family welfare are 5.92 and 4.26 percent respectively of total budgetary allocation, which are 0.12 and 0.61 percentage points lower respectively than the previous FY 2012-13.

As percentage share of total revenue, ADP expenditure roamed between 28 to 47 percent during FY 2004-05 and FY 2012-13. Out of revenue expenditure, the highest expenses goes for subsidies and current transfer between 23 to 37 percent; and pay and allow hover between 16 and 24 percent in this period. The pay and allow share is going down slowly in recent period but the share of subsidy and current transfer is going up. The next largest share is interest payment which is about 15 to 20 percent of revenue over this period. Next share for payment for goods and services is roaming between 9 to 15 percent and is in downward trend recently. Share is negligible in block expenditure, acquisition of assets and works, and development program. In recent period, investment in share and equity has been increased to 5.29 percent in FY 2012-13 from 0.89 percent in FY 2004-05. The rental payment for 32 short run private power suppliers is Tk. 43.00 billion which is 3.81 percent of total non-development budget in FY 2012-13 (The Daily New Age, 2nd November 2013). Trifling amount of revenue expenditure is used for social and structural improvement. The lion's share of government revenue is spent as current expenditure. Out of total expenditure in FY 2012-13 Tk. 1893.26 billion, revenue expenditure was Tk. 1106.30 billion which is 58.43 percent of total expenditure.

In medium term between FY 2013-14 to FY 2017-18, the target of government is to raise revenue by 0.6 percentage point of GDP every year. In medium term outlook it is expected to increase ADP to 7.0 percent in FY 2017-18 from 5.0 percent in FY 2012-13. Current expenditure is expected to increase from 0.5 to 0.6 over the medium term from 9.6 percent of GDP in FY 2012-13. In this case, pay and allowances, goods and services, and interest payment are to increase by 0.1 percentage point over FY 2014-15 to FY 2017-18; and subsidies and transfer are to increase by 0.1 to 0.3 percentage point in different year of medium term from FY 2012-13 level. Expected expenditure in FY 2013-14 is lower than or similar of 2012-13 rate for all these sectors (MoF 2012).

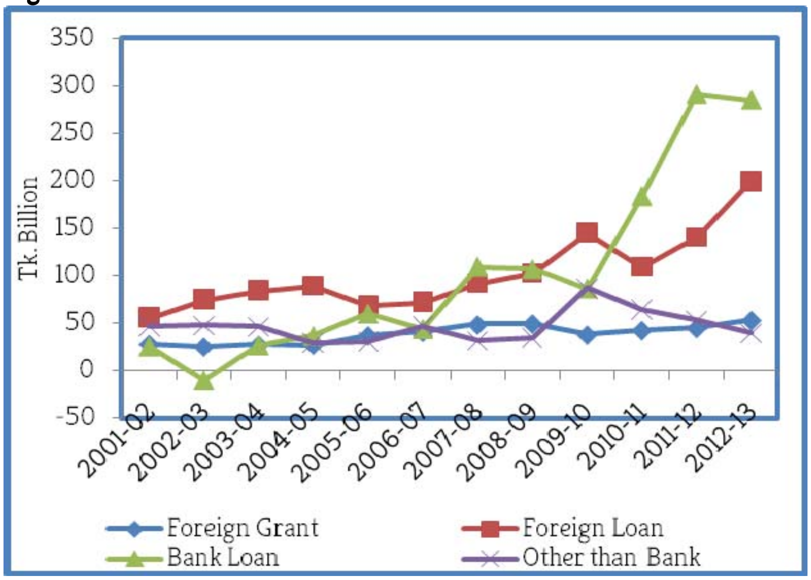
Foreign aid in the form of loans and grants is one of the important sources of deficit finance.

4.4. Problems with Deficit Financing

Shortage of revenue to expenditure is financed from different domestic and international sources. Foreign aid in the form of loans and grants is one of the important sources of deficit finance. In recent time the foreign loan is increasing sharply but not the grant (Figure 8). This sharply risen foreign loan tends to increase the burden of service payment. This type of foreign aid also increases the debt burden in terms of outstanding debt stock (Figure 9). For example, the payment of interest rate has increased from Tk. 203.504 billion in FY 2011-12 to Tk. 239.968

billion in FY 2012-13. Interest payment for domestic sources increased to TK 225.049 billion from TK 188.028 billion in 2012-13 but the foreign sources reduce to TK 14.919 billion from TK 15.477 billion. Similarly, foreign debt has grown from USD 22.1 billion in FY 2011-12 to USD 22.77 billion in FY 2012-13. In recent time government tends to borrow more from banking sector of Bangladesh. This type of borrowing crowds out the private sector through high interest rate and lacking of fund but can crowds in through investment in infrastructure.

Figure 8: Loans and Grants

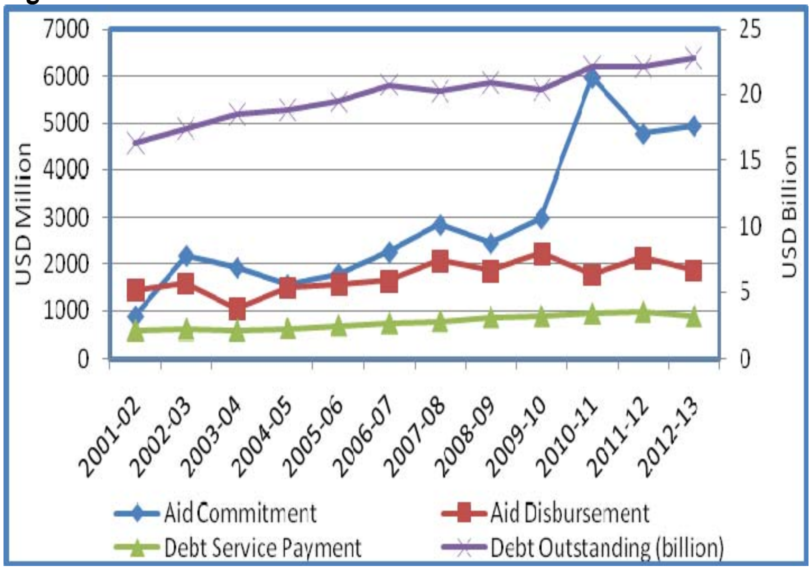


Source: Ministry of Finance 2013

The commitment of foreign aid is much high but actual realisation is trifling.

The commitment and disbursement in most instances are not same. Currently this problem is paramount. The commitment of foreign aid is much high but actual realisation is trifling. Although debt service payment is not much high but outstanding debt stock is much high and increasing over time (Figure 9). Dependence on foreign aid has further drawbacks. There is uncertainty regarding foreign arises because of international economic condition, change in the economic policy of donor countries, and of other reasons. For financing development activities, more funds are required in Bangladesh than the country is presently able to collect. Still, the available capacity must be utilised and then we can move forward to make use of the source of deficit finance.

Figure 9: Aid and Debt



Source: Ministry of Finance 2013

5. CONCLUSIONS

Revenue is the source of income of government to carry out its regular activities as well as to finance developmental tasks. Although there are other sources, the revenue is mainly collected from tax. But the collection of tax in Bangladesh is not sufficient to keep up the economic activities at the optimum level. To upraise the economic performance, higher tax collection from suitable sources therefore is of utmost importance. But in Bangladesh, the collection of tax is significantly lower for a number of reasons including lack of consciousness, honesty, sincerity, regulatory policy, structural reforms, and innovation. If these problems can be solved with efficiency, the economy can perform at the optimum level.

The study finds 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.

The study finds 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. 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.

Additionally, expenditure on subsidy and current transfer and on goods and services might be reduced through increasing the efficiency and capacity. For this purpose, investment in physical infrastructure as well as in social infrastructure, i.e. education and health is important. Regressive tax structure including indirect tax needs to be reconsidered. The study argues for more tax collection clearly and it clarifies the background causes of getting lower tax. Efficient revenue mobilisation procedure might solve the background problem of lower tax and ensure the expected economic growth.

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