

4 Bangladesh

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I. Introduction

Bangladesh, officially the People's Republic of Bangladesh is located in South Asia. It is bordered by the India to its north, west and east, by the Myanmar (Burma) to its south-east and by the Bay of Bengal to its south. Together with the neighboring Indian state of West Bengal, it makes up the ethnolinguistic region of Bengal. The name *Bangladesh* means "Country of Bengal" in the official Bengali language. The capital city of Bangladesh is Dhaka; it is also the center of all cultural, political and religious affairs. Bangladesh has been a story of struggle of national sovereignty and democracy. The borders of modern Bangladesh took shape during the Partition of Bengal and British India in 1947, when the region became the eastern wing of the newly formed state of Pakistan. Following years of political exclusion, ethnic and linguistic discrimination, and economic neglect by the politically dominant western wing, a surge of popular agitation, nationalism and civil disobedience led in 1971 to the Bangladesh Liberation War, resulting in the separation of the region from Pakistan and the formation of an independent Bangladesh. After independence, the new state proclaimed a secular multiparty democracy. The country then endured decades of poverty, famine, political turmoil and numerous military coups. Since the restoration of democracy in 1991, the country has experienced relative calm and economic progress, though the country's main political parties remain polarized.

History

Advanced civilization in what is now Bangladesh, once the eastern part of a greater region called Bengal, is believed to date back to the first millennium B.C.E. One of the earliest known historical references is to a land named *Gangaridai* by the Greeks around 100 B.C.E. The word is thought to have come from *Gangahrd* (land with the Ganges at its heart), referring to an area in present-day Bangladesh. However, more concrete proof of a political entity in Bengal starts with the Hindu king Shashanka in the seventh century C.E. This was eventually followed by the Buddhist Pala dynasty (750-1120) and the Hindu Sena dynasty from approximately 1120 until the beginning of Muslim rule. Troops led by Ikhtiar Uddin Muhammad bin Bakhtiar Khilji invaded the Bengal area in the early thirteenth century, though Islam had evangelized much of the region beforehand.

After the conversion of much of Bengal to Islam, the region developed by the sixteenth century into a wealthy center of trade and industry under the Mughal Empire. European traders had arrived in the late fifteenth century and eventually the British East India Company controlled the region by the late eighteenth century. Subsequent to this conquest, the British gradually extended their rule over the entire subcontinent. When Indian independence was achieved in 1947, political motivations brought about the country's partition into the independent states of Pakistan and India, based on the loose delineation into separate geographic areas of the Hindu and Muslim populations.

The partition of India resulted in Bengal being divided between the two new countries. The Muslim-dominated eastern part, called East Bengal, became known as *East Pakistan*, an integral part of Pakistan though nearly 2,000 km from *West Pakistan*, which had a larger landmass but a smaller population. The Hindu-majority, western part remained in India as the state of West Bengal (also called Bangla). Both halves of Bengal continued to share a common culture, and substantial Hindu or Muslim minorities remained on both sides of the new border.

Over the next two and a half decades Pakistan suffered politically and economically, with significant amounts of investment in West Pakistan and neglect of the East. This led to widespread frustration and anger among the citizens of East Pakistan. A rebellious movement in East Pakistan was brutally crushed by the West's army, and more than 10 million Bengali refugees crossed into India. When East Pakistan seceded and declared itself the independent state of Bangladesh in 1971 civil war broke out. Pakistan was quickly defeated by combined Indian and Bengali forces, Bangladesh became an independent country.

Geography

Bangladesh is situated in the geographic coordinates of 20°34N to 26°38N latitude and from 88°01E to 92°41E longitude. The physical geography of Bangladesh is varied and has an area characterized by two distinctive features: a broad deltaic plain subject to frequent flooding, and a small hilly region crossed by swiftly flowing rivers. The country has an area of 147,570 square kilometers and extends 820 kilometers north to south and 600 kilometers east to west. Bangladesh is bordered on the west, north, and east by a 4,095-kilometer land frontier with India and, in the southeast, by a short land and water frontier (193 km) with Burma (Myanmar). On the south is a highly irregular deltaic coastline of about 580 kilometers, fissured by many rivers and streams flowing into the Bay of Bengal. The territorial waters of Bangladesh extend 12 nautical miles (22 km), and the exclusive economic zone of the country is 200 nautical miles (370 km).

Demography

Bangladesh is the most densely populated country and it ranks 11th in population density in the world. It is the 8th most populous nation in the world. The population of Bangladesh is 149.77 million according to population census 2011. Bangladesh's population growth was among the highest in the world in the 1960s and 1970s, when the country swelled from 65 to 110 million. With the promotion of birth control in the 1980s, the growth rate had slowed. The population is relatively young, with 60% being 25 or younger and 3% being 63 or older. Life expectancy is 69 years for both males and females.

Table 1: Selected Demographic Indicators of Bangladesh

Demographic Indicators	Figures
Population	149.77 million (2011)
Population Growth Rate	1.37% (2011)
Population Density	1015 per square km(2011)
Crude Birth Rate (per 1,000 population)	19.2 persons (2011)
Crude Death Rate (per 1,000 population)	5.5 persons (2011)
Sex Ratio (Male : Female)	100.3 (2011)
Life Expectancy at Birth	69.0 years (2011)
Male	67.9 years (2011)
Female	70.3 years (2011)
Adult Literacy Rate	62.66%

Source: Bangladesh Economic Survey 2013, Ministry of Finance.

Government, Politics and recent Political situation

Bangladesh is a unitary state and parliamentary democracy. Direct elections in which all citizens, aged 18 or over, can vote are held every five years for the unicameral parliament known as the Jatiyo Sangshad. Currently it has 350 members (including 50 reserved seats for women) elected from single-member constituencies. The Prime Minister, as the head of government, forms the cabinet and runs the day-to-day affairs of state. While the Prime Minister is formally appointed by the President, he or she must be a member of parliament who commands the confidence of the majority.

The President is the head of state, albeit mainly ceremonially in his/her elected post; however, the President's powers are substantially expanded during the tenure of a caretaker government, which is responsible for the conduct of elections and transfer of power. The officers of the caretaker government must be non-partisan and are given three months to complete their task. This transitional arrangement was pioneered by Bangladesh in its 1991 election and then institutionalized in 1996 through its 13th constitutional amendment.

Major parties in Bangladesh include the Awami League, the Bangladesh Nationalist Party (BNP) and the Jatiya Party of former military ruler Ershad. Sheikh Hasina's Awami League aligns with more leftist parties, whereas Khaleda Zia's BNP has politically been allied with secular Islamist parties like Jamaat-e-Islami Bangladesh.

Culture and Religion

The Bengal region has a multifaceted folk heritage, enriched by its ancient animist, Buddhist, Hindu, and Muslim roots. Weaving, pottery and terracotta sculpture are some of the earliest forms of artistic expression. The best known literature of Bangladesh is the work of the great Bengali poets Rabindranath Tagore and Nazrul Islam. Folk theatre is common at the village level and usually takes

place during harvest time or at melas (village fairs). There are many folk dances, but classical dance is largely borrowed from Indian models and is frowned upon by the more severe religious leaders.

Eid ul-Fitr and Eid ul-Adha are the major festivals for Muslims. Major Hindu festivals are Durga Puja, Kali Puja and Saraswati Puja. Buddha Purnima, which marks the birth of Gautama Buddha, and Christmas, called *Borodin* (Great day), are both national holidays. The most important secular festival is Pohela Baishakh or Bengali New Year, the beginning of the Bengali calendar. Other festivities include Nobanno, *Poush parbon* (festival of Poush) and observance of national days like Shohid Dibosh and Victory Day. A typical Bangladeshi meal consists of beef (or sometimes mutton, chicken, fish or egg) and vegetables cooked in a hot spicy sauce, yellow watery lentils (*dal*) and plain rice. Fish is part of the staple diet.

Bangladesh is ethnically homogenous, with Bengalis comprising 98 percent of the population. The vast majority speak Bangla, or Bengali, an Indo-Aryan language written in Bengali script. It is the official language, though English is also used for official matters and in higher education. The remainder is mostly made up of non-Bengali tribal people, living in the north and southeast, who are often colloquially referred to as aborigines. A small number of people, mostly non-Bengali Muslims from India, speak Urdu. Almost all the country's non-Bengalis speak Bangla as a second language.

Education

The education system and structure of Bangladesh has three major stages—primary, secondary and higher educations. The educational system in Bangladesh is highly subsidized. The government of Bangladesh operates many schools in the primary, secondary, and higher secondary levels. It also subsidizes parts of the funding for many private schools. In the tertiary education sector, the government also funds more than 15 state universities through the University Grants Commission. Primary (from grades 1 to 5), Secondary (from grades 6 to 10), Higher Secondary (from grades 11 to 12) and Tertiary education begin after completion of Higher Secondary. Education is mainly offered in Bangla, but English is also commonly taught and used. Bangladesh conforms fully to the Education for All (EFA) objectives, the Millennium Development Goals (MDG) and international declarations. Article 17 of the Bangladesh Constitution provides that all children between the ages of six and ten years receive a basic education free of charge.

Universities in Bangladesh are mainly categorized into three different types: Public university (government owned and subsidized), Private University (private sector owned universities), and International University (operated and funded by international organizations). Bangladesh has some thirty public and forty-five private universities.

II. Overview of Macroeconomic Activity and Fiscal Position

Bangladesh has been able to achieve GDP growth at more than 6 percent on an average even during the period of global financial crisis. GDP growth accounted for 6.71 percent in (Fiscal Year) FY 2010-11 which was higher than 6.07 percent growth in FY 2010-11, 6.31 percent GDP growth rate was achieved in FY 2011-12 as per the provisional estimate of GDP growth in FY 2012-13 is 6.03. In attaining GDP growth, three major sector of the economy-agriculture, industry and service sector contributed significantly. Bangladesh was affected less by the slowdown in international trade than other emerging Asian Economies and has maintained strong economic fundamentals, including a sound fiscal stance. Revenue earnings grew at a satisfactory rate, remittances inflow started maintaining their steady growth. Agricultural and industrial term loans disbursement increased due to the implementation of various short, medium and long-term policies and strategies by the government to boost up investment. Along with the increase of private sector credit flow, increase in import of industrial raw materials and capital machinery indicates that the economy is moving towards a positive direction.

II.1 Macroeconomic Activity

II.1.1 International Environment

International trade was in turmoil due to global economic recession in 2008 and 2009. During this period the growth rate of international trade was far squeezed to world GDP growth rate, though it made a turnaround in 2010. Besides this, political crisis in North Africa and Middle East contributed to economic recession. This crisis had an impact on the economy of Bangladesh. Import expenditure and Export earning both have reduced during the first six months of FY 2011-12. Investment in the Power sector and increase in the oil price in the international market created pressure on the foreign currency reserve of Bangladesh which devaluated Taka against Dollar and above all created pressure on current account.

A. Balance of Payment

Trade balance deficit increased by 3.2 percent as compared to the deficit of US\$ 7744 million during in FY 2010-11 and stood at US\$ 7995 million in the FY 2011-12. The current account balance recorded a surplus of US\$ 1630 million in FY 2011-12 as compared to the surplus of US\$ 885 million of the FY 2010-11. In spite of increase in the deficit recorded in the income account 3.7 percent, increase of deficit in service accounts by 8.3 percent and 3.2 percent in trade deficit, current transfer account increased substantially to US\$ 13699 million in FY 2011-12 compared to US\$ 12452 million in FY 2010-11. The deficit recorded in the overall balance of payment stood at US\$ 494 million in FY 2011-12, which was a US\$ 656 million deficit in the FY 2010-11. The overall balance of payments position from FY 2005-06 to FY 2011-12 is shown in Table 2.

Table 2: Balance of Payments

	(In Million US\$)							
Particulars	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12*
Trade balance	-3297	-2889	-3458	-5330	-4710	-5155	-7744	-7995
Exports f.o.b. (including EPZ)	8573	10412	12053	14151	15581	16233	22592	23992
Import, f.o.b. (including EPZ)	-11870	-13301	-15511	-19481	-20291	-21388	-30336	-31987
Services	-870	-1023	-1255	-1525	-1616	-1233	-2369	-2566
Receipts	1177	1340	1484	1891	1832	2478	2573	2684
Payments	-2047	-2363	-2739	-3416	-3448	-3711	-4942	-5250
Income	-680	-702	-905	-994	-1484	-1484	-1454	-1508
Receipts	116	136	244	217	95	52	124	195
Payments	-796	-838	-1149	-1211	-1579	-1536	-1578	-1703
of which official interest payment	-203	-204	-212	-234	-238	-215	-345	-373
Current transfers	4290	5438	6554	8529	10226	11596	12452	13699
Official	37	125	97	127	72	127	103	105
Private	4253	5313	6457	8402	10154	11469	12349	13594
of which workers' remittances	3848	4802	5979	7915	9689	10987	11650	12843
Current account balance	-557	824	936	680	2416	3724	885	1630
Capital account	163	375	490	576	451	512	642	469
Capital transfers	163	375	490	576	451	512	642	469
Financial account	760	-141	762	-457	-825	-746	-1920	-955
(i) Foreign Direct Investment (net)	776	743	793	748	961	818	775	995
(ii) Portfolio investment	0	32	106	47	-159	-117	-28	198
(iii) Other investment	-16	-916	-137	-1252	-1627	-1447	-2667	-2148
Medium and Long term loans (MLT)	940	1023	1037	1338	1204	1589	1032	1460
MLT amortization payments	-449	-488	-525	-580	-641	-687	-739	-789
Other long-term loans (net)	-46	-37	-24	-6	-70	-151	-101	-57
Other short-term loans (net)	241	-256	493	-160	-169	62	531	242
Other assets	-182	-495	-535	-603	-650	-902	-661	-1606
Trade credit (net)	-320	-898	-481	-1108	-1277	-1043	-2569	-1450
Commercial Bank	-200	235	-102	-133	-24	-315	-160	52
Assets	-91	31	-86	-146	-129	-410	452	443
Liabilities	-109	204	-16	13	105	95	292	495
Errors and omission	-323	-720	-695	-468	16	-625	-263	-650
Overall balance	67	338	1493	331	2058	2865	-656	494
Reserve assets	-67	-338	-1493	-331	-2058	-2865	656	-494
Bangladesh Bank	-67	-338	-1493	-331	-2058	-2865	656	-494
Assets	-225	-554	-1593	-799	-1883	-3616	-481	293
Liabilities	158	216	100	468	-175	751	175	-201

Source: Bangladesh Bank. * Provisional.

B. Export Position and Composition of Export Commodities

Export earnings increases due mainly to increases of footwear, Engineering products, woven garments and leather during FY 2011-12. The export earnings of Bangladesh stood at US\$ 24288 million in FY 2011-12, which was 5.9 percent higher than the export earnings (US\$ 22928 million) of FY 2010-11. Analysis of composition of exports in FY 2011-12 by major categories reveals that the export earnings over the last fiscal year increased mainly for footwear (30.1 percent), Engineering products (21.1 percent), woven garments (13.9 percent) and leather (10.8 percent). On the other hand, export earnings decreased in respect of raw jute (25.4 percent), ceramic product (10.2 percent) and jute goods (7.5 percent). Export growth and composition by commodities from FY 2009-10 up to FY 2011-12 are shown in Table 3.

Table 3: Export Earnings Composition and Growth of Export Income

Commodity classification	Total export earnings (Million US \$)			% of total export earnings			Growth rate (%)		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
1) Primary Products	884	1316.0	1267.0	5.5	5.7	5.2	1.6	48.9	-3.7
a) Frozen Food	445	625	598.4	2.75	2.73	2.5	-2.2	40.4	-4.3
b) Agricultural Product	184	262	304	1.1	1.1	1.3	25.2	42.4	16.0
2) Industrial Products	15321	21612	23021	94.6	94.3	94.8	4.3	41	6.5
a) Woven Garments	6013	8432	9603.3	37.11	36.78	39.5	1.6	40.2	13.9
b) Knitwear	6483	9482	9486.4	45.60	47.44	39.1	0.8	46.3	0.0
c) Leather	226	298	330.2	1.39	1.30	1.4	27.7	31.9	10.8
d) Jute Goods	540	758	701.1	3.33	3.31	2.9	100.7	40.4	-7.5
e) Fertilizer & Chemical products	103	105	103	0.64	0.46	0.4	-63.2	1.9	-1.9
f) Footwear	204	298	336	1.26	1.30	1.4	9.1	46.1	30.1
g) Ceramic Products	30.78	37.58	33.8	0.19	0.16	0.1	-2.9	22.1	-10.2
h) Engineering products	311	310	376	1.92	1.35	1.5	64.6	-0.3	21.3
i) Petroleum by Product	301	261	275	1.86	1.14	1.1	112.0	-13.4	5.5
j) Handicrafts	4	4	5	0.02	0.02	0.0	-40.8	18.7	25.0
k) Others	1105.28	1666.4	1772.0	6.8	7.1	7.3	3.8	46.8	6.2
Total	16205	22928	24288	100	100	100	4.1	41.5	5.9

Source: Export Promotion Bureau, Ministry of Commerce.

Country-wise Export Earnings

Analysis of country-wise export shows that USA is the main destination of export. Table 4 illustrates that in FY 2011-12, USA secured the top position in respect of importing commodities from Bangladesh. During the period the export earnings from USA was US\$ 5100.9 million, which is 21.0 percent of country's total export earnings. The principal commodities exported to USA are woven garments, knitwear, frozen food, cap, home textile etc. The other Bangladeshi Export destinations are Germany (15.2 percent), UK (10.1 percent) and France (5.7 percent) etc. have the respective positions. The country-wise export earnings are shown in Table 4.

Table 4: Country-wise Export Income

Fiscal Year	(In million US\$)										
	USA	Germany	UK	France	Belgium	Italy	Nether lands	Canada	Japan	Others	Total
FY01	2500.42	789.88	598.18	365.99	253.91	295.73	327.96	125.66	107.58	1101.69	6467.00
FY02	2218.79	681.44	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1061.08	5986.00
FY03	2155.00	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1270.81	6548.00
FY04	1966.58	1298.54	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1550.90	7603.00
FY05	2412.05	1353.80	943.17	626.17	325.43	369.18	291.94	335.25	122.41	1875.12	8654.52
FY06	3030.20	1764.11	1048.62	677.50	359.20	425.75	327.40	406.15	137.78	2349.45	10526.2
FY07	3441.02	1955.38	1174.0	731.76	435.82	515.66	459.01	457.21	147.47	2860.58	12177.9
FY08	3590.56	2174.81	1373.95	953.13	488.39	579.23	653.88	532.90	172.56	3591.31	14110.8
FY09	4052.00	2269.70	1501.20	1031.1	409.80	615.51	970.80	663.20	202.60	3849.33	15565.2
FY10	3950.47	2187.35	1508.54	1025.9	390.54	623.92	1016.88	648.19	330.55	4522.33	16204.7
FY11	5107.52	3438.70	2065.38	1538.0	666.24	866.42	1107.13	944.67	434.12	6756.22	22924.4
FY12	5100.90	3689.00	2444.60	1380.40	742.00	977.40	691.30	993.70	600.50	7668.00	24287.7

Source: Export Promotion Bureau.

Export target and performance of Bangladesh during FY 2001-02 to FY 2010-11 are shown in Table 5.

Table 5: Export performance during FY 2000-01 to FY 2011-12.

(In Million US\$)		
Fiscal Year	Export Target	Actual Export
2001-02	5,940	5,986.09
2002-03	6,405	6,548.44
2003-04	7,439	7,602.99
2004-05	8,565	8,654.52
2005-06	10,159	10,526.16
2006-07	12,500	12,177.86
2007-08	14,500	14,110.80
2008-09	16,298	15,565.19
2009-10	17,600	16,204.65
2010-11	18,500	22924.38
2011-12	26,500	24301.90

Source: Export Promotion Bureau

It is apparent from the above table that despite global recession, export target in the last two fiscal years were almost achieved.

Export from Bangladesh to SAARC member countries is shown below:

Table 6: Export from Bangladesh to SAARC Member Countries.

(In Million US\$)									
Country	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Afghanistan	6.07	0.51	0.88	0.75	2.77	3.68	2.74	3.53	3.59
Bhutan	3.99	3.35	1.65	1.40	1.35	0.61	2.24	3.12	9.13
India	101.16	186.95	279.14	289.41	358.08	276.58	304.63	512.51	498.42
Maldives	-	0.48	0.26	0.27	0.08	0.14	0.74	0.93	1.78
Nepal	1.27	0.47	0.83	0.85	6.71	8.06	8.79	10.84	41.58
Pakistan	34.78	84.14	50.26	61.06	71.01	76.22	77.67	86.79	73.21
Sri Lanka	10.15	12.16	14.39	14.82	19.32	18.67	23.74	34.73	42.59
Total	157.42	288.06	347.41	368.56	459.32	383.96	420.55	652.45	670.30

Source: Export Promotion Bureau

The above table shows that in terms of export to the SAARC countries from Bangladesh, India secured the highest position and in FY 2009-10, its quantity among the SAARC countries is about 79 percent. It is to be noted that export in the SAARC countries in FY 2009-10 compared to the total export of Bangladesh is only about 4 percent.

C. Import Status and Composition of Import Commodities

The total import payments stood at US\$ 35516 million during FY 2011-12, which was 5.5 percent higher than the import payments of US\$ 33657 million of the preceding year. Table 7 shows the overall import situation of the country.

Table 7: Comparative Situation of Commodity-wise Import Payment

(In Million US\$)							
Commodity	FY06	FY07	FY08	FY09	FY10	FY11	FY12
a) Major Primary Commodities	1854	2069	3455	2916	2940	5591	4149
Rice	117	180	874	239	75	830	288
Wheat	301	401	537	643	761	1081	613
Oilseeds	90	106	136	159	130	103	177
Crude petroleum	604	524	695	584	535	888	987
Cotton	742	858	1213	1291	1439	2689	2084
b) Major industrial Commodities	3002	3568	4844	5035	4957	7546	9263
Edible oil	473	583	1006	865	1050	1067	1644
Petroleum products	1400	1709	2058	1997	2021	3221	3922
Fertilizer	342	357	632	955	717	1241	1381
Clinker	210	240	347	314	333	446	504
Staple fiber	76	97	110	112	118	180	428
Yarn	501	582	691	792	718	1390	1384
c) Capital Machinery	1458	1929	1664	1420	1595	2324	2005
d) Other Commodities (including EPZ)	8432	9591	11666	13136	14246	18196	20099
Grand Total	14746	17157	21629	22507	23738	33657	35516
% Change*	12.2	16.4	26.1	4.1	5.5	41.8	5.5

Source: Bangladesh Bank. *% change as compared the previous year.

Country-wise Import Payments

In terms of value of total imported commodities, China secured the first position for import in FY 2011-12. During this period 18.17 percent of the total imported commodities came from China. India was the second largest source of import (13.39 percent) while Singapore held the third position (4.82 percent). Table 8 shows the country-wise import payments during FY 2000-01 to FY 2011-12.

Table 8: Country-wise Import Payments

(In Million US\$)											
Fiscal Year	China	India	Singapore	Malaysia	Japan	South Korea	Hong Kong	Taiwan	USA	Others	Total
2000-01	709	1184	824	148	846	411	478	412	248	4075	9335
2000-02	878	1019	871	145	655	346	441	312	261	3612	8540
2002-03	938	1358	1000	169	605	333	433	328	223	4271	9658
2003-04	1198	1602	911	255	552	420	433	377	226	4929	10903
2004-05	1642	2030	888	276	559	426	565	439	329	5993	13147
2005-06	2079	1868	849	302	651	489	626	473	345	7064	14746
2006-07	2571	2268	1035	334	690	553	747	473	380	8106	17157
2007-08	3137	3393	1273	451	832	620	821	478	490	10134	21629
2008-09	3452	2868	1768	703	1015	864	851	498	461	10027	22507
2009-10	3819	3214	1550	1232	1046	839	788	542	469	10239	23738
2010-11	5918	4569	1294	1760	1308	1124	777	731	677	15500	33658
2011-12	6455	4755	1711	1407	1456	1551	704	793	710	15974	35516

Source: Bangladesh Bank.

D. Exchange Rate Policy

Since the adoption of market based exchange rate system with effect from 31 May, 2003, exchange rate is being determined on the basis of demand and supply of the respective currencies. All scheduled banks are now free to set their own rates for interbank and customer transactions. However, in order to maintain organized market condition Bangladesh Bank remains vigilant over the developments in the foreign exchange market. Bangladesh observed overall 9.28 percent depreciation against US dollar in the FY 2011-12 due to higher import demand for enhanced domestic investment activities (caused huge foreign exchange demand for import of capital goods) and increase in fuel price. The weighted average interbank rate stood at Taka 81.87 per US dollar in June, 2012 against 74.23 as on 30 June 2011. Bangladesh Taka remained almost stable in first, third and fourth quarter of FY 2011-12. Bangladesh experienced 8.16 percent depreciation of Taka against US\$ in second quarter of this fiscal year. But at the third and fourth quarter of this fiscal year, Taka has regained its strength and appreciated due to action of prudent monetary policy and it remained more or less stable at the end of

June 2012. Strong growth of remittance from wage earners abroad (10.24 percent) and flow of foreign aid with rationalization of import payment and moderate growth of export (5.9 percent) helped to keep Bangladesh Taka competitive in this fiscal year. Bangladesh Bank continued to remain vigilant its role in the foreign exchange market in line with its monetary policy goal to ensure stability in the foreign exchange market. Taka-Dollar exchange rates during FY 2011-12 (monthly) are shown in Table 9.

Table 9: Average Exchange Rate (Tk. per US\$)

Year	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY10	FY11	FY12
Average Exchange Rate	57.90	58.94	61.39	67.08	69.03	68.60	68.80	69.18	71.17	79.09

Source: Bangladesh Bank

E. Foreign Exchange Reserve

Bangladesh Bank maintained stability in retaining foreign exchange reserves. The gross foreign exchange reserves of Bangladesh Bank had reached US\$ 10364.43 million at the end of FY 2011-12 which is 5.02 percent lower than US\$ 10912 million as compared to the end of FY 2010-11. In order to strengthening the long term stability of the country's reserves and diversifying the external asset portfolio, Bangladesh Bank invested in sovereign/supranational/ highly reputed corporate bonds, Treasury Bills of US Government and in short term deposit with highly reputed commercial banks. Table 10 show the foreign exchange reserve position at the end of June 2000 to the end of June 2012.

Table 10: Foreign Exchange Reserve

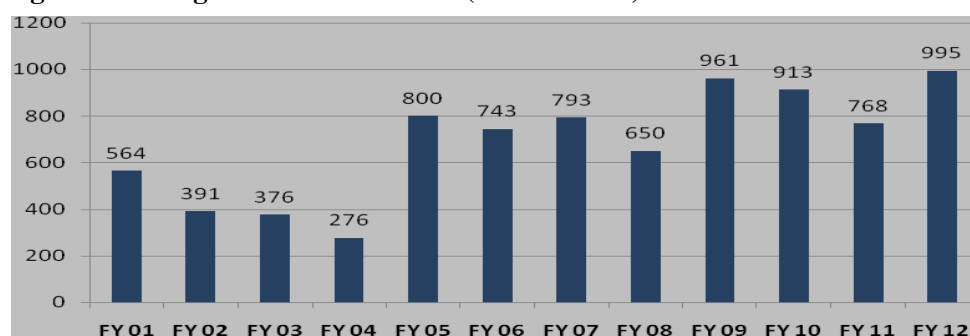
Date	Amount (In million US Dollar)
30.06.2000	1602
30.06.2001	1307
30.06.2002	1583
30.06.2003	2470
30.06.2004	2705
30.06.2005	2930
30.06.2006	3484
30.06.2007	5077
30.06.2008	6149
30.03.2009	7471
30.06.2010	10750
30.06.2011	10912
30.06.2012	10364

Source: Bangladesh Bank

F. Foreign direct investment (FDI)

Inflow of foreign direct investment (FDI) has historically been low in Bangladesh. Data from Bangladesh Bank suggests that the inflow of FDI virtually remained stuck between US\$ 600 million and US\$ 900 million between FY 2005-2012. It also suggests that foreign investors do not find Bangladesh as an attractive destination for their investments (figure 1). There was a small improvement in FY 2012, approaching the \$1.0 billion mark.

Figure 1: Foreign Direct Investment (Million USD)



Source: Bangladesh Bank

During the same period average annual inflow of FDI in Vietnam, Pakistan, India and China were respectively US\$ 4.2 billion, US\$ 2.5 billion, US\$ 18 billion and US\$ 75 billion. On the basis of these opposing trends in FDI flows, it may be argued that inflow of FDI in Bangladesh is not much related to global financial and economic condition.

FDI as a percentage of GDP

Although the amount of FDI is increasing over the years, FDI as a percentage of GDP is following a declining trend after FY 2004-05. FDI as a percentage of GDP increased to 1.33 percent in FY 2004-05 while GDP and FDI flow were Tk. 3707.0 billion and Tk. 49.34 billion respectively. Then FDI as a percentage of GDP declined until FY 2007-08 and the scenario changed only in FY 2008-09. The growth of FDI in FY 2008-09 was 24.96 percent higher than that of previous fiscal year and FDI as percentage of GDP increased to 1.07 percent. After FY 2008-09, FDI as a percentage of GDP started to decline sharply. In FY 2010-11, the amount of FDI and GDP were Tk. 55.45 billion and Tk. 7874.95 billion respectively against Tk. 63.16 billion and Tk. 6943.24 billion of FY 2009-10. The share of FDI in GDP in FY 2010-11 was only 0.70 percent, which is 21 percentage points less than that of the previous fiscal year.

Investment Environment in Bangladesh

Bangladesh is being considered as the most liberal and business friendly economy in this region. It is attractive destination for business and investment. Its investment climate offer generous and attractive packages of incentives to investors. There is no discrimination between the local and foreign investors. Prevailing laws and practices fully guarantee the safety of the investment and their returns. Except the 4 sectors reserved for public undertaking, all other sectors have been kept open for private investment, both local and foreign. The 4 sectors are arms, ammunition and other defence equipment and machinery; production of nuclear energy; security printing (currency notes) and minting; forest plantation and mechanized extraction within the bounds of reserved forests.

Fiscal and non-fiscal incentives to investors

- a) Remittance of royalty, technical know-how and technical assistance fees.
- b) Repatriation facilities of dividend and capital at exit.
- c) Permanent resident permits on investing US\$ 75,000 and citizenship on investing US\$ 500,000.
- d) Tax holidays
 - i. In the Dhaka & Chittagong Divisions: 100% in first two years: 50% in the year three and four: and 25% in the year five.
 - ii. In the Rajshahi, Khulna, Sylhet, Barisal Divisions and three Chittagong Hilly Districts: 100% for first three years, 50% for next three years, 25% for year seven.
- e) Depreciation allowances
 - i. Accelerated depreciation for new industries is available at the rate of 50%, 30% and 20% for the first, second and third years respectively, on the cost of plant and machinery.
- f) Cash and added incentives to exporting industries
 - i. Businesses exporting 80% or more of goods or services qualify for duty free import of machinery and spares, bonded warehousing.
 - ii. 90% loans against letters of credit and funds for export promotion.
 - iii. Export credit guarantee scheme.
 - iv. Domestic market sales of up to 20% is allowed to export oriented business located outside an EPZ on payment of relevant duties.
 - v. Cash incentives and export subsidies are granted on the FOB value of selected exports ranging from 5% to 20% on selected products.

G. Government Borrowing from Foreign Sources

Examining the trend of resources receipts from foreign sources, it clearly shows that the credit component of such assistance far outweighs the quantum of grants which is on the decline. On the other hand, accepting credit from foreign sources increases gradually. As a result, outflow of budget resources in the form of amortization is increasing which in fact reduces the net flow of external resources to Bangladesh. But net resource flow is increased as increased foreign grants during the

years of natural calamities. Table 11 shows the government borrowing from foreign sources and its repayment during FY 2002-03 to FY 2011-12.

Table 11: Government Borrowing from Foreign Sources

(In million US\$)								
Financial year	Disbursement of Loans and Grants			Principal and Interest Payment			Net Foreign Aid Flow	
	Grant	Loans	Sub-Total	Interest	Principal	Sub-Total	After Principal Payment	After Principal & Interest Payment
1	2	3	4=2+3	5	6	7=5+6	8=4-6	9=4-7
2002-03	510	1075	1585	156	452	608	1133	977
2003-04	338	695	1033	165	423	588	610	445
2004-05	234	1257	1491	185	434	619	1057	872
2005-06	501	1067	1568	176	502	678	1066	890
2006-07	590	1040	1630	182	540	722	1090	908
2007-08	658	1403	2061	184	586	770	1475	1291
2008-09	658	1189	1847	200	655	855	1192	992
2009-10	634	1588	2222	190	685	875	1537	1347
2010-11	745	1032	1777	200	729	929	1048	848
2011-12*	452	955	1407	154	557	711	850	696

Source: Economic Relations Division (ERD). * up to March 2012.

II.1.2 Domestic Environment

A. Economic Growth

The GDP growth rate attained during FY 2008-09 and FY 2009-10 were 5.74 percent and 6.07 percent respectively. In the aftermath of the global financial crisis, 6.7 percent growth was achieved in FY 2010-11 which was supported by strong rebound in exports and the ensuing expansion of the manufacturing sector. The GDP growth rate was 6.32 percent in FY 2011-12. According to the Medium Term Macroeconomic Framework (MTMF) projection the GDP growth will stand at 7.2 percent in FY 2012-13, which is projected to reach 8.3 percent in FY 2015-16.

Gross Domestic Product (GDP) at Current Prices

The provisional value of Gross Domestic Product at current market prices is Tk. 9,14,784 crore in FY 2011-12, which was 14.82 percent higher than the GDP of previous year. At current prices the estimated per capita GDP for FY 2011-12 are estimated at TK. 60,350 which has been increased by 13.35 percent from the per capita GDP of Tk. 53238 in FY 2010-11. On the contrary, per capita national income stood at Tk. 66283 which was Tk. 58,083 a year earlier. Expressing in US dollar, per capita GNI and per capita GDP stood at US\$ 848 and US\$ 772 respectively in this year, while in the FY 2010-11 per capita GNI and per capita GDP recorded to US\$ 816 and US\$ 748 respectively. GDP, GNI, per capita GDP and national income from FY 2005-06 to FY 2011-12 are shown in Table 12.

Table 12: GDP, GNI, Per Capita GDP and GNI at Current Market Prices

Item	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
GDP (In Crore Tk.)	415728	472477	545822	614795	694324	796704	914786
GNI (In Crore Tk.)	442935	507752	594212	670696	758928	869217	1004723
Population (In Crore)	13.88	14.06	14.24	14.42	14.61	14.97	15.16
Per Capita GDP (In Tk.)	29955	33607	38330	42628	47536	53238	60350
Per Capita GNI (In Tk.)	31915	36116	41728	46504	51959	58083	66283
Per Capita GDP (In US\$)	447	487	559	620	687	748	772
Per Capita GNI (In US\$)	476	523	608	676	751	816	848

Source: Bangladesh Bureau of Statistics (BBS) * Provisional

Sector wise Growth of GDP

In the estimation of production based GDP, 15 sectors are considered where some sectors are further divided into different sub sectors. All the 15 sectors are grouped into three broad sectors i.e. agriculture, industry and service. The broad agriculture sector consists of two sectors namely, (i)

agriculture and forestry and (ii) fishery. Similarly, the broad industry sector comprises (i) mining and quarrying, (ii) manufacturing, (iii) electricity, gas and water supply and (iv) construction sector. The broad service sector includes the collective outputs of the, (i) wholesale and retail trade, (ii) hotels and restaurants, (iii) transport, storage and communication, (iv) financial intermediations, (v) real estate renting and business activities, (vi) public administration and defense, (vii) education, (viii) health and social work and (ix) community, social and personal services. The sectoral growth rates of GDP at constant prices since FY 2005-06 have been shown in Table 13.

Table 13: Sectoral Growth Rate of GDP at Constant Prices (Base Year: 1995-96)

Sector/Sub-sector	(In Percentage)						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
1. Agriculture and Forestry	5.23	4.69	2.93	4.10	5.56	5.09	1.72
a. Crops & horticulture	5.03	4.43	2.67	4.02	6.13	5.65	0.94
b. Animal farming	6.15	5.49	2.44	3.48	3.38	3.48	3.39
c. Forest and related services	5.18	5.24	5.47	5.69	5.23	3.90	4.42
2. Fishery	3.91	4.07	4.18	4.16	4.15	5.25	5.38
3. Mining and Quarrying	9.26	8.33	8.94	9.84	8.80	4.80	6.25
a. Natural gas & crude petroleum	9.52	8.03	8.26	9.15	8.12	1.05	2.95
b. Other mineral resources	8.84	8.80	10.01	10.90	9.84	10.43	10.78
4. Manufacturing	10.77	9.72	7.21	6.68	6.50	9.45	9.76
a. Large & medium scale	11.41	9.74	7.26	6.58	5.98	10.94	10.78
b. Small scale	9.21	9.69	7.10	6.90	7.77	5.84	7.18
5. Electricity, Gas & Water Supply	7.67	2.10	6.77	5.91	7.28	6.63	14.11
a. Electricity	7.45	1.08	6.68	5.39	7.21	7.33	15.96
b. Gas	9.37	7.37	7.72	8.42	7.51	0.82	3.01
c. Water	7.55	7.08	6.00	8.39	7.77	8.99	9.82
6. Construction	8.31	7.01	5.68	5.70	6.01	6.51	8.51
7. Wholesale and Retail Trade	6.75	8.04	6.82	6.21	5.87	6.31	5.88
8. Hotel and Restaurants	7.45	7.52	7.55	7.58	7.61	7.55	7.60
9. Transport, Storage & Communi.	7.98	8.03	8.55	8.01	7.69	5.69	6.58
a. Land transport	4.14	4.18	4.54	5.17	5.98	4.13	5.78
b. Water transport	1.95	1.73	2.54	2.46	1.01	1.05	1.90
c. Air transport	5.25	2.01	6.20	7.38	9.13	8.26	10.61
d. Support transport services, storage	6.13	8.93	8.45	9.64	8.15	3.50	3.48
e. Post & telecommunication	26.70	23.29	21.64	16.11	12.95	10.01	9.24
10. Financial Intermediations	8.50	9.18	8.89	8.99	11.64	9.64	9.52
a. Monetary intermediation(Bank)	8.19	9.34	8.38	9.05	10.47	9.04	9.41
b. Insurance	9.16	8.21	10.03	8.38	14.88	11.58	9.81
c. Other financial intermediation	10.94	11.62	12.47	11.13	16.10	10.08	9.86
11. Real Estate, Renting & other Business Activities	3.69	3.76	3.75	3.81	3.89	3.96	4.05
12. Public Admin and Defence	8.15	8.41	6.21	7.01	8.35	9.67	6.07
13. Education	9.05	8.96	7.80	8.05	9.24	9.36	8.61
14. Health and Social Work	7.79	7.64	7.02	7.20	8.10	8.35	7.94
15. Community, Social and Personal Services	4.09	4.58	4.62	4.70	4.72	4.70	4.76
At Constant Price GDP Growth Rate	6.63	6.43	6.19	5.74	6.07	6.71	6.32

Source: Bangladesh Bureau of Statistics (BBS) * Provisional

B. Inflation

The CPI inflation in Bangladesh showed a mixed trend in FY 2011-12. The inflationary pressures started rising from the previous fiscal year which reached the peak in February 2012 (11.0 percent) but started decreasing in March. It went down to 10.6 percent in June 2012. The rising inflation was triggered mainly by the continuous rise in international commodity prices including food, fuel and fertilizers, the higher-than-targeted money supply growth, Taka depreciation and the successive upward adjustments of administered energy and petroleum prices in the domestic market. The average inflation measured by 12-month average basis (base: FY96=100) increased from 8.8 percent in June 2011 to 10.6 percent in June 2012 (Table 14). This was higher than the target of 7.5 percent in the National budget for FY 2011-12.

Table 14: Annual average CPI inflation

(Base: FY96=100)

Group	Weight	FY10	FY11	FY12
a. National level				
General index	100.00	221.53 (7.31)	241.02 (8.80)	266.61 (10.62)
Food	58.84	240.55 (8.53)	267.83 (11.34)	295.86 (10.47)
Non-food	41.16	196.84 (5.45)	205.01 (4.15)	227.87 (11.15)
b. Rural				
General index	100.00	223.39 (7.16)	244.38 (9.40)	269.31 (10.20)
Food	62.96	235.76 (7.96)	264.13 (12.03)	289.82 (9.73)
Non-food	37.04	202.36 (5.62)	210.81 (4.18)	234.47 (11.22)
c. Urban				
General index	100.00	216.98 (7.69)	232.81 (7.30)	260.01 (11.68)
Food	48.80	252.21 (9.85)	276.82 (9.76)	310.58 (12.20)
Non-food	51.20	183.40 (4.99)	190.87 (4.07)	211.82 (10.98)

Source: Bangladesh Bureau of Statistics. Figures in parentheses represent annual inflation.

On the other hand, the twelve month point-to point CPI inflation declined to 8.6 percent in June 2012 from 10.2 percent in June 2011. However, the decline was not steady. The point to point CPI inflation went up to a peak of 12.0 percent in September 2011 and then started to decline after January 2012. This decline in inflation was mainly due to the lower food and non-food prices. The core CPI inflation (excludes foods and fuel items), recently introduced by the Bangladesh Bank, also followed the same trend and stood at 7.9 percent in June 2012. The high inflation that Bangladesh experienced was mainly driven by the higher food prices. The annual average and point to point food inflation depicted a mixed trend in FY 2011-12. The annual average food inflation decreased to 10.5 percent in June 2012 from 11.3 percent in June 2011. The point-to-point food inflation decreased to 7.1 percent in June 2012 from 12.5 percent in June 2011.

The average and point to point non-food inflation also showed increasing trends during FY 2011-12. The average non-food inflation increased to 11.2 percent in June 2012 from 4.2 percent in June 2011 and the point-to-point non-food inflation increased to 11.7 percent in June 2012 from 5.7 percent in June 2011. The rising international oil prices forced the government to revise the domestic price of fuel upward several times to reduce the burden of subsidy in this sector. This, upward adjustment resulted in the higher rate of non-food inflation in FY 2011-12.

The increase in inflation was higher in urban areas compared to that in rural areas. This was the result of a higher weight of food items in the rural CPI (70.9) than that in the urban CPI (29.1). Annual average CPI inflation in the rural areas increased to 10.2 percent in June 2012 from 9.4 percent in June 2011. The rural food inflation decreased to 9.7 percent in June 2012 from 12.0 percent in June 2011, while the rural nonfood inflation increased significantly to 11.2 percent in June 2012 from only 4.2 percent in June 2011. The annual average CPI inflation in the urban areas increased to 11.7 percent in June 2012 from 7.3 percent in June 2011. The urban food CPI increased from 9.8 percent in June 2011 to 12.2 percent in June 2012. It reached its peak of 12.6 percent in January 2012. The urban non-food inflation also increased to 11.0 percent in June 2012 from 4.1 percent in June 2011.

The Government also adopted various measures to keep food inflation at a reasonable level. It raised the domestic procurement target for FY 2011-12 to 1.4 million tons from 1.2 million metric tons and lowered the distribution target under the Public Food Distribution System (PFDS) from 2.9 million metric tons in FY 2011-12 to 2.6 million metric tons. Therefore, the government has lowered food grain import target for the current fiscal year. The Government also scaled up the social safety net measures and national food distribution programs to soften the effects of higher prices on the poor, vulnerable and disadvantages.

C. Consumption

Consumption grew steadily over the last few years. The growth of consumption is around 10% over the last few years. In fiscal year 2010-11 consumption reaches 63.32 billion taka. Private sector consumption is the largest portion of consumption category.

Table 15: Year-Wise Consumption

FY	(In Billion Tk)										
	2000 - 01	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11
Consumption	20.79	22.35	24.45	26.79	29.65	33.15	37.63	43.49	49.12	55.4	63.32
Public	1.14	1.36	1.6	1.84	2.05	2.3	2.61	2.88	3.23	3.74	4.31
Private	19.64	20.99	22.85	24.95	27.59	30.85	35.02	40.61	45.89	51.65	59.01

Source: Bangladesh Bureau of Statistics

In fiscal year 2010-11 consumption as a percentage of GDP amounted 80.4%. Consumption in private sector shared 74.9% of GDP where the consumption of public sector accounted 5.5%.

Table 16: Consumption as a Percentage of GDP

FY	1999- 00	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11
Consumption	82.1	82	81.8	81.4	80.5	80	79.8	79.6	79.7	79.9	79.9	80.4
Public	4.6	4.5	5	5.4	5.5	5.5	5.5	5.5	5.3	5.3	5.4	5.5
Private	77.5	77.5	76.8	76	74.9	74.5	74.2	74.1	74.4	74.6	74.5	74.9

Source: Bangladesh Bureau of Statistics

D. Investment and Savings

Massive investment in infrastructure sector including power and acceleration of Annual Development Program (ADP) expenditure drove in the increase of public investment in FY 2011-12. During this period gross investment accelerated to 25.45 percent of GDP from 25.15 percent in the previous fiscal year. Of this gross investment private investment marginally went down to 19.14 percent of GDP, from 19.51 percent of GDP in FY 2010-11. However, public investment increased to 6.30 percent of GDP from 5.64 percent in FY 2010-11.

Table 17: Savings and Investment (As percent of GDP)

Item	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Domestic Savings	20.25	20.35	20.31	20.09	20.10	19.29	19.73
Public	1.41	1.41	1.35	1.32	1.35	1.38	1.36
Private	18.84	18.94	18.96	18.77	18.75	17.91	18.01
2. Investment	24.65	24.46	24.21	24.37	24.41	25.15	25.45
Public	6.00	5.45	4.95	4.70	5.01	5.64	6.30
Private	18.65	19.02	19.25	19.67	19.40	19.51	19.14
3. National Savings	27.67	28.66	30.21	29.57	30.02	28.78	29.40

Source: Bangladesh Bureau of Statistics

It is expected that investment would be boost up through implementation of Power sector Road Map for power generation, excavating new well for meeting up energy demand, importing LNG, uses of renewable energy and implementation of infrastructure related programs planned under ADP and PPP (Public-Private Partnership). Thus it will be possible to achieve higher growth.

E. Capital Market

The capital markets of Bangladesh were in a bullish trend during the period of global financial crisis, but massive correction in these markets took place afterwards. The market capitalization of the Dhaka Stock Exchange (DSE) declined to Tk. 289,116.29 crore at the end of June 2012 from 285,389.22 crore at the end of June, 2011. During this period, the DSE general index decreased by 25.24 percent from 6117.23 to 4572.88.

The Government has taken necessary initiatives to ease the turmoil of the capital market and regain the confidence of the public on it. Steps have already been taken to identify the problems of the book building method and make correction of the system. In order to separate the ownership, management and trading of stock exchange, the process of demutualization in Dhaka and Chittagong Stock Exchanges has begun. New provision has been made regarding the augmentation of capital through private and public placement for the private and public limited companies. Necessary refinement and correction have been made in the Merchant Banker & Portfolio Manager Regulation to ensure further transparency, accountability and promptness of the functions of the merchant banks. Compulsion for the sponsors' and the directors of the listed companies has also been made to hold 30 percent and 2 percent of shares of the company respectively. It is expected that that stability in the capital market can be regained through these initiatives.

Dhaka Stock Exchange (DSE)

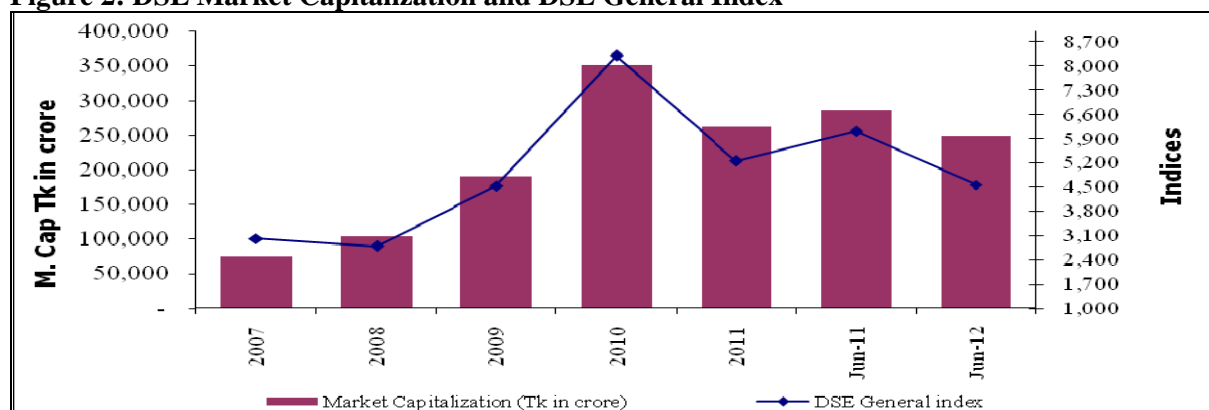
In June 2012, the number of listed securities in DSE stands at 511 which were 490 in June 2011. Total turnover of DSE from January to June, 2012 is Tk. 51,302.19 crore. Due to downtrend of the market, market capitalization of DSE has reduced to Tk. 2,49,116.29 crore in June, 2012 which was Tk. 2,85,389.22 crore in June 2011. DSE all share price index has also declined due to the same reason and reached at 4,572.88 which were 6,117.23 in December 2011.

Table 18: Trading Operation in Dhaka Stock Exchange

Year/month end	No. of listed securities (with mutual funds & bonds)	IPO	Issued capital (crore Taka)	Market Capitalization (crore Taka)	Turnover Value (crore Taka)	All share price index
2006	310	12	11,843.70	31,544.62	6,506.93	1,609.51
2007	350	14	21,447.00	74,219.59	32,282.01	3,017.21
2008	412	12	37,215.60	104,379.90	66,796.47	2,795.34
2009	415	18	52,209.90	190,322.81	147,530.08	4,535.53
2010	445	18	66,435.97	350,800.58	400,991.27	8,290.41
2011	501	14	87,890.50	261,673.05	156,091.21	5,257.61
June-11	490	7	80,936.70	285,389.22	90,248.26	6,117.23
June-12	511	9	93,362.96	249,116.29	51,302.19	4,572.88

Source: Dhaka Stock Exchange

Figure 2: DSE Market Capitalization and DSE General Index



Chittagong Stock Exchange (CSE)

In June 2012, the number of listed securities in CSE stands at 251 which were 241 in 2011. Total turnover of CSE from January to June, 2012 is Tk. 5,890.63 crore. Due to downtrend of the market,

market capitalization of CSE has reduced to Tk. 187,153.29 crore in June, 2012 which was Tk. 197,242.3 crore in December 2011. CSE all share price index has also declined due to the same reason and reached at 13,736.42 which were 14,480.4 in December 2011.

Table 19: Trading Operation in Chittagong Stock Exchange

Year/month end	No. of listed securities (with mutual funds & bonds)	IPO	Issued capital (crore Taka)	Market Capitalization (crore Taka)	Turnover Value (crore Taka)	All share price index
2005	201	16	5,551.9	21,994.3	1,404.3	3,378.7
2006	213	6	6,937.9	27,051.1	1,589.3	3,724.4
2007	227	13	8,917.4	61,258.0	5,259.0	7,657.1
2008	238	12	12,160.3	80,768.4	9,980.4	8,692.8
2009	217	18	15,512.5	147,080.7	16,256.3	13,181.4
2010	232	18	20,111.56	253,439.3	21,520	18,116.1
2011	241	6	32,212.9	197,242.3	18,633.7	14,880.4
2012 (June)	251	6	37,522.02	187,153.3	5,890.63	13,736.42

Source: Chittagong Stock Exchange

F. Money and Credit Situation

Trends in Monetary Aggregates

During FY 2011-12, year-on-year growth in narrow money (M1) decreased sharply while broad money (M2) decreased marginally and reserve money (RM) also decreased significantly as compared to the preceding fiscal year. The deceleration in growth of narrow money was largely on account of the sharp decrease in growth of both currency notes and coins with the public and demand deposit. Besides, slightly decrease in time deposit growth has resulted slight decrease in broad money growth. Moreover, the decrease in reserve money was largely attributed to the decrease in net domestic asset. Table 20 shows the trends in monetary aggregates since FY 2005-06 to FY 2011-12.

Table 20: Trends in Monetary Aggregates

Indicator	(Year-on-year growth)						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Narrow Money (M1)	20.47	17.62	18.23	11.99	32.46	17.18	6.42
Broad money (M2)	19.3	17.06	17.63	19.17	22.44	21.34	17.39
Reserve Money (RM)	27.12	17.9	19.78	31.45	16.03	21.09	8.99

Source: Bangladesh Bank

Narrow Money (M1)

Narrow money increased by 6.42 percent during FY 2011-12 as compared to an expansion of 17.18 percent in FY 2010-11. During FY 2011-12, the year-on-year growth of M1 was lower mainly due to significant decrease in growth of both currency notes and coins with the public and demand deposit. During this period, year-on-year growth of currency notes and coins with the public increased by 6.61 percent compared to the increase of 18.71 percent a year earlier. Similarly demand deposit increased by 6.21 percent during FY 2011-12, compared to the increase of 15.48 percent a year earlier.

Broad Money (M2)

The broad money increased by 17.39 percent during FY 2011-12, which was much lower than 21.34 percent growth a year earlier. During this period, time deposit increased by 20.74 percent against 22.68 percent growth of the previous fiscal year. The supply of broad money increased by Tk.76589.50 crore to Tk.517109.50 crore at the end of June 2012 from Tk.440520.00 crore at the end of June 2011. Table 21 shows the composition of money supply and credit.

Table 21: Money and Credit

Indicators	June, 2009	June, 2010	June, 2011	June, 2012
	End period stock (In crore Taka)			
1. Net foreign assets of the banking system	47459.4	67073.7	70620.0	78860.3
2. Net domestic assets of the banking system	249040.6	295957.4	369900.0	438249.2
a. Domestic credit	288552.4	340213.6	433525.9	518214.2
a.1. Government sector (net) ¹	58185.2	54392.3	73436.1	91906.8
a.2. Public sector (other) ¹	12439.7	15060.7	19377.1	18405.9
a.3. Private sector ¹	217927.5	270760.6	340712.7	407901.5
b. Other assets (net)	-39511.8	-44256.2	-63625.9	-79965.0
3. Narrow money	66427.0	87988.3	103101.1	109721.4
a. Currency notes and coins with the public	36049.2	46157.1	54795.1	58417.1
b. Demand deposit ²	30377.8	41831.2	48306.0	51304.3
4. Time deposit	230073.0	275042.8	337418.9	407388.1
5. Broad money [(1)+(2)] or [(3)+(4)]	296500.0	363031.1	440520.0	517109.5
	Year-on-year percentage change (percent)			
1. Net foreign assets of the banking system	27.18	41.33	5.29	11.67
2. Net domestic assets of the banking system	17.76	18.84	24.98	18.48
a. Domestic credit	16.03	17.90	27.43	19.53
a.1. Government sector (net)	24.04	-6.52	35.01	25.15
a.2. Public sector (other)	6.94	21.07	28.66	-5.01
a.3. Private sector	14.62	24.24	25.84	19.72
b. Other assets (net)	-6.21	12.01	43.77	25.68
3. Narrow money	11.99	32.46	17.18	6.42
a. Currency notes and coins with the public	10.28	28.04	18.71	6.61
b. Demand deposit	14.10	37.70	15.48	6.21
4. Time deposit	21.42	19.55	22.68	20.74
5. Broad money	19.17	22.44	21.34	17.39

Source: Bangladesh Bank

G. Labour Force and Employment

In order to assess the overall situation of employment, Bangladesh Bureau of Statistics (BBS) conducts the Labour Force Survey. As per the latest survey of BBS titled 'Labour Force Survey 2010', the number of economically active population (above 15 years) is 5.67 crore. Out of this, a labour force of 5.40 crore (male 3.78 crore and female 1.62 crore) is engaged in a number of professions, the highest (47.33 percent) still being in agriculture. According to the Labour Force Survey, 2005-06, the total labour force of over 15 years of age was 4.74 crore (male 3.61 crore and female 1.13 crore) with agriculture remained the highest (48.10 percent) source of employment. Between the two survey periods, the number of agricultural workers decreased by nearly 1 percent. According to LFS 2010, it is observed that 44.4 percent (25.5 percent in agriculture and 18.9 others) of labour force is engaged in self-employment while it was 41.98 percent in FY 2005-06. It may be noted that during the two survey periods, the number of self-employed labour force increased by 2.42 percent. The survey conducted that 21.8 percent of labour force was daily labourers and 19.7 percent unpaid family workers, which was 18.14 percent and 21.73 percent respectively according to the previous survey. The latest survey also indicated that 14.60 percent of the labour force was engaged as full time employees implying a decrease by 2.46 percent. The share of employed labour force (above 15 years) by different sectors of the economy as per Labour Force Survey 1995-96, 1999-00, 2002-03, 2005-06 and 2010 is shown in Table 22.

Table 22: Share of Employed Labour Force (Above 15 years) by Sector

Sector	1995-96	1999-00	2002-03	2005-06	2010
Agriculture, forestry and fishery	48.85	50.77	51.69	48.10	47.33
Mining & quarrying	-	0.51	0.23	0.21	0.18
Manufacturing	10.06	9.49	9.71	10.97	12.34
Power, gas & water	0.29	0.26	0.23	0.21	0.18
Construction	2.87	2.82	3.39	3.16	4.79
Trade, hotel & restaurant	17.24	15.64	15.34	16.45	15.47
Transport, maintenance &	6.32	6.41	6.77	8.44	7.37
Finance, business & services	0.57	1.03	0.68	1.48	1.84
Commodities & personal services	13.79	13.08	5.64	5.49	6.26
Public administration and defence	-	-	6.32	5.49	4.24
Total	100.00	100.00	100.00	100.00	100.00

Source: Labour Force Survey(LFS), 1995-96 , 1999-00,2002-03 , 2005-06 & 2010 BBS.

Note: According to Labour Force Survey 2002-03,2005-06 & 2010, population above 15 years of age has been counted as labour force, but in the previous surveys the criterion for counting labour force was population above 10 years.

Overseas Employment and Remittances

There are significant contributions of foreign employment and remittance sent by the Bangladeshi expatriates in accelerating economic development of the country, such as decreasing unemployment problem, poverty reduction and increasing foreign exchange reserve etc. A significant portion of domestic labour force is employed in the Middle-East and many other countries of the world. The rate of manpower export has been increasing in the recent past. About 0.691 million people went abroad in quest of jobs in FY 2011-12, which was 57.40 percent higher than the previous year. Bangladesh earned remittances of US\$ 12843.40 million in the FY 2011-12 which was 10.24 percent higher than US\$ 11650.32 million in the FY 2010-11. Year-wise statistics of inward remittances sent by Bangladeshi expatriates is shown in Table 23 and figure 3.

Table 23: Number of Expatriate employees and amount of remittance

FY	No of employment abroad (000)	Amount of remittance			
		In million USD	Percentage change (%)	Tk. In Crore	Percentage change (%)
2002-03	251	3061.97	22.42	17719.58	23.31
2003-04	277	3371.97	10.12	19872.39	12.15
2004-05	250	3848.29	14.13	23646.97	18.99
2005-06	291	4801.88	24.78	32274.60	36.49
2006-07	564	5978.47	24.50	41298.50	27.96
2007-08	981	7914.78	32.39	54293.24	31.47
2008-09	650	9689.16	22.42	66674.87	22.81
2009-10	427	10987.40	13.40	76109.60	14.15
2010-11	439	11650.32	6.03	82992.89	9.04
2011-12	691	12843.40	10.24	101882.78	22.76

Source: Bureau of Manpower, Employment & Training and Bangladesh Bank. % change over the previous year

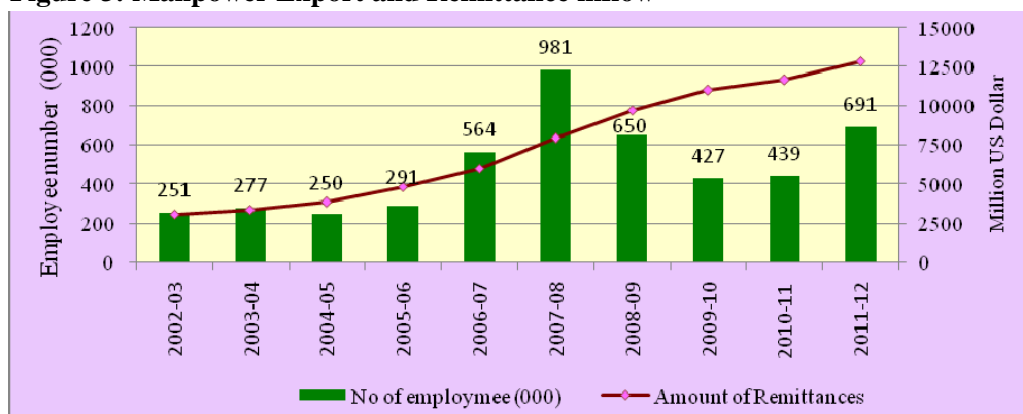
Figure 3: Manpower Export and Remittance inflow

Table 23 and figure 3 show that in the recent past, there is an upward trend in both the number of manpower export and the amount of inward remittances in Bangladesh.

The ratio of remittances to GDP and Export earning shows a mixed trend. The remittance sent by Bangladeshi expatriates was 5.90 percent and 46.76 percent of the country's GDP and total export earnings respectively during FY 2002-03. In course of time remittances sent by Bangladeshi expatriates was substantially increased to 11.11 percent of GDP and 52.92 percent total export earnings in FY 2011-12. Remittances as percent of GDP and percent of total export earnings are shown in Table 24.

Table 24: Remittance as % of GDP & Export Earnings

FY	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
As percent of GDP	5.90	5.97	6.37	6.89	8.74	10.02	10.84	11.77	10.43	11.11
As percent of Export	46.76	44.35	44.46	45.62	49.09	56.09	62.25	63.48	50.82	52.92

Source: Bangladesh Bank

Expatriates Classified by Skill

Analyzing the statistics of the Bureau of Manpower Employment and Training (BMET), it is observed that about half of overseas workers who went abroad are less-skilled. The number of expatriates classified by skill is shown in Table 25. From the table, it is observed that the share of professional workers has decreased significantly. However, the shares of skilled and semi-skilled workers are at the satisfactory level.

Table 25: Number of Expatriates Classified by Skill

Calendar Year	Professional	Skilled	Semi-skilled	Less-skilled	Total
2001	6940	42742	30702	109581	188965
2002	14450	56265	36025	118516	225256
2003	15862	74530	29236	136562	254190
2004	19107	81887	24566	147398	272958
2005	1945	116393	24546	112556	255440
2006	925	115468	33965	231158	381516
2007	676	165338	183673	482922	832609
2008	1864	281450	132825	458916	875055
2009	1426	134265	74604	255070	475278
2010	387	90621	12469	287225	390702
2011	1192	229149	28729	308992	568062

Source: Bureau of Manpower, Employment and Training.

Country wise Manpower Export and Remittances

It has been observed that most of the expatriates are working in Saudi Arabia, UAE, Kuwait, Oman, Malaysia and Singapore. Besides, Bangladesh workers have been working in Bahrain, Qatar, Jordan, Lebanon, South Korea, Brunai, Maritius. The UK, Ireland, Italy and other countries. Analyzing the data of manpower export since 2001 to 2011 it observes that more than 70 percent of total export was in different countries of Middle East. The number of expatriates Bangladeshis by country from 2002 is shown in Table 26

Table 26: Number of Bangladeshi Expatriate by country.

Calendar Year	Saudi Arabia	Kuwait	UAE	Bahrain	Oman	Malaysia	Singapore	Other
2002	163254	15767	25438	5370	3927	85	6870	4545
2003	162131	26722	37346	7482	4029	28	5304	11148
2004	139031	41108	47012	9194	4435	224	6948	25006
2005	80425	47029	61978	10716	4827	2911	9651	35165
2006	109513	35775	130204	16355	8082	20469	20139	40979
2007	204112	4212	226392	16433	17478	273201	38324	68188
2008	132124	319	419355	13182	52896	131762	56851	68836
2009	14666	10	258348	28426	41704	12402	39581	80141
2010	7069	48	203308	21824	42641	919	39053	75840
2011	15039	29	282739	13996	135265	742	48667	19038
2012	10817	-	168685	10372	95887	400	28523	60153

Source: Bureau of Manpower, Employment and Training.

During FY 2011-12 the highest amount of remittance (28.69 percent) came from Saudi Arabia keeping the trend as usual followed by the United Arab Emirates (18.72 percent), Kuwait (9.27 percent) and Malaysia (6.60 percent). Among the Western and European countries the United States of America secured the first position (11.67 percent), followed by the United Kingdom (7.69 percent). Amount of country wise remittance sent by Bangladeshi expatriates from FY 2000-01 to FY 2011-12 are given in Table 27.

Table 27: Country wise Remittances

FY	(In million USD)											
	KSA	UAE	USA	Kuwait	UK	Qatar	Oman	Singapore	Bahrain	Malaysia	Others	Total
2000-01	919.61	144.28	225.62	247.39	55.7	63.44	83.66	7.84	44.05	30.6	59.91	1882.1
2001-02	1147.95	233.49	356.24	285.75	103.31	90.6	103.27	14.26	54.12	46.85	65.29	2501.13
2002-03	1254.31	327.4	458.05	338.59	220.22	113.55	114.06	31.06	63.72	41.4	99.61	3061.97
2003-04	1386.03	373.46	467.81	361.24	297.54	113.64	118.53	32.37	61.11	37.06	123.18	3371.97
2004-05	1510.46	442.24	557.31	406.8	375.77	136.41	131.32	47.69	67.18	25.51	147.6	3848.29
2005-06	1696.96	561.44	760.69	494.39	555.71	175.64	165.25	64.84	67.33	20.82	238.81	4801.88
2006-07	1734.7	804.84	930.33	680.7	886.9	233.17	196.47	80.24	79.96	11.84	339.32	5978.47
2007-08	2324.23	1135.14	1380.08	863.73	896.13	289.79	220.64	130.11	138.2	92.44	444.29	7914.78
2008-09	2859.09	1754.92	1575.22	970.75	789.65	343.36	290.06	165.13	157.45	282.2	501.43	9,689.26
2009-10	3427.05	1890.31	1451.89	1019.18	827.51	360.11	349.08	193.46	170.14	587.09	711.58	10987.4
2010-11	3290	2002.6	1848.51	1075.8	889.6	319.4	334.3	202.3	185.93	703.7	798.16	11650.3
2011-12	3684.37	2404.78	1498.45	1190.13	987.45	335.25	400.93	311.47	298.47	847.49	884.61	12843.4

Source: Bangladesh Bank.

II.1.3 Fiscal position

Fiscal policy is considered as the basic indicator of aggregate management of government's revenue and expenditure. To perform regular and day to day activities of the governments with the implementation of people's welfare oriented activities and to meet up the infrastructure development expenditure to increase production capacity, required amount of revenue is collected from the tax and non-tax sources. Under the fiscal policy (a) prepare the estimation of revenue collection (b) prepare expenditure planning activities and (c) Identify the probable sources of deficit budget financing. The prime objective of the government to formulate fiscal policy is to maintain the balance between government's revenue and expenditure programs. Balanced fiscal policy plays very important role to maintain the trends of higher growth rate, creating congenial atmosphere for the achievement of rapid economic growth and maintaining macroeconomic stability of the country. Presently several significant reform activities are on the way to make the revenue management of the government time befitting. Continuous reform activities of fiscal policy has direct impact on creating production, employment and poverty eradication oriented economic environment in the country.

Government Receipts

The main source of government revenue is tax revenue. Public revenue principally consists of direct and indirect taxes and the account for more than 80 percent of the total receipts. The rest comes from

different non-tax collections such as fees, charges, toll etc. The level of the rate of revenue collection is considered as accepted determinants of the stage of economic development of a country. In FY 2002-03, revenue-GDP ratio was 10.35 percent, which slowly rose to 12.09 percent in FY 2010-11. In FY 2011-12, revenue collection stood at 12.79 percent of GDP. It is evident from the trend of tax collection that, revenue-GDP ratio is continue to grow though the rate of growth is slow. Tax and non-tax revenue receipts and tax-GDP ratio during the period from FY 2002-03 to FY 2011-12 are shown in Table 28.

Table 28: Revenue Receipts

Particulars	(In Crore Tk.)									
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Revenue	31,120	35,400	39,200	44,868	49,472	60,539	69,180	79,484	95,188	117033
Tax Revenue	24,950	28,300	31,950	36,175	39,247	48,012	55,526	63,956	79,052	94754
Non-tax Revenue	6,170	7,100	7,250	8,693	10,225	12,527	13,654	15,528	16,135	22279
As percentage of Gross Domestic Product (GDP)										
Total Revenue	10.35	10.63	10.57	10.79	10.58	11.30	11.25	11.5	12.09	12.79
Tax Revenue	8.30	8.5	8.62	8.70	8.40	8.96	9.03	9.3	10.04	10.36
Non-tax Revenue	2.05	2.13	1.96	2.09	2.18	2.34	2.22	2.2	2.05	2.43

Source: National Board of Revenue

Revenue Collection Activities

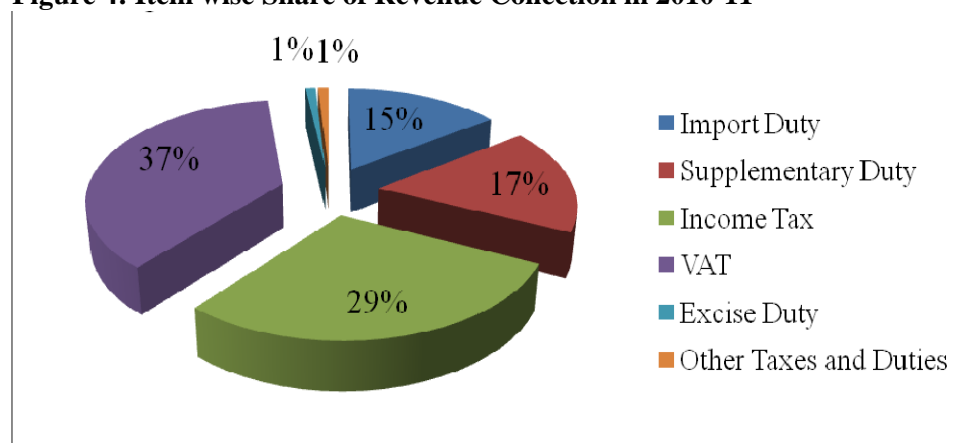
The revenue targets of FY 2011-12 were fixed to Tk. 96,285 crore. Strong trend in revenue collection is seen from the beginning of the fiscal year. Every sector of tax collection experienced higher growth directions by the greater participation of private sector under the influence of the higher growth oriented economic activity of the country. Analysis of revenue collection for FY 2011-12 by categories shows that the bulk of revenue collection comes from income tax. Larger contribution of income tax in revenue collection demonstrates a positive tendency in fiscal management. Though import duty and VAT are influencing the revenue collection traditionally, it is a clear direction of change in the previous two years. Value Added Tax (VAT) occupies the second place in the row. Next positions are held by customs duty, supplementary duty, other taxes and excise duty.

In FY 2010-11, the total revenue collection by National Board of Revenue (NBR) sources surpassed the targets of Tk. 75,600 crore and the total NBR revenue collection stood at Tk.79,402.83 crore. After the reconstruction period of the impact of global financial recession, achievement of primary targets of revenue collection in the previous FY 2010-11 was under slight pressure. Especially in the first quarter, due to the impact of downward trend in export-import trade, comparative collection of taxes may retards the achievement of targets but this speculation diminishes in the second quarter as the revenue collection target achievement is inspired by rapid increment of economic activities. Actual revenue collection stood at TK.79,402.83 crore which was Tk. 17,290.73 crore higher than the collection of the previous fiscal year showing 27 percent growth. In FY 2009-10, total revenue collection stood at Tk62,112.10 crore which was Tk.9,586.49 crore or 18.25 percent higher than the collection of the previous year. In FY 2011-12, the total revenue collection under NBR amounted to Tk. 94,754.11 crore which was Tk. 15,351.28 crore or 19.33 percent higher than that of the previous year. Item-wise tax collection from FY 2008-09 to FY 2011-12 is presented in Table 29.

Table 29: Item wise Revenue Collection

	(In Crore Tk.)			
Items of revenue collection	FY 2008-09	FY 2009-10	FY 2010-11	FY2011-12
Import Duty	9,371.23	8997.12	11,556.05	13,268.07
VAT (at import level)	9,181.44	10,651.22	12,375.81	13,769.64
Supplementary Duty (at import level)	2,318.24	3,203.13	3,998.71	4,368.90
Export Duty (at import level)	0.00	0.00	28.71	38.95
Sub Total	20,870.91	22,851.47	27,959.28	31445.56
Excise Duty	238.34	347.49	486.18	660.36
VAT (Local)	10,965.45	13,816.85	17,832.98	21988.72
Supplementary Duty (Local)	6,173.43	7,593.34	9701.19	11920.19
Turn Over Tax	4.91	4.64	3.63	3.45
Sub Total	17,382.13	21,762.35	28,023.98	34572.72
Total of Indirect Tax	38,253.04	44,613.82	55,983.26	66018.28
Income Tax	13,857.74	17,042.28	23,007.53	28261.87
Other taxes and duties	316.47	386.06	412.04	473.96
Total of Direct Tax	14,174.21	17,428.34	23,419.57	28735.83
Grand Total	52,427.25	62,042.16	79,402.83	94754.11

Source: National Board of Revenue.

Figure 4: Item wise Share of Revenue Collection in 2010-11

Public Expenditure

Resource utilization or public expenditure is indispensable for the implementation of publicly important programs and to administer the regular activities of the Government. Public expenditure management is one of the essential parts of fiscal management. During the prioritisation of public expenditure, importance are given to the allocation of important infrastructure sector and inducement of expenditure, continuation of the public oriented social safety sector, to maintain economy of expenditure in public sector and also expenditure control in unproductive sector. Every year government expends huge amount of money for human development, infrastructure development and poverty eradication by enhancing the life standard, creating more employment, increase per capita income by the economic activity of the country which is conducive to the productive activities. Total public expenditure, development expenditure and expenditure-GDP ratio for FY 2011-12 and over the last decade are shown in Table 30.

Table 30: Public Expenditure

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Public Expenditure (a+b+c)	42075	47184	53903	59030	66836	93608	94140	110523	1,28,261	1,61,211
(a) Non-development expenditure	25307	28390	33324	36618	45412	57425	67125	77,129	82,859	1,00,985
(b) Development expenditure (ADP) ¹	15271	16817	18771	19473	17206	22500	23000	28500	33,284	41,080
(c) Other expenditure ²	1497	1977	1808	2940	1404	13683	4015	4,894	12,125	19,148
As percentage of Gross Domestic Products (GDP)										
Public Expenditure as percent of GDP (a+b+c)	14.92	14.00	14.17	15.01	14.18	12.79	17.27	15.30	16.29	17.62
(a) Non-development expenditure	8.31	8.42	8.53	8.99	8.80	8.81	10.6	10.91	10.52	11.04
(b) Development expenditure	5.08	5.05	5.53	4.68	3.68	4.15	3.74	4.13	4.22	4.49
(c) Other expenditure	1.10	0.50	0.59	0.49	0.70	0.30	2.52	0.65	1.54	2.09

Source: ADP from IMED, M/O Planning and Non-development and other expenditure are revised from Finance Division, M/O Finance.

Expenditure under Annual Development Program (ADP)

Though the implementation of total annual development program is essential for the overall development of the national economy, the rate of average actual ADP expenditure is trending downward. Analyzing the data from Table 31, it is seen that the average actual expenditure against the revised allocation of ADP was around 88 percent during the period from FY 2002-03 to FY 2008-09. In FY 2009-10 and FY 2010-11, average national expenditure of ADP against revised allocation of ADP stood 91 percent and 92 percent respectively. It is clear that ADP implementation rate was higher than the previous two fiscal year in contrast to the implementation rate of the national average of ADP expenditure of the last decade. It is significant that though the size of the revised ADP allocation in FY 2010-11 was much bigger compare to the previous years and average rate of ADP utilization and amount of total expenditure was also higher than the previous fiscal years, the progress shows the indication of project implementation capacity development in the public sector. The government has taken effective measures to ensure progress in ADP utilization and it has improved with a 92 percent utilization of revised allocation in FY 2010-11 and a further improvement in FY 2011-12 with 93 percent utilization against a 14.50 percent larger revised ADP than that of FY 2010-11.

Table 31: Implementation of Annual Development Programme (ADP)

Year	Original Allocation	Revised Allocation	Actual Expenditure	(In crore Tk)
				Expenditure as % of Revised Allocation
2002-03	19200	17100	15434	90.0
2003-04	20300	19000	16817	89.0
2004-05	22000	20500	18771	91.6
2005-06	24500	21500	19473	91.0
2006-07	26000	21600	17917	83.0
2007-08	26500	22500	18450	83.8
2008-09	25600	23000	19688	85.5
2009-10	30500	28500	25917	91.0
2010-11	38500	35880	32854	92.0
2011-12*	46000	41080	38019.85	93.0

Source: IMED, Ministry of Planning. * Up to June 2012

¹ 'Actual expenditure' of Annual Development Program (ADP) except financing from 'own source'.

² Capital expenditure, food expenditure, net lending and other development expenditures are included in 'other expenditure'.

Composition of Annual Development Program (ADP) Expenditure by Major Sectors

The increasing trend of allocation and expenditure in physical infrastructure sector and socio-economic infrastructure sector through ADP is consistent with the policy and strategy of the government. ADP expenditure and its composition by major sectors are presented in Table 32.

Table 32: ADP Expenditure and its Composition by Major Sectors as percentage

Sector	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Agriculture	3.74	4.04	3.62	5.20	5.86	6.64	6.27	6.0	6.6	6.37
Rural Development	10.09	13.83	14.27	15.83	17.14	15.06	16.63	14.0	12.95	12.90
Water Resources	4.29	4.04	2.44	3.22	2.29	3.73	4.09	4.0	3.51	3.34
Industries	1.14	2.74	2.42	1.64	1.24	1.34	2.09	2.0	1.23	2.45
Power	13.70	17.26	20.74	16.22	13.87	13.27	11.67	8.0	14.28	18.88
Gas, Oil & Natural Resources	4.00	5.19	6.04	1.62	0.74	1.40	1.07	5.0	3.05	1.96
Transport	16.15	18.04	12.27	14.30	14.40	10.89	10.14	12.0	14.92	14.11
Communication	3.63	2.23	2.93	2.82	2.72	1.58	0.93	1.0	0.8	2.21
Physical Planning & Housing	5.61	5.91	6.03	7.56	6.86	7.11	11.5	12.0	9.53	10.52
Education & Religion	13.88	12.28	13.70	13.83	15.48	15.56	16.0	17.0	14.39	12.26
Health & Population	6.72	8.27	8.17	9.59	9.97	11.34	10.7	8.0	9.01	7.80
Others	17.00	6.24	7.38	8.19	9.43	12.02	8.91	11.0	9.74	7.19
Total ADP	100.0	100.0	100.0	100.0	100.0	100.00	100.0	100.0	100.0	100.0

Source: IMED, Ministry of Planning.

Budget Balance and Financing

Budget is the annual action plan for channeling resources in line with the national plans and strategies adopted for economic growth, poverty reduction and social development. A budget deficit occurs when expenditure outweighs the revenue income. Successive governments in Bangladesh have been taking initiatives to channel resources and transfer income at an enhanced rate to the 31 percent people of Bangladesh those are still living below the poverty line. Transfer of public resources to the poor and vulnerable section of the population creates purchasing power of the huge population and thus propels growth by increasing aggregate demand though it increases slightly the overall budget deficit. It also helps a large part of the population to maintain minimum standards of living. The trend of budget deficit in Bangladesh clearly shows that deficit remains below 5 percent of GDP except those years when there were natural calamities. Table 33 shows data on budget deficit and the mode of its financing during the period from FY 2002-03 to FY 2011-12.

Table 33: Overall Budget Balance

	(As percent of GDP)										
Budget Deficit/ financing	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
Overall budget deficit (excluding foreign grants)	-4.4*	-4.2*	-4.2*	-3.9*	-3.7	-6.2*	-4.0	-3.98	-4.52	-5.1	
Overall budget deficit (including foreign grants) ³	-3.7	-3.4	-3.4	-3.3	-3.3	-5.4***	-3.2	-3.5	-3.98	-4.5	
Net foreign financing ⁴	1.7	2.3	2.4	1.7	1.8	2.5	1.8	2.0	1.2	1.3	
Net domestic financing ⁵	1.3	2.2	1.8	2.2	1.9	3.7	2.2	2.5	3.3	3.8	

Source: Finance Division, Ministry of Finance, Bangladesh Bureau of Statistics and Bangladesh Bank.

*According to actual outturn, the overall budget deficit in FY 2002-03, FY 2003-04, FY 2004-05, FY 2005-06, FY 2007-08 and FY 2008-09 stood at 3.5, 3.4, 3.5, 3.7, 4.9 percent and 3.4 percent of GDP respectively.

³ According to IMF, foreign grants are net receipts to Government, because it does not carry any liabilities to the government.

⁴ Net foreign financing = (foreign borrowing + grants) - principal payment of foreign borrowing.

⁵ Net domestic financing = Net borrowing from public + borrowing from banking system. {Net borrowing from public = Total sale of saving certificates - principal payments for saving certificates}. There exists difference between budget deficit and financing for check float and other errors & omission.

Domestic Resources for ADP

The contribution of domestic resources towards financing of ADP shows an upward trend and accounts for about 50 percent of the resources for ADP. During the period of FY 2002-03 to 2009-10, only in FY 2007-08, the contribution of domestic resources fell below 40 percent. It needs to be mention here that during FY 2007-08, the flow of external assistance registered a sharp growth compare to the decreased contribution of domestic sources as there was increased flow of resources to carry out rehabilitation work following recurrent floods and devastation of the cyclone Sidr. In FY 2011-12, the share of domestic resources went up to 60.48 percent for financing a larger ADP compared to that of the previous year. Though the size of current fiscal year's annual development programme is larger than the previous years and contribution of domestic resources to the ADP and amount of total allocation increased significantly compared to the previous year indicates a positive progress on more dependency of domestic sources. Table 34 shows the financing of ADP from domestic sources during the period from FY 2002-03 to FY 2011-12.

Table 34: Quantum of Resources (Domestic and foreign) in financing revised ADP

	(In crore Tk.)									
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Financing	17100	19000	20500	21500	21600	22500	23000	28500	35,588	41080
Domestic Financing	8859	9590	10070	10800	11480	7973	10011	12000	20850	26080
Domestic financing as % of Total ADP allocation	51.81	50.47	49.12	50.23	53.00	35	44	42	58.59	63.48

Source: IMED, Ministry of Planning, Ministry of Finance and Planning Commission.

Public Debt

The government resorts to borrowing to create critical infrastructure to crowd in private sector investment, fulfill its commitment for balanced development by reducing regional disparity, ensuring supply of essential services to mitigate public hazards, meet unexpected expenditure in emergencies, increase investment, and defray development plan outlays. The government borrows both from domestic and external sources. Table 35 shows year-wise government borrowing (net) from domestic sources covering the period from FY 2002-03 through FY 2011-12.

Table 35: Net Government Borrowing from Domestic Sources

Fiscal Year	Net Government borrowing from the banking system			Government borrowing from non-bank sources	Total government borrowing	Percentage of GDP
	Borrowing from Bangladesh Bank	Borrowing from scheduled banks	Total borrowing			
1	2	3	4=2+3	5	6=4+5	7
2002-03	-2589.70	1607.20	-982.50	4795.22	3812.72	1.3
2003-04	1653.00	1016.10	2669.10	4658.90	7328.00	2.2
2004-05	3826.70	-142.80	3683.90	2972.57	6656.47	1.8
2005-06	9351.80	-3310.40	6041.40	3103.23	9144.73	2.2
2006-07	905.00	3510.90	4415.90	4682.30	9098.20	1.9
2007-08	66.20	10893.40	10959.60	3144.80	14104.40	2.6
2008-09	2958.10	8317.9	11276.00	5596.00	16872.00	2.7
2009-10	-6634.90	2842.00	-3792.90	12419.57	8626.67	1.3
2010-11	9729.10	9314.70	19043.80	3029.05	22072.85	2.8
2011-12	6408.30	9174.70	15583.00	780.50	16363.50	1.82

Sources: National Savings Directorate (NSD) and Bangladesh Bank (BB).

III. Tax structure

III.1 Tax Structure: Institution and the Reality

One of the major sources of public revenue to meet a country's revenue and development expenditures with a view to accomplishing some economic and social objectives, such as redistribution of income, price stabilization and discouraging harmful consumption. It supplements other sources of public finance such as issuance of currency notes and coins, charging for public goods and services and borrowings. The term 'tax' has been derived from the French word *taxe* and etymologically, the Latin word *taxare* is related to the term 'tax', which means 'to charge'. Tax is 'a contribution exacted by the state'. It is a no penal but compulsory and unrequited transfer of resources from the private to the public sector, levied on the basis of predetermined criteria.

According to Article 152(1) of the Constitution of Bangladesh, taxation includes the imposition of any tax, rate, duty or impost, whether general, local or special, and tax shall be construed accordingly. Rate is a local tax imposed by local government on its residents or the property owners of the locality, a duty is a tax levied on a commodity, and an impost is a tax imposed for an entry into a country. Under the provision of article 83 of the Constitution, "no tax shall be levied or collected except by or under the authority of an Act of Parliament". The imposition, regulation, alteration, remission or repeal of any tax is dealt with by the 'Money Bill', but except in case of reduction or abolition of any tax, the 'Money Bill' cannot be introduced in the Parliament without the President's recommendation.

A. National Board of Revenue(NBR)

The National Board of Revenue (NBR) is the apex authority for tax administration in Bangladesh, was established by President's Order No. 76 of 1972. It is under administrative control of Internal Resources Division (IRD) of the Ministry of Finance (MoF). MoF has 4 Divisions, headed by 4 permanent Secretaries to the Government, namely, the Finance Division the Internal Resources Division (IRD), the Banking Division and the Economic Relations Division (ERD). The Secretary, IRD is the ex-officio Chairman of NBR. The NBR consists of 15 members excluding chairman, 8 of whom comes from indirect tax (Income Tax) administration and 7 come from indirect tax (Customs and VAT) administration. The members are ex-officio additional secretaries to the government. NBR is responsible for formulation and continuous re-appraisal of tax-policies and tax-laws, negotiating tax treaties with foreign governments and participating in inter-ministerial deliberations on economic issues having a bearing on fiscal policies and tax administration. The main responsibility of NBR is to collect domestic revenue (primarily, Import Duties and Taxes, VAT and Income Tax) for the government. Other responsibilities include administration of all matters related to taxes, duties and other tax producing fees. Under the overall control of IRD, NBR administers the Excise, VAT, Customs and Income-Tax services consisting of total 607 officers of various grades and supporting staff positions.

Table 36: Manpower of National Board of Revenue

Class of Employees	Total approved post
First Class	158
Second Class	8
Third Class	318
Fourth Class	113
Total	607

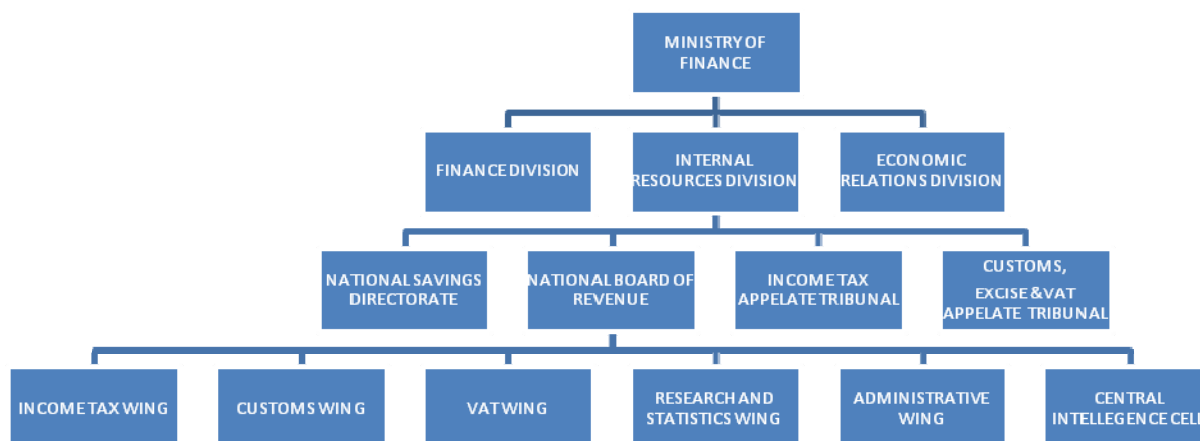
Source: National Board of Revenue

The NBR (2005) described its mission statement as follows: 'The NBR will collect taxes fairly and efficiently and will strive to maximize voluntary compliance with Bangladesh's tax law'. Commensurate with this mission statement, NBR defined its goal as follows:

1. To increase revenue collection targets through modernization of tax administration and procedures;
2. To develop a sound and transparent legal and regulatory system;
3. To identify areas where revenue is at risk and to deal firmly and fairly with non compliance;
4. To facilitate trade flows leading to speedy clearance of import /export cargo;

5. To develop and manage an effective revenue administration staffed with a well trained and motivated workforce;
6. To design and deliver fair, responsible, and effective enforcement mechanisms in ways that directly respond to changes in the economic environment and technological opportunities

Figure 5: Organizational Chart of Ministry of Finance and NBR

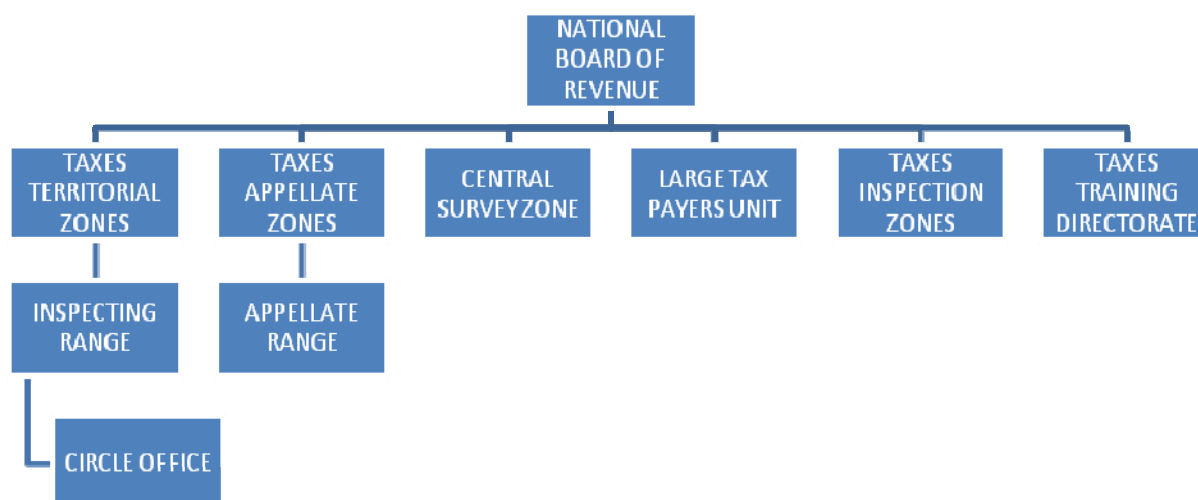


B. Direct Tax Administration

National Board of Revenue divided its total revenue collection arrangement into two wings- Direct Tax and Indirect Tax. Direct Tax collecting wing is known as Income Tax Department. Income Tax wing collects income tax, gift tax and wealth tax. Income tax administration is divided into two parts, Administrative & Judicial. Administrative authorities are mainly concerned with assessment and collection of taxes while judicial authorities deal with appeals, tribunals relating to income tax. There are four Members namely: Member (Tax Policy), Member (Administration & Management), Member (Inspection and Survey) and Member (Appeal & Exemption) working in the NBR. There are 15 territorial Taxes Zones and 5 Appeal Zones, one LTU, one Survey zone and one Inspection Directorate. Each territorial zone has around 22 circle offices, except LTU and Zone-8, Dhaka. A zone is headed by the Commissioner of Taxes where a Range office is headed by an Additional/Joint Commissioner of Taxes. A circle office is headed by a Deputy Commissioner of Taxes.

The circle office is the point to collect tax at field level. It is basically the building block of income taxes system where the officer in charge is responsible for receiving tax returns, assessment of returns, demand creation, collection of demands/enforcement, appeals management, reporting and all administrative functions. According to income tax ordinance a circle office is assigned by a Deputy Commissioner of Taxes who is a class one officer of income tax cadre. He or she is assisted by one inspector and few clerks.

Figure 6: Organizational Chart of Income Tax Department



There are 649 circle offices for collecting income tax. There are four types of circles depending on jurisdictions and type of activities. These are companies circle, salaries circle, contractor's circle and business circle. Basically, company circle handles company cases and individual cases of its directors. Salary circle and contractor circle holds jurisdiction of personal income tax cases of salary holders and contractors, suppliers respectively. A business circle holds territorial jurisdiction of sole proprietorship and partnership businesses. A typical circle office handles three thousand to four thousand income tax cases of its jurisdiction each year. Since in the circle everything is done almost manually with no significant support of information technology, managing a circle becomes a mammoth task for an officer. There are some circles which handle more than ten thousand files, which is almost impossible to manage efficiently by a single circle officer.

Table 37: Work force of Direct Tax Administration

Class of Employees	Total approved post
First Class	490
Second Class	717
Third Class	2,209
Fourth Class	5,324
Total	8,750

Source: National Board of Revenue (among 8,750 manpower 3501 new posts have been created recently)

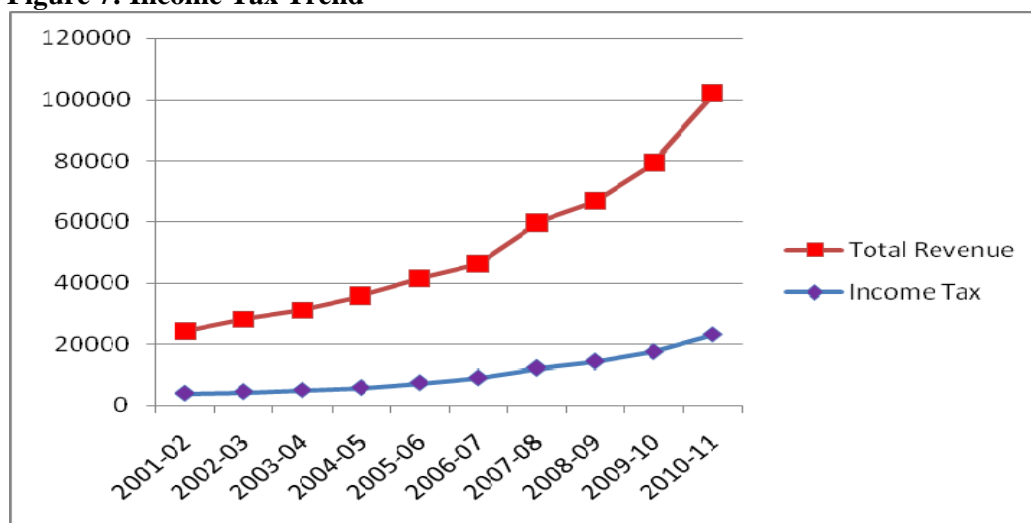
Supervising authority of Circle office is concerned inspecting range officer. By designation he is called Inspecting Additional commissioner of taxes or Inspecting Joint commissioner of taxes. A range officer normally assigned to monitor all functions of 4 to 6 circle offices. Range officer reports to Commissioner of Taxes who is the administrative head of taxes zone. Commissioner of tax is responsible for overall administration and management of a tax zone. He or she monitors every legal and administrative aspect of taxes under his zone. Generally, a tax zone consists of four range offices and around 20 circles.

Table 38: Performance of Income tax wing

FY	(In Thousand Crore Taka)									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Income Tax	3936.34	4465.44	5001.15	5827.47	7422.72	9050.05	12188.12	14274.21	17428.34	23119.82
Total	20207.21	23651.12	26193.77	29904.46	34002.43	37219.32	47435.66	52527.25	62042.16	79092.2
Income Tax as a % of total revenue	19.47988	18.88046	19.0929	19.48696	21.82997	24.31546	25.694	27.17487	28.09112	29.231479

Source: National Board of Revenue

Figure 7: Income Tax Trend



Income Tax Mechanism

Income tax procedure starts when a taxpayer submits returns. A taxpayer is required to submit return within the 30th September of every year at the respective circle. NBR may extend the dateline for return submission. Every taxpayer is entitled to submit return under Self Assessment System. Earlier only individuals have this opportunity but from FY 2007-08 NBR introduced Universal self Assessment system. By this system, all taxpayers are entitled to submit their return under self assessment. Because of Universal self assessment system, taxpayers are now free from any type of pressure from tax officials. After receiving the returns, tax authority checks the returns. If the tax official found any discrepancy in the return, they would call taxpayers for personal hearings. After hearing, tax authority issues an assessment order cum demand notice if additional demand is due from the taxpayer.

Legal foundation of Income Tax

- a) Income Tax Ordinance, 1984
- b) Income Tax Rules, 1984
- c) Avoidance of Double Taxation Treaty (with 27 countries)
- d) SRO's
- e) Finance Act/Ordinance – Income Tax Ordinance, 1984 (Comprises) – Substantive Law (23 Chapters, 8 Schedules)
- f) Income Tax Rules, 1984 (Forms & Procedures) – Subsidiary Law (97 Rules)
- g) Double Taxation Avoidance Agreements – 29 Countries.

Heads of Income

For the purpose of computation of total income and charging tax thereon, sources of income can be classified into 7 categories, which are as follows:

- 1) Salaries
- 2) Interest on securities
- 3) Income from house property
- 4) Income from agriculture
- 5) Income from business or profession
- 6) Capital gains
- 7) Income from other sources.

Registration

To become a taxpayer, every individual or company required to take a Taxpayer Identification Number (TIN). TIN is a computer generated 10 digit number which remains unchanged for a taxpayer

for always. Each taxpayer is assigned with a unique Taxpayer Identification Number (TIN). At present total number of TIN stood at around 3.3 million. For a country with a population around 150 million, this number seems very poor. It is to be noted that many of these TIN holders are not active taxpayers.

Who should submit Income Tax Return?

- a) If total income of any individual other than female taxpayers, senior taxpayers of 65 years and above during the income year exceeds Tk 2,20,000. If total income of any female taxpayer, senior taxpayer of 65 years and above during the income year exceeds Tk 2,50,000.
- b) If any person was assessed for tax during any of the 3 years immediately preceding the income year.
- c) A person who lives in any city corporation/paurashava/divisional HQ/district HQ and owns a building of more than one storey and having plinth area exceeding 1,600 sq. feet/owns motor car/owns membership of a club registered under VAT Law.
- d) If any person runs a business or profession having trade license.
- e) Any professional registered as doctor, lawyer, income tax practitioner, Chartered Accountant, Cost & Management Accountant, Engineer, Architect and Surveyor etc.
- f) Member of a Chamber of Commerce and Industries or a trade Association.
- g) Any person who participates in a tender.
- h) A person who has a Taxpayer's Identification Number (TIN).
- i) Candidate for Union Parishad, Paurashava, City Corporation or Parliament election.
- j) Any person who owns a credit card;
- k) Marriage registrar,
- l) ISD telephone holder.

Time to Submit Income Tax Return

For Individual Normally, by thirtieth day of September next following the income year.

For Company By fifteenth day of July next following the income year or, where the fifteenth day of July falls before the expiry of six months from the end of the income year, before the expiry of such six months.

For Other than Company Unless the date is extended, by the Thirtieth day of September next following the income year.

Consequences of Non-Submission of Return and Return of withholding tax

Imposition of penalty amounting to 10% of tax on last assessed income subject to a minimum of Tk. 1,000; In case of a continuing default a further penalty of Tk. 50 for every day of delay.

Consequences of using fake TIN

DCT can impose a penalty not exceeding TK. 20,000.

For continuous use of fake TIN deliberately- 3 years imprisonment, up to TK. 50,000 fine or both.

Assessment Procedures

For a return submitted under normal scheme, assessment is made after giving an opportunity of hearing.

For returns submitted under Universal Self Assessment Scheme, the acknowledgement slip is determined to be an assessment order. Universal Self Assessment is of course subject to audit.

Income Tax Rates

From assessment year 2013-14 National Board of Revenue introduced a new style of individual tax rates for individuals. NBR introduced separate tax rate for female, senior taxpayers of 65 years old and above (from FY 09-10, the age limit for senior taxpayer become 65 instead of 70). Female and old taxpayers will be required to pay tax if their initial income exceeds TK. 250,000. The overall tax rates for assessment year 2013-14 has been presented in the following tables.

Table 39: Tax Rate for General Individual (Assessment Year- 2013-14)

For individuals other than female taxpayers, senior taxpayers of 65 years and above, tax payable for the:

First	TK.220,000	Nil
Next	TK.300,000	10%
Next	TK.400,000	15%
Next	TK.300,000	20%
Rest Amount	-----	25%

Source: National Board of Revenue

Table 40: Tax Rate for Female and Senior Taxpayers (Assessment Year- 2013-14)

For female taxpayers, senior taxpayers of 65 years and above, tax payable for the:

First	TK.250,000	Nil
Next	TK.325,000	10%
Next	TK.425,000	15%
Next	TK.325,000	20%
Rest Amount	-----	25%

Source: National Board of Revenue

For retarded taxpayers threshold limit is TK.3,00,000

Minimum tax for any individual assessee located in City Corporation area is Tk. 3,000

Minimum tax for any individual assessee located in District headquarter is Tk. 2,000

Minimum tax for any individual assessee located in any other area is Tk.1, 000

Non-resident Individual 25% (Other than non-resident Bangladeshi)

Table 41: Tax rates for Companies (Assessment Year 2013-2014)

Publicly Traded Companies	27.5%
Non-publicly Traded Companies	37.5%
Banks, Insurance & other Financial Institutions	42.5%
Merchant Bank	37.5%
Cigarette Manufacturing Company	45%
Publicly Traded Cigarette Company	40%
Mobile Phone Operator Company	45%
Publicly Traded Mobile Company	42.5%

Source: National Board of Revenue

If any publicly traded company declares more than 20% dividend, tax rate would be 24.75% and if declares less than 10% dividend tax rate would be 37.5%.

If any non publicly traded company transfers minimum of 20% shares of its paid-up capital through IPO (Initial Public Offering) it would get 10% rebate on total tax in the year of transfer.

Fiscal incentives

The main goal of government to design such a tax policy by which local and foreign investment in the country will be benefited and the country will be able to attract more FDI. To motivate taxpayers government announces the following fiscal incentives.

a) Tax holiday

Tax holiday is allowed for industrial undertaking, tourist industry and physical infrastructure facility established within 1st July 2008 to 30th June 2011 in fulfillment of certain conditions.

Industrial Undertaking Eligible for Tax holiday

- 1) An industry engaged in production of textile, textile machinery, jute goods, high value garments, pharmaceuticals, melamine, plastic products, ceramics, sanitary ware, steel from iron ore, MS Rod, CI Sheet, fertilizer, insecticide & pesticide, computer hardware, petrochemicals, agriculture machinery, boilers, compressors, basic raw materials of drugs, chemicals and pharmaceuticals.
- 2) An industry engaged in agro-processing, ship building, diamond cutting.

Physical Infrastructure Eligible for Tax holiday

Sea or river port, container terminals, internal container depot, container freight station, LNG terminal and transmission line, CNG terminal and transmission line, gas pipe line, flyover, mono rail, underground rail, telecommunication other than mobile phone, large water treatment plant & supply through pipe line, waste treatment plant, solar energy plant, export processing zone.

Tourism Industry Eligible for Tax holiday

Residential hotels of three stars or more are eligible for tax holiday.

b) Accelerated depreciation

Accelerated depreciation on cost of machinery is admissible for new industrial undertaking in the first year of commercial production 50%, in the second year 30% and in the third year 20%.

c) Income derived from any Small and Medium Enterprise (SME) engaged in production of any goods and having an annual turnover of not more than taka 2.4 million is exempt from tax.

d) Industry set up in EPZ is exempt from tax for a period of 10 years from the date of commencement of commercial production.

e) Income from fishery, poultry, cattle breeding, dairy farming, horticulture, floriculture, mushroom cultivation and sericulture are exempt from tax up to 30th June, 2011, subject to investing at least 10% of the exempted income that exceeds Tk.100 thousand, in government bonds

f) Income derived from export of handicrafts is exempted from tax up to 30th June, 2011.

g) An amount equal to 50% of the income derived from export business is exempted from tax.

h) Listed companies are entitled to 10% tax rebate if they declare dividend of 20% or more.

i) Income from Information Technology Enabled Services (ITES) business is exempted up to 30th June, 2011.

Tax Rebate for investment

Rate of Rebate

Amount of allowable investment is either up to 25% of total income or Tk. 500,000 whichever is less. Tax rebate amounts to 10% of allowable investment.

Types of investment qualified for the tax rebate

- 1) Life insurance premium
- 2) Contribution to deferred annuity
- 3) Contribution to Provident Fund to which Provident Fund Act, 1925 applies
- 4) Self contribution and employer's contribution to Recognized Provident Fund
- 5) Contribution to Super Annuation Fund
- 6) Investment in approved debenture or debenture stock, Stocks or Shares
- 7) Contribution to deposit pension scheme
- 8) Contribution to Benevolent Fund and Group Insurance premium
- 9) Contribution to Zakat Fund
- 10) Donation to charitable hospital approved by National Board of Revenue
- 11) Donation to philanthropic or educational institution approved by the Government
- 12) Donation to socioeconomic or cultural development institution established in Bangladesh by Aga Khan Development Network

Tax withholding functions

In Bangladesh, withholding taxes are usually termed as Tax deduction and collected at source. Under this system, both private and public limited companies and any other organizations specified by law are legally authorized and bound to withhold taxes at some points of making payment and deposit the same to the Government Exchequer. The taxpayer receives a certificate from the withholding authority and gets credit of tax against assessed tax on the basis of such certificate. Around 65% of income tax revenue comes from tax withheld at source. In recent years, tax administration is putting much emphasis on this area. At present, there are 40 heads on which deduction or collection of tax at source is applicable.

Appeal

If a taxpayer is aggrieved with the assessment or not satisfied with the adjudication of tax officials

can go for appeal against that adjudication order. The law of the land has given the taxpayers a lot of options so that they can get the real justice.

- a) A taxpayer can file an appeal against the order of Assistant Commissioner of taxes or Deputy Commissioner of taxes to the Additional or Joint Commissioner of Taxes (Appeals)/ Commissioner (Appeals).
- b) If the taxpayer is not satisfied with the order of the higher officials of tax department he or she can go to the Tax Appellate Tribunal against the adjudication order.
- c) Against the adjudication order of Taxes Appellate Tribunal, the taxpayer with enough legal ground can further go to the High Court Division of the Supreme Court of Bangladesh.
- d) Finally, the aggrieved taxpayer may appeal against the verdict of High court Division to the Appellate Division of the Supreme Court.

Double Taxation Avoidance

The government may enter into an agreement with the Government of any other country for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income leviable under the Income Tax Ordinance 1984 and under the corresponding law in force in that country, and may by notification in the Gazette, make such provisions as may be necessary for implementing the agreement. The objectives of a Bangladesh Double Taxation Avoidance Agreement are as follows:

- a) To obtain a more effective relief from double taxation compared to relief gained under unilateral measures;
- b) To determine the income to be attributable to any person resident in Bangladesh having any special relationship with a non-resident;
- c) To create a favorable climate for the inflow of foreign investment into the country;
- d) To make special tax incentives provided by Bangladesh fully effective for taxpayers of capital exporting countries; and
- e) To prevent evasion and avoidance of tax.

In the year 1980, Bangladesh concluded its first Bangladesh double taxation avoidance agreement ever with United Kingdom. There are agreements on avoidance of double taxation between Bangladesh and 29 countries which are:

(1) United Kingdom of Great Britain and Northern Ireland (2) Singapore (3) Sweden (4) Republic of Korea (5) Canada (6) Pakistan (7) Romania (8) Sri Lanka (9) France (10) Malaysia (11) Japan (12) India (13) Germany (14) The Netherlands (15) Italy (16) Denmark (17) China (18) Belgium (19) Thailand (20) Poland (21) Philippines (22) Vietnam (23) Turkey (24) Norway (25) USA (26) Indonesia (27) Switzerland (28) Oman (29) Myanmar.

Large Taxpayers Unit (LTU) Income Tax

To modernize the direct tax administration, government introduced Large Taxpayers Unit (LTU) as test case under the pressure of some donor organizations in November, 2003. The LTU is called so-called functional unit. Except some exceptions, only the multinational and big companies are the stakeholder of Large Taxpayers unit. The concept is regarded controversial which created discrimination between the traditional tax circle office and LTU. Moreover, the LTU is functioning. But it is very difficult to assess its achievement because all big and fair taxpayers are the member of LTU. LTU is responsible for collecting more than 30% of the total income tax revenue. LTU arranged around 4 core factions of a typical tax administration

1. Taxpayer Services Wing;
2. Revenue Accounting Wing;
3. Tax Collection Enforcement /Appeal Wing;
4. Audit Wing;

In the organizational design audit function has the most emphasis. Major portion of human resource is allocated for audit function of LTU. Basic activities of each functional wing are as follows:

1. Taxpayers service wing

- a. Providing taxpayers' education

- b. Receiving returns and payments
- c. Apprising taxpayers

2. Revenue accounting wing

- a. Maintaining records of demand and payments
- b. Making all correction, revision of demand
- c. Maintaining all statistics audit report

3. Collection, enforcement/appeal wing

- a. Monitoring of collection of advance tax, outstanding tax
- b. Impose penalty on non-filers and defaulters
- c. Filing appeal before Tribunal, High Court
- d. Enforcement such as seizure, freezing, civil suit

4. Audit wing

- a. Selecting audit cases
- b. Determining audit points
- c. Test and verification of audit points
- d. Confront the audit findings with the taxpayer
- e. Determine the tax payable as per audit

B. Indirect Tax

As a least developed country, Bangladesh faces problems in generating enough tax revenues to fund its economic and social development. To address this problem and to improve economic efficiency and growth, a major tax reform program was initiated in 1991 which centered on the introduction of a valued-added tax (VAT) to replace a range of narrowly-based consumption taxes. With the recommendation and help of International Monetary Fund (IMF) and World Bank (WB) Value Added Tax Act and Rules made there-under were drafted and the Customs and Excise Department was entrusted to implement the VAT system in Bangladesh. Lastly, VAT system was introduced on 2nd June, 1991 through promulgation of Value Added Tax Ordinance, 1991 (Ordinance 26 of 1991). Later on at the Budget (FY 1991-92) time the Value Added Tax Act, 1991 was passed duly. At the time of introduction the VAT was applicable only at the import stage, manufacturing stage and service rendering stage. But now it is extended to all levels with wholesale and retails.

VAT Administration

Indirect taxes in Bangladesh are Customs duties, VAT and Excise duties. Indirect tax administration basically divided into two broad wings, one is VAT wing and the other one is Customs wing. Personnel are appointed exclusively for indirect tax administration, and officials work in different wings of indirect tax administration in a regular rotation. In case of indirect taxes, officials of Customs, Excise and VAT department are responsible for collecting total indirect taxes under the same administration. Indirect tax administration is divided into two parts, Administrative & Judicial. Administrative authorities are mainly concerned with assessment and collection of indirect taxes while judicial authorities deal with appeals, tribunals relating to indirect tax. There are 7 Members (Customs and VAT) are working in the NBR. There are 11 Customs, Excise and VAT Commissionerate, 6 Customs House, 2 Customs Bond Commissioerate, 4 directorates, 1 Academy, and one LTU, 84 division and 254 circles. All offices are headed by the Commissioner of Customs and VAT except division and circle office. A division office is headed by an Assistant /Deputy Commissioner of Customs and VAT. A circle office is headed by a Revenue officer.

Circles and division are the basic units for VAT. Division office gives the VAT registration, value approval, turnover tax registration and circles office collects revenue and returns. Circles and division offices are monitored by Commissionerate office. Customs house collects import and export revenue, facilitates trade, Customs Bond commissionerate monitors the activities of export oriented industry.

Figure 8: organizational chart of Indirect Tax department

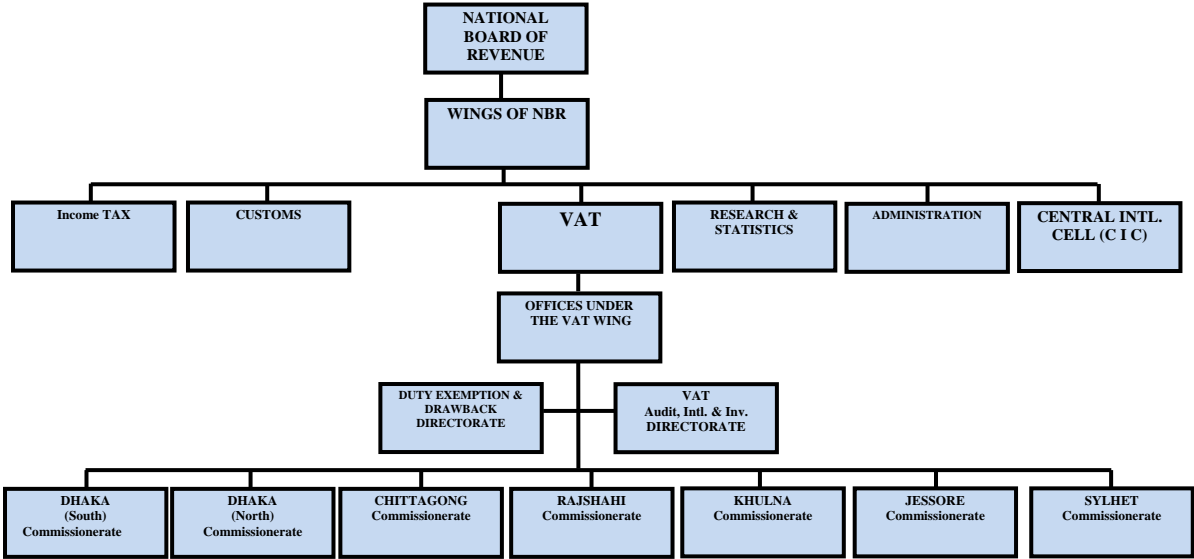
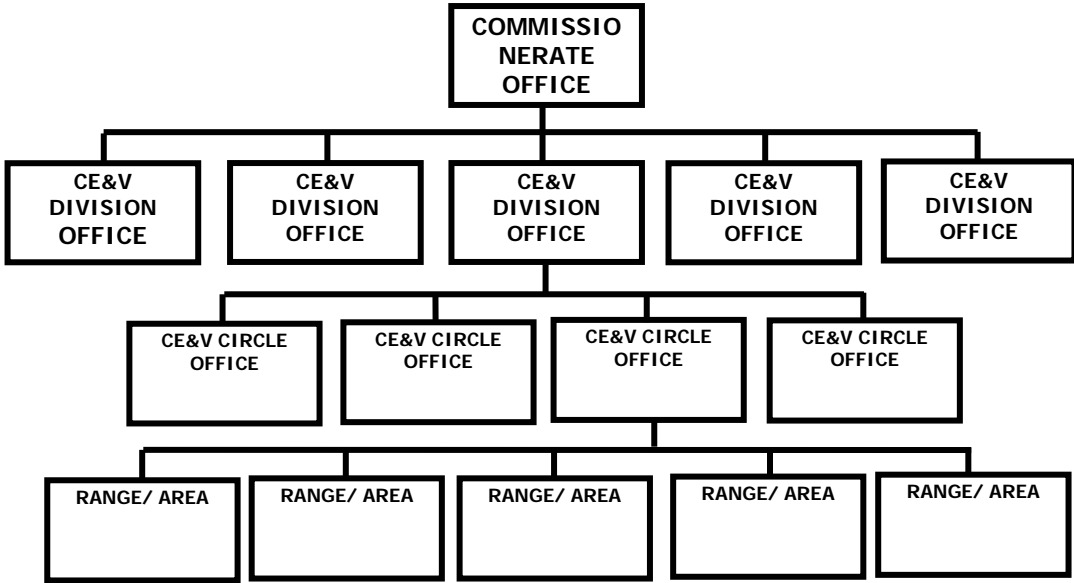


Figure 9: Organizational Structure of VAT (Field Administration)



Each Commissionerate Office is headed by a Commissioner, Division Office is headed by a Deputy/Assistant Commissioner and Circle Office is headed by a Revenue Officer (RO). Circle Office is the grass root level office of VAT system in Bangladesh which directly deals with the tax payer and the Range Officer performs his duties from Circle Office.

Table 42: Work force of Direct Tax Administration

Class of Employees	Approval Post
First Class (Cadre)	531
First Class (Non Cadre)	933
Second Class	4668
Third Class	5785
Fourth Class	743
Total	12660

Source: National Board of Revenue

Value Added Tax (VAT) legal frame work

The legal frame work of Value added Tax Act is as follows:

02 July 1991 and onwards: The Value added Tax Act 1991

However, the VAT Act does not consist of only the main statute; rather these encompass a number of statutory elements as follows:

1. Value Added Tax Act 1991 – the parent statute;
2. Value Added Tax Rules 1991;
3. S.R.O. (Statutory Rules and Order)/Gazette Notification;
4. Value Added Tax Circular;
5. General or Special Order;
6. Explanation/Office Memorandum;
7. Verdicts of Appellate Tribunal for equivalent fact;
8. Verdicts of the High Court Division on question of law; and
9. Verdicts of the Appellate Division on judgment of the High Court Division.

Imposition of VAT (Section -3)

(1) VAT shall be imposed and payable, at the rate of 15% on value determined under section 5 of VAT Act, on all goods imported into Bangladesh, except the goods listed in first schedule of VAT Act, and on the supply of all goods not listed in the said schedule and on all services rendered in Bangladesh, except services specified in second schedule of that Act.

(2) 0% rate for export or deemed export goods or services.

(3) VAT shall be paid by-

- (i) For importation of goods- Importer;
- (ii) For supply of goods- supplier;
- (iii) For service- Service provider;
- (iv) For importation of service- Service receiver (Reverse VAT charge)

Application of VAT rate (section 4)

(1) For supply of goods or service- applicable VAT rate will be determined under section 6(2) and 6(3);

(2) For importation of goods- applicable VAT rate will be determined under section 30 of Customs Act 1969;

(3) For importation of service- applicable VAT rate will be determined by the time for payment.

Determination of Value for VAT (section 5 & rule 3)

(a) Import Stage:

Customs Assessable Value under section 25 or 25A of Customs Act + Customs duty + Supplementary Duty+ other duty and Tax (Except AIT)

(b) Domestic/Local Stage:

1) Goods (manufacturing): Price of Inputs +Production cost + Profit, Charge, Fee and Commission + Supplementary duty + other duty and Tax except VAT paid in previous stage.

Before supplying of any goods manufacturers have to declare his price of his products in ‘Mushak-1’ form before divisional officer and can start supplying goods from the date of declaration. The divisional officer will make inquiry of the price and if finds ok he will give approval of the price. If he doesn't agree with price he will give hearing to the producer and will give his decision.

2) Services: total receipts excluding VAT but including supplementary duty

3) NBR can fix Tariff Value for any goods and service. In case of Tariff value price declaration is not mandatory but if anyone wants to sell goods or service on the basis of actual value addition then he has to declare the price and has to take approval from divisional officer.

Time for Payment (Section-6)

1. For imported goods, VAT is to be paid at the time of paying import duty
2. For supply of goods VAT is to be paid on the following activities whichever occurs first
 - When the goods is delivered or supplied.

- When an invoice relating to the supply of goods is given
 - When any goods are used personally or given for use to another person
 - When the price of the goods is received in part or full
3. For services rendered by registered persons/ business, VAT is to be paid on the following activities whichever occurs first
- When the service is rendered.
 - When an invoice relating to the rendering of service is given
 - When the price of the services is received in part or full

Supplementary duty (section 7)

Supplementary duty is imposed on some luxurious goods and service stated in 3rd schedule of VAT Act. The rate of supplementary goods for different goods and services are stated in that schedule.

Turn over Tax (section 8 & rule4)

If annual turnover of a taxpayer is less than 6 million Bangladeshi taka then he doesn't need to be registered as VAT tax payer. He has to give 4% tax on his annual turnover. But some supply of goods and services are under VAT regardless of annual transaction.

To be enlisted as a turnover tax payer any person has to apply in 'Mushak-6' before divisional officer. After investigating everything, if he is satisfied will register him as turnover tax payer. The penal section, refund, government dues will be as like as VAT.

Tax Credit (section-9, rule 19, 20, 21) and Duty Draw Back (Section -13 & rule 29, 30)

Supplier or trader of taxable goods or provider of taxable service may take input tax credit (within 30 days following the date on which entire inputs mentioned in the invoice or bill of entry enter into the Taxpayer's premise of production, delivery or service rendering) against output tax payable on goods supplied or service rendered in every tax period except the following cases-

- a. VAT paid on inputs in the production of exempted goods;
 - b. Turnover tax paid inputs procured from a Turnover taxpayer;
 - c. Supplementary duty paid on inputs used in the production of goods or rendering service;
 - d. VAT paid on reusable package at any other time except for the first time;
 - e. The VAT paid on goods and services related to the construction, balancing, modernization, replacement, expansion, renovation, and repair of any building or structure or establishment; purchase and repair of all kinds of furniture, stationary, air conditioner, fan, lighting equipment, generator etc, architectural plan and redesign, though directly related to production of taxable goods and services;
 - f. Various goods and services related to production or supply of taxable goods or rendering of taxable service, the VAT paid in excess of the rate of VAT on such goods and services set by the rule;
 - g. VAT paid against expenditure on travel, entertainment, staff welfare and development activities;
- gg.
- (1) VAT paid on the inputs which are not included in the taxable value base of goods mentioned in sub-section (2) of section (5);
 - (2) Input Tax paid on inputs purchased by traders who are mentioned in the 2nd proviso of sub-section (2) of section (5);
- h. VAT paid on inputs purchased by the specified service provider as per proviso of sub-section (4) of section 5;
- hh. Input Tax paid on inputs purchased by the trader mentioned in sub-section (4a) of section 5;
- i. VAT paid on inputs purchased by a supplier who supplies goods at tariff value fixed as per proviso of sub-section (70 of section (5);
 - j. Input Tax mentioned in invoice or Bill of entry with a registration number of the concern supplier or trader or renderer of service;
 - k. VAT paid on goods under the custody or possession or occupancy of other person;

Taxpayers are entitled to drawback of VAT, supplementary duty, import duty, Excise Duty, and all other duties and taxes (except AIT). If a taxpayer supplies goods to domestic market as well as exports goods then he can take the drawback by himself in account current. There are two types of draw back-

- (1) Flat rate- for some items exporter can go to his lien bank and can draw his draw back from bank by submitting available documents.
- (2) Full drawback- for 100% exporter go to duty exemption and draw back (DEDO) office to get back all types of taxes (except AIT).

The difference between Tax credit and Duty Draw Back is credit allows only for input VAT but Draw back allows all type of duty and Tax.

VAT registration

There are two types of registration-

(1) The person who imports or supplies goods and services (except goods of 1st schedule and service of 2nd schedule) have to take VAT registration under Section-15. He has to apply in form 'Mushak-6' before divisional officer.

(2) Any person exempted from registration under section 16 may apply for voluntarily registration (Section-17)

Keeping of Accounts (section 31):

- (1) Import bill of entry
- (2) Statement all purchase of goods and services, taxable and exempted, and challans related thereto
- (3) Statement all supply of goods or rendering of service, taxable or exempted, or export of those goods or service and challans related thereto
- (4) Account current
- (5) Statement of accounts of deposited money
- (6) Statement of stock of inputs and goods manufactured or produced
- (7) Such books and records as may be set by special Rules.

Time for submission of Return (Section-35 & rule 24)

Every manufacturer or producer or trader of taxable goods or renderer of taxable service shall have to submit return in form 'Mushak-19' for each tax period within 14 working days of the next month after tax period (Tax period- one month).

Offences and Penalties (section 37 and section 37 A):

(1) For irregularities such as if anyone fails to submit an application for registration or fails to submit return within the specified date or fails to inform VAT officer about any change of information relation to registration or fails to comply of any summons under section 25 the he shall be liable to pay minimum 10 thousand taka and maximum twenty five thousand taka (section 37 (1)).

(2) if any person-

(a). fails to give tax invoice or gives an untrue invoice in the context of important information; or

(aa). Fails to pay VAT, or VAT and supplementary duty on goods supplied or service rendered by him being directed twice by the concerned officer; or

(b) Submits untrue return in the context of important information; or

(bb) attempts to evade tax by supplying goods without recording information in Account Current book (VAT-18) or in sales book (VAT-17); or

© evades or attempts to evade Tax by submitting counterfeit or false documents to a VAT officer; or

(d) Doesn't preserve required documents, or destroys documents; or

(e) Consciously makes a false statement or declaration; or

(f) Obstructs or prevents any VAT officer on duty; or

(g) if any person involved in receiving, taking possession, carrying of such goods where VAT or VAT and supplementary duty has been evaded; or

(h) if anybody takes input tax credit through fake or counterfeit VAT invoice; or

(i) Evades or attempts to evade VAT or VAT and supplementary duty by any other means;

He shall be liable to pay minimum same amount of evaded tax and maximum 2.5 times to evaded tax and any other case not related to tax evasion, he shall be liable to pay minimum ten thousand taka and maximum 100000 taka (section 37 (2)).

If any taxpayer fails to pay tax or any withholding agency fails to deposit money in the government treasury then 2% interest will be added in addition to the due amount.

Special judge (section 37 A)

With the permission of NBR, an officer not below the rank of an Assistant Commissioner can file a case before special judge for any offence stated in section 37(2).

Appeal (section 42)

If a taxpayer is aggrieved with any decision or order of any VAT officer he may choose to go for appeal and can choose among the following alternatives.

1. Can appeal to commissioner (Appeal) against the decision or order issued by an Additional Commissioner or any VAT officer subordinate to him;
2. The appellant can choose to go to the Customs, Excise and VAT appellate Tribunal authority against the decision or order issued by the Commissioner, the Commissioner (Appeal) or any VAT officer subordinate to him;
3. If the appellant is still unsatisfied with the order passed by the appellate Tribunal and, the taxpayer with enough legal ground can further make a reference to the High Court Division of the Supreme Court of the country. Finally, the aggrieved taxpayer may finally appeal against the verdict of High court Division to Appellate Division of the Supreme Court.
4. If any person wants to file an appeal, he shall have to pay at the time of his filing appeal,-
 - (a). in case of an appeal to commissioner (Appeal), 10% of the fine charged or tax demanded;
 - (b). in case of an appeal to Appellate Tribunal), 25% of the fine charged or tax demanded;
 - (c). in case of an appeal to commissioner (Appeal), 15% of the fine charged or tax demanded if the Appeal is made against the order of Commissioner (Appeal)
5. If Appellate Tribunal fails to give any decision on the appeal within 9 months from the date of receipt, the appeal shall be deemed to have been granted by the appellate authority.

Realization of Short-levied or Unpaid and other duties and Taxes (section55)

- (1) If VAT or VAT and supplementary duty has not been imposed or paid or has been short imposed or short paid or has been erroneously refunded or drawback of VAT, supplementary duty, Customs duty, excise duty and other duties and taxes (excluding AIT) has erroneously repaid under section 13 or duty and taxes payable on any goods supplied or service rendered in Bangladesh has been adjusted due to inadvertence or wrong interpretation then the concerned VAT officer shall, within the five years from the date on which the said duty or VAT became payable or short paid or refunded or repaid or drawback or adjusted, issue a show cause notice demanding the duty or VAT
- (2) But if anybody hides any information for tax evasion or evades tax by submitting false documents then the time limit of five years will not be applicable.

Recovery of Government dues (section 56 & rule 43)

- (1) When any amount of money is due from a person under VAT Act 1991, VAT officer will recover the under the following procedures –
 - (a) will deduct the money from himself or Income tax, Excise or Customs held under his control, when any of them owe money to the person from whom the money is recoverable;
 - (b) Can freeze his bank account;
 - (c) Can stop removal of any goods or rendering of service from the business promise or seize vehicle (with or without goods) of the business firm until the said money is fully collected;
 - (d) Keep business premises of the said person is unlock;
 - (e) Can attach or sell without attachment the moveable or immovable property;
 - (f) Can recover the money by seizing and selling the goods;

- (g) If the ownership of the firm is transferred, the money is recoverable from the new owner;
- (h) Can lock his Business Identification Number (BIN)

(2) If the money is not recovered in the procedures stated above the officer file certificate case before district collector and money will be recovered under Public Demand Recovery Act.

The VAT officer shall have to remind at least twice the concerned person in writing before taking action under section 56. If his business premises is to be put under lock or his movable or immovable property is to be attached and sold or sold without attachment he shall be noticed at least two weeks' notice and if the person desires for hearing then it is mandatory to give him the opportunity.

Refund (section 67)

- (a) If VAT or VAT and supplementary duty is paid or over paid due to inadvertence, error or misinterpretation, or any other reason then refund can be claimed in FORM "TR-31" to divisional officer within six months of the payment;
- (b) Concerned officer will give his decision within 90 days of the receipt of the application for refund.

Audit (section-26A)

An officer not below the rank of Joint Commissioner can give order for an audit. VAT Commissionerate and VAT audit and investigation office are responsible for conducting audit. The main function of The VAT audit and investigation department is to conduct audit, intelligence and investigation of the vulnerable VAT units throughout the country. The officials of this office conduct secret investigation and intelligence work to find VAT evaders and on confirmation, they take intensive to audit the selected business unit. The VAT Commissionerate also conducts audit activities in a regular basis to ensure the transparency in VAT. But VAT audit department conduct their audit independently all over the country. If they find any discrepancy, they send the report to the respective VAT Commissionerate to collect the unpaid revenue or to take the necessary measures against the taxpayers.

If an audit is done by VAT office then generally any other VAT office will not conduct further audit unless they have sufficient information that the firm is evading tax.

Tax Payment Procedure

In VAT system, VAT is paid on the following two procedures:

- (a) By registered person: Registered person will collect VAT from buyer or service receiver when he supplies goods or renders service. He will keep the amount of input VAT as credit and deposit rest of the part in treasury. VAT is paid in some cases by account current in this system.
- (b) Withholding deduction:

In all stages buyer of goods or receiver of service paid the VAT at a fixed rate. The seller of goods or service provider deposits the money in Government treasury which is collected from buyer of goods or receiver of service. it means the tax payer is treated as source of that tax. The seller of goods or service provider is treated as tax collector only. But the withholding system is just opposite to that system. In this case the receiver of goods or service i.e. VAT payer is bound to deposit his payable tax into government treasury. As the buyer of goods or service receiver i.e. the person who pays VAT deposits VAT by himself so it is called tax deduction at source.

Withholding authorities of VAT deduction in Bangladesh are-

- (1) Government, semi government or autonomous organization;
- (2) NGO;
- (3) Bank, insurance, or other financial institution;
- (4) Limited company;
- (5) Education institution.

Responsibilities of a business man

To conduct a business related to goods or service which is under the coverage of VAT, a business man has to do the following responsibilities-

- (a) Has to register himself before starting business;
- (b) Has to take approval if he changes any information related to business;

- (c) Has to take value approval where necessary;
- (d) Has to maintain all Challans (invoice) and register books;
- (e) Has to deposit all taxes according to law;
- (f) Has to submit returns for every tax period;
- (g) Has to be careful of all lawful right so that he can take all advantages of law.

Responsibilities of consumer

Consumer pays VAT in VAT system. Business man doesn't pay VAT; they act as collector and deposit the VAT in government treasury. Consumer pays the VAT from his own earning for building his nation. It's the responsibility of government and consumer to make sure that the paid VAT by consumer is being deposited properly. If consumers become little bit careful then he can make confirm of his tax from his earning into government treasury by taking invoice from seller of the goods or service providers. If he doesn't take invoice then his paid VAT will be kept by business man.

Large Taxpayers Unit (VAT)

Large Taxpayers Unit (VAT) was established in 2004. This unit was set up after the implementation of income tax LTU. Almost all big multinational and national organizations are registered under LTU (VAT). As only the big enterprises and the multinational companies who have big volume of business, pay tax in LTU and as LTU has set up few years back and deals with big business holder, it is very difficult to evaluate the performance of LTU in government revenue collection.

VAT Revenue

Performance of VAT revenue in national budget is significant. In spite of many exemptions, VAT is the leading revenue in NBR. Its contribution is the highest in the total revenue of NBR.

Table 43: Performance VAT

Particulars	(In thousand crore taka)									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Value added tax	69.61	80.73	85.75	106.05	123.98	136.83	170.13	201.16	241.40	275.27
Total Revenue	207.3	237.5	270.5	305	344.56	374.79	459.7	530	621.57	790.92
VAT as % of Total Revenue	33.33	33.61	31.7	34.77	35.98	36.5	37.0	37.95	38.84	34.80

Source: National board of revenue

Factors and Constraints in VAT Management in Bangladesh

There are so many factors and limitations to implement and run the modern VAT system in Bangladesh. Shortly these are mentioned below:

- a. Lack of modern tax culture in the trade sector and Govt. machinery
- b. Negative mentality of the business people about the payment of tax
- c. Excessive wants of manpower
- d. Lack of adequate education and skill in the field level of tax department
- e. In adequate fund and logistics for the tax department
- f. Lack of automation

C. Customs

In addition to the long-served role as a collector of state revenues at the border, Bangladesh Customs is now responsible for administering trade with other countries and securing the economy and society with respect to the cross border movement of goods. Like other developing countries Bangladesh Customs is still acting like fiscal frontier.

Tariff Structure

As one of the founding members of WTO, Bangladesh has to abide by such obligations as reduction of tariff rates and facilitation of trade as set out in the agreement. In compliance with the obligations, tariff rates are being decreased each year. The number of effective slabs in FY 1991-92 was 18 and the highest tariff rate was 350 percent. Until 1999-2000, custom tariff was divided into 3 categories. To simplify the tariff structure, these three categories, namely, general exemption, concession rates and statutory rates, have been made equal in FY 2000-01. Since then, Bangladesh has been pursuing the

most favorable nation (MFN) tariff rates. Table 44 below shows the tariff structure shows the maximum tariff trend from FY 2000-01 to FY 2010-11.

Table 44: Tariff structure

FY	Tariff rates (Import)	Maximum tariff	Slab
2000-01	0,5,15,25,37.5	37.5	5
2001-02	0,5,15,25,37.5	37.5	5
2003-04	0,7.5,15,22.5,32.5	32.5	5
2004-05	0,7.5,15,22.5,30	32.5	5
2005-06	0,7.5,15,25	25	4
2006-07	0,6,13,,25	25	4
2007-08	0,5,12,25	25	4
2008-09	0,10,15,25	25	4
2009-10	0,3,7,12,25	25	5
2010-11	0,3,5,12,25	25	5

Source: National board of revenue

Custom Assessment system

Bangladesh Customs started the process of taking off from traditional Customs to the modern Customs in the early 90s. This was done with the introduction of version 2.0 of ASYCUDA, software developed by UNCTAD, in 1994. Under the reform projects like Customs Administration Modernization (CAM) project and Modernization and Automation Project (MAP), NBR upgraded the automation software, from ASYCUDA version 2.0 to ASYCUDA++ version 1.6 to ASYCUDA++ 18.d which has the following notable features-

- a. Declaration processing
- b. Selection of lane for risk management (Green, Yellow, Red)
- c. Assessment of goods
- d. Payment and release of goods
- e. Log register of users.

To further facilitate the trade, NBR has been attempting to introduce a single window system at every Custom House. With a view to encouraging Public Private Partnership (PPP) NBR, in cooperation with

Different chambers of commerce and industry, has undertaken an automation project to enable the users and stakeholders of different Customs house to use online facilities through interfacing. Under that project, bill of entry module for online submission of Customs declaration (direct Traders Input) by importers or clearing and forwarding (C&F) agents, and Manifest Module for online submission of Import General manifest (IGM) or Export General manifest (EGM) by shipping agents. NBD has installed container scanner at CHC. NBR has already taken plans to upgrade its system with the latest version ASCUDA World.

Valuation System

The value of imported goods is determined in according to the proviso of section 25 or 25A of Customs Act 1969. Customs duty is livable on any goods by the price actually paid or payable or nearest ascertainable equivalent of such price, at which such or like goods are ordinarily sold, or offered for sale, for delivery at the time and place of importation. The value shall include the freight, insurance, commission and all other cost, charges and expenses incidental to the sale and delivery at the place of importation or exportation, where the seller and buyer have no interest in the business. This value is called transaction value. The value declared by the importer or the pre-shipment (PSI) agency on behalf imported i.e. transaction value is the base for assessment. The value is checked by the Customs officer in according to Customs Valuation Rules 2000. The valuation rules follow the GATT valuation method. As a member of WTO, Bangladesh has implemented the Agreement on Tariffs and Trade (GATT), 1994 (Customs Valuation Agreement). Valuation is a severe problem in customs department. Importer in collaboration with PSI agency declares lower price and when customs authority finds the declared value is not correct then the importer goes to court. If any assessment officer (assistant revenue officer) wants to enhance the value he has to take approval from the officer not below the rank of an assistant commissioner.

Provisional Assessment

According to section 81 of Customs Act, if any assessment is not possible due to chemical or other test or for a further enquiry for purposes of assessment then the officer not below the rank of an assistant commissioner may order that the duty payable on such goods be assessed provisionally by accepting additional amount as security or bank guarantee from a schedule bank. The provisional assessment has to be finalized within 120 working days from the date of provisional assessment.

Examination of goods

Under section 198 of the Customs Act customs authority is entitled to examine the goods. Examination is a very difficult job and it is not possible to examine every consignment so 10% of the total consignment which are imported under PSI is selected for consignment among which 6% is selected by system and rest 4% is selected by commissioner of customs. For non-PSI consignments there is no percentage limitation.

Pre-shipment

Bangladesh Customs is facing severe shortage of manpower as there is no direct recruitment of basic officer (assistant revenue officer or inspector) since 1981 due to court cases. On the other hand due to retirement manpower is also decreasing. According to somebody, World trade is changing first but due to shortage of competent manpower Customs authority was not in a position to be synchronized with world trade and huge volume of export and import. So to reduce the work load Government of Bangladesh introduced PSI system though Bangladesh Customs authority claims they are competent enough in handling those matters. For recruiting PSI agency section 25A is introduced in Customs Act. Four PSI agencies are working on behalf of Customs. They examine the goods before shipment and issue a certificate which is known clean report on findings (CRF) ascertaining value, harmonized system (HS) code, quantity and quality of goods. PSI Company ascertains the value according to GATT valuation method. There is some huge allegation of patronizing importers for under-invoicing against PSI agency. PSI Company intentionally issues lower price. The license of one PSI agency was cancelled due to this type of behavior. PSI fees are collected from importer as a result huge amount of foreign currency is going out. According to section 25B of Customs Act government can exempt any goods from mandatory PSI. Bangladesh Customs is now recruiting fresh officer and its capacity is increasing so government has taken a decision to phase out the PSI.

IV. Country Specific Fiscal Issues

Bangladesh has been attempting to boost up the economy of the country through various development policy and programs. Government has been implementing the Five Year Plan and prioritizing the development necessities. At the same time, it has been encouraging private sector and foreign investors to invest more in the country. However, some fiscal indicators show the underperformance of these attempts and country is still remain as low income country of the world. There are some fiscal issues which are very indispensable to address to accelerate the economic growth of the country.

Inconsistent Economic Growth

The economic growth rate of the country, a major indicator of economic development, has not been consistent. High and sustainable growth only can expand the size of economy and create employment in the country. Bangladesh has been able to achieve GDP growth at more than 6 percent on an average during the last decade. But this growth was not consistent due to political instability of country and global financial crisis and other factors. During FY 2009-10 and FY 2010-11 and FY 2011-12 were 6.07 percent and 6.71 percent and 6.32 percent respectively. Achieving the double-digit economic growth rate and creating a platform so as to make the nation economically prosperous has been a major challenge.

Trade Deficit and Export Diversification

The trade deficit widened by 14.7 percent in FY 2011-12 owing to the relatively larger expansion in import expenditure compared to the increase in export earnings. Government should take necessary steps to reduce trade deficit by increasing the volume of exports. But Bangladesh's export is confined both in terms of product diversification and destination. Although 76 percent of export earnings come from the RMG sector, this sector still has some problems. Bangladesh should give more attention to enter into new market and to diversify its export in terms of products and new export destination.

Domestic Resource Mobilization

The National Board of Revenue (NBR), as the apex authority of tax policy and administration in Bangladesh, plays a significant role in the development of the country. In recent years, Bangladesh's tax collection has recorded an impressive growth. Despite this good achievement, Bangladesh's tax-GDP ratio at 10.81% remains quite low compare to other South Asian countries. Less than 1% of the population pays income tax and tax evasion is persistent even though a significant amount of tax revenue is given up in the form of tax incentives. Most of NBR's processes are manual and scope of taxpayer service and taxpayer education is limited. The NBR also faces problems in its functioning due to its current administrative structure. Despite being under the same board, the different wings of the NBR (Income Tax, Value Added Tax (VAT) and Customs) operate almost independently providing little support to each other in combating tax evasion and providing a unified front to taxpayers. Moreover, the NBR faces the problems of acute shortage of trained manpower as well as physical infrastructure.

Inflation

Inflation rate is still high though its increasing trend could be curbed by a little. The rising inflation was triggered mainly by the continuous rise in international commodity prices including food, fuel and fertilizers, and by the higher-than-targeted money supply growth, Taka depreciation, and the successive upward adjustments of administered energy and petroleum prices in the domestic market.

Population

The population of Bangladesh has been one of the major problems to the economical growth. Policies and programs by Government and NGOs have been constantly trying to reduce the birth and growth rate. Bangladesh is the eighth most populated country in the world, having a population above 149 million with population density of almost 1015 people per kilometer. If the population growth rate is not controlled, according to the steady growth calculation, the population is expected to be more than 300 million people by 2050. The over-sized population has thrown a severe challenge for the

future development of the country's economy exerting huge pressure on environment and available resources, limiting agricultural growth and food grains production through reduction of arable land for housing and non-agricultural purposes; raising requirement for food grains and increasing the number of poor population.

Poverty

The poverty is one of the major problems in Bangladesh. Although, Bangladesh has been considering poverty alleviation as a main priority sector of the 6th Five Year Plan, 31.5% its total population still lives under poverty line. Poverty itself is related to socio economic dimensions of the society. In this context, it is a big challenge of reducing the poverty through poverty alleviation oriented programs to make the people economically and socially well-off.

Unemployment

The country has not been able to generate enough employment opportunities for the labor force entering the labor market every year. This has increased unemployment rate in the country on one hand, while millions of youth are flying overseas for foreign employment on the other. Hence, providing employment opportunities to the available human resource is a big challenge. The number of foreign employment seekers is surging up every year and the income from remittance is also growing at the same time.

Climate change and Bangladesh economy

Environment and natural calamities plays a vital role against the economical and infrastructure development of Bangladesh. The disastrous effect of several cyclones and hurricanes are still imparting pressure on the national economy. Climate change is an important cause for unequal economic growth, over consumption, production and environmental injustice for developing and low income countries. Bangladesh is already facing many of the harmful impacts of climate change due to its geophysical location, hydrological influence by monsoon rainfall and changes in regional water flow patterns. According to the IPCC report, Bangladesh will experience 1.0 to 1.4°C rise in average temperature in 2030-2050.

V. Conclusion: Where We Stand and Where We Go?

Over the past 40 years since independence, Bangladesh has increased its real per capita income by more than 130 percent, cut poverty rate by sixty percent, and is well set to achieve most of the millennium development goals, achieving economic growth an average rate of 6% in the last decade. The economy today is more flexible and resilient, as indicated by the ability to withstand the global financial crisis with minimum adverse effects. Bangladesh also is now much more capable of handling natural disasters with minimum loss of life. Bangladesh achieved this remarkable progress with development despite numerous internal and external constraints. Notwithstanding this progress, Bangladesh is still a low income country with substantial poverty, inequality and deprivation. An estimated 47 million people are living below the poverty line with a significant proportion living in households which are female headed, in remote areas, and consisting of socially excluded and other vulnerable people. Most of the labour force is engaged in informal low productivity and low income jobs. The access to secondary and tertiary education is limited and the quality of education at all levels is deficient. The poor group of the population is severely disadvantaged in terms of ownership of assets and has inadequate access to institutional finance as well as to basic services including quality education, healthcare, water and sanitation. These people, and among them especially women and children, are also disproportionately affected by natural disasters and the adverse effects of climate change. Despite expansion, publicly supported mitigating measures in the form of social protection programs are still inadequate.

Bangladesh has one of the lowest tax-to-GDP ratios in the world and the ratio has not improved much over the last several decades despite the pickup in real GDP growth rate. While Bangladesh's legal tax rates are not low by the regional and international standards, because of inefficiencies in tax administration and inadequate coverage, the tax-to-GDP ratio has remained virtually stuck at below 11% level over many years. The introduction of the Value Added Tax (VAT) in 1991 boosted revenue performance for several years, but the momentum could not be sustained due to lack of modernization of tax administration and ad hoc arrangements put in place for political and administrative expediency.

There are numerous management and administrative problems and issues in the revenue department including shortage of sufficient trained officials and inspectors, inadequate information and communication technology support, lack of modern ICT based system in the Value Added Tax and Income Tax wings, lack of transport and other necessary supports impairing strict enforcement and monitoring on tax evaders, and most importantly, the absence of a proper revenue culture. If the management decides to modernize revenue administration with efficient software, hardware and human resources, the scenery of revenue collection would be changed noticeably. In the year of 2004, Central Intelligence Cell (CIC) was established under the direct control of NBR to retard the evil activities of the tax evaders. The use of Electronic Cash Register (ECR) in the medium and large traders and service providers of all city corporations areas in the district headquarters were made mandatory from the July 01, 2008. Recently, the government has taken decision to set up NBR wings at the upazilla level and greater use of universal tax assessment system for widening the tax base. These all are good news for revenue department. However, the development partners have been influencing in favor of a merger of the departments of Income Tax and Value Added Tax which was not welcome by the stakeholders. If the government forcefully merges these departments only for the sake of the vested interest groups against the national interest, the upward trend of revenue collection and overall development may face a huge blow in the following years.

Bangladesh is currently experiencing 'demographic transition' as a result of slower population growth. Even so entry of young population in the labour force will continue due to demographic factors. This demographic dividend will need to be properly harnessed. The quality of labour force is weak due to low access and low quality of education; women are especially lagging behind. The strategy needs to be particularly sensitive to reduce the access gap of the poor, especially in the under-developed or lagging regions of the country, and to improve the skill base of women. A significant part of the additional investment for higher growth needs to be deployed to the development of the labour force.

Inequality emerges from a combination of greatly unequal distribution of physical assets as well as human capital. Lack of factor endowment such as land, capital, credit and skills have been preventing the poor of Bangladesh to participate in productive economic activities and have compelled them to remain in a disadvantageous situation. There are also significant social barriers for women to participate more effectively in economic activities outside home. Opportunity to break the low factor endowment trap through better human capital based on utilizing essential public services (such as education, training, safe drinking water, sanitation and other health facilities) has not been fully effective due to poor people's limited access to those provisions.

Bangladesh is a victim of climate change caused by rapid urbanization, industrialization and economic development activities worldwide. The growing evidence on climate change suggests that Green House Gas (GHG) emissions, resulting from the cumulative action of developed and emerging economies, would have serious deleterious effects in near future, unless effectively contained. It is predicted by international agencies that Bangladesh will be adversely affected by climate change in the form of melting of Himalayan glaciers, global warming and rising sea level, intensified natural calamities, and greater water scarcity leading to loss of livelihood, rising unemployment and poverty. Furthermore, a rise in the sea level, leading to coastal submergence (i.e.17% of Bangladesh) would cause large-scale displacement of people. Therefore, effective steps must be explored and adopted in collaboration with the international community to help Bangladesh address the adverse consequences of climate change.

Ensuring good governance for sustaining development is a big challenge. Capacity constraints in public administration, occasional weaknesses in economic management, and corruption lie at the heart of overall shortcoming in national governance in Bangladesh. The Government should take initiatives for fundamental reforms of core institutions, improvement in public administration capacity and a strong anti-corruption strategy.

Although the country has many problems, still there have hopes and aspirations. The proper utilization of huge number of manpower and natural resources as well as strengthening the government institutions can make Bangladesh prosperous.

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