

2 Bangladesh

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I. Introduction

Bangladesh is a country in South Asia. Officially the country is known as People's Republic of Bangladesh. The country is surrounded by India on all sides except for a small border with Myanmar to the southeast and by the Bay of Bengal to the south. The border of present Bangladesh was established with the partition of Bengal and India in 1947 when the country was eastern wing of the then newly formed Pakistan. Political, economic and linguistic discrimination of the then West Pakistan led the country to the war of independence in 1971 against West Pakistan. After a bloodshed war the country made her position in the world map as an independent and sovereign country.

History

The country has a history of four thousand years old. The civilization in the greater Bengal was settled by Dravidian, Tibeto-Burman and Austro-Asiatic people. It is believe that the word Bangla or Bengal derived from Bang, the Dravidian speaking tribe that settled in the area around the year 1000 BC.

Islam was introduced to Bengal in the twelfth century by Sufi missionaries, and subsequent Muslim conquests helped spread Islam throughout the region. Bakhtiar Khilji, a Turkish general, defeated Lakshman Sen of the Sena dynasty and conquered large parts of Bengal. The region was ruled by dynasties of Sultans and feudal lords for the next few hundred years. By the 16th century, the Mughal Empire controlled Bengal, and Dhaka became an important provincial centre of Mughal administration.

European traders arrived late in the 15th century, and their influence grew until the British East India Company gained control of Bengal following the Battle of Plassey in 1757. The bloody rebellion of 1857, known as the Sepoy Mutiny, resulted in transfer of authority to the crown, with a British viceroy running the administration. During colonial rule, famine racked the Indian subcontinent many times, including the Great Bengal famine of 1943 that claimed 3 million lives.

When India was partitioned in 1947, Bengal was partitioned along religious lines, with the western part going to India and the eastern part joining Pakistan as a province called East Bengal (later renamed East Pakistan), with its capital at Dhaka. However, despite the economic and demographic weight of the east, Pakistan's government and military were largely dominated by the upper classes from the west. The Bengali Language Movement of 1952 was the first sign of friction between the two wings of Pakistan. Dissatisfaction with the central government over economic and cultural issues continued to rise through the next decade which led to the war of independence in 1971.

Geography and Climate

Bangladesh is composed mainly of the great combined delta of the Ganges-Brahmaputra-Meghna Rivers. It situates from 20°34N to 26°38N latitude and from 88°01E to 92°41E longitude. It is one of the largest deltas in the world. The monotony of flatness has been relieved inland by two elevated tracts - the Madhupur and the Barind Tracts and on the northeast and southeast by rows of hills. Some 75% of the land is less than 3m above mean sea level (MSL) and vulnerable to floods and cyclones. The maximum elevation is 1,280m above MSL at Saichal Range in Rangamati district. Tajingdong is the highest peak and called as Bijoy.

Total rivers including tributaries and distributaries are about 700 under three mighty river systems: Ganges-Padma river system, Brahmaputra-Jamuna river system and Surma-Meghna river system. Rivers of the southeastern hilly region are considered as the Chittagong region river system. Principal rivers are: Padma, Brahmaputra, Jamuna, Surma, Kushiya, Meghna, Karnafuli, Arial Khan, Buriganga etc.

Average maximum and minimum winter temperatures are 29°C and 11°C respectively; average maximum and minimum summer temperatures are 34°C and 21°C respectively. Annual rainfall is 1,194

mm to 3,454 mm. Highest humidity records 80% to 100% (August-September) and lowest 36% (February-March).

Population

Bangladesh is the 7th most populous country of the world with around 150 million people. Land area of the country is 144,000 square kilometer. The country has the highest population density in the world excluding a handful of city-states.

The total fertility rate is now 3.1 children per woman, compared with 6.2 thirty years ago. The population is relatively young, with the 0–25 age group comprising 60%, while 3% are 65 or older. Life expectancy is 63 years for both males and females.

The majority ethnic group of Bangladesh is the Bengali people, comprising 98% of the population. The remainder is mostly Bihari migrants and indigenous tribal groups. There are thirteen tribal groups located in the Chittagong Hill Tracts; the most populous of the tribes are the Chakmas. The region has been a source for ethnic tension since the inception of Bangladesh. The largest tribal groups outside the Hill Tracts are the Santhals and the Garos. There are also Kaibartta, Mundas, Oraons, and Zomi ethnic groups.

The official and most widely used language in Bangladesh, as in West Bengal, is Bangla or Bengali an Indo-Aryan language of Sanskrit origin with its own script. English is used as second language among the middle and upper classes and in higher education. Since a President Order in 1987, Bangla is used for all official correspondence except those that are to foreign recipients.

The literacy rate in Bangladesh is approximately 41%. There is gender disparity, though, as literacy rates are 50% among men and 31% among women, according to a 2004 UNICEF estimate. Literacy has gone up due to many programs introduced in the country. Among the most successful one is the Food for education (FFE) program introduced in 1993 and a stipend program for women at the primary and secondary levels.

Government and Politics

Bangladesh is run by parliamentary democratic system. Elections held every five years for the unicameral parliament known as Jatio Sangsad. All citizens over 18 years of age are eligible for vote. The parliament building is known as the Jatiyo Sangshad Bhaban designed by architect Louis Kahn and currently has 300 members, 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 an MP who commands the confidence of the majority of parliament. The President is the head of state, a largely ceremonial post elected by the parliament. 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 is an innovation that was pioneered by Bangladesh in its 1991 election and then institutionalized in 1996 through its 13th constitutional amendment. The Constitution of Bangladesh was drafted in 1972 and has undergone fourteen amendments. The highest judicial body is the Supreme Court. Justices are appointed by the President. The judicial and law enforcement institutions are weak. Separation of powers, judicial from executive was finally implemented on the 1st of November, 2007. It is expected that this separation will make the judiciary stronger and impartial. Laws are based on English common law, but family laws such as marriage and inheritance are based on religious scripts, and therefore differ between religious communities. The two major parties in Bangladesh are the Bangladesh Nationalist Party (BNP) and the Bangladesh Awami League. BNP is led by Khaleda Zia and finds its allies among Islamist parties like Jamaat-e-Islami Bangladesh and Islami Oikya Jot, while Sheikh Hasina's Awami League aligns with leftist and secularist parties. Hasina and Zia are bitter rivals who have dominated politics for 15 years; both are women and each is related to one of the leaders of the independence movement.

Table 1: Selected Demographic Statistics

Year	2002	2003	2004	2005	2006
Total Population (million)	132.9	134.8	137.7	138.6	140.6
Natural Population Growth (%)	1.50	1.48	1.42	1.42	1.41
Crude Birth Rate (thousand)	20.1	20.9	20.8	20.7	20.6
Crude Death Rate (thousand)	5.1	5.9	5.8	5.8	5.6
Infant Mortality Rate (per1000)	53	53	50	50	45
Total Fertility Rate (per women)	2.55	2.57	2.46	2.46	2.41
Life Expectancy (both sexes)	64.9	64.9	65.1	65.2	65.4

Source: Bangladesh Economic Review 2007

Culture

Bangladesh is a new state of an old nation. The culture of the country is the combination of old and new. Bengali language is blessed with a rich literary heritage which the country shares with the Indian state of West Bengal. Bangla literature in the medieval age was often either religious (e.g. Chandidas), or adaptations from other languages (e.g. Alaol). Bangla literature matured in the nineteenth century. Its greatest icons are the poets Rabindranath Tagore and Kazi Nazrul Islam. The music of Bangladesh is basically lyrics-based with minimal instrumental accompaniment. The Baul tradition is a unique heritage of Bangla folk music. Folk music of Bengal is often accompanied by the ektara, an instrument with only one string. Other instruments include the dotara, dhol, flute, and tabla. Bangladesh produces about 80 films a year. Mainstream Hindi films are also quite popular. Around 200 dailies are published in Bangladesh, along with more than 1800 periodicals. However, regular readership is low, nearly about 15% of the population. The culinary tradition of Bangladesh has close relations to Indian and Middle Eastern cuisine as well as having many unique traits. Rice and curry are traditional favorites. Bangladeshis make distinctive sweetmeats from milk products; some common ones are Rôshogolla, Chômchôm and Kalojam.

The *Shari* is by far the most widely worn dress by Bangladeshi women. However, the *salwar kameez* is also quite popular. Among men, European dressing has greater acceptance. The *lungi*, a kind of long skirt, is widely worn by Bangladeshi men.

The two Eids, Eid ul-Fitr and Eid-ul-Adha are the largest festivals in the Islamic calendar. Major Hindu festivals are Durga Puja and Saraswati Puja. The most important secular festival is *Pohela Baishakh* or Bengali New Year, the beginning of the Bengali calendar. The country also observes the International Mother Language Day on 21st February which is locally called *Shahid Dibos*.

Education

Bangladesh's commitment to education has been clearly stated in its Constitution and development plans with education being given the highest priority in the public sector investments. Education sector allocations are currently about 2.3 percent of GDP and 14 percent of total government expenditure. Maintaining this commitment to the education sector is imperative in order to achieve Education for All (EFA) and the Millennium Development Goals (MDG).

Table 2: Number of Educational Institutions

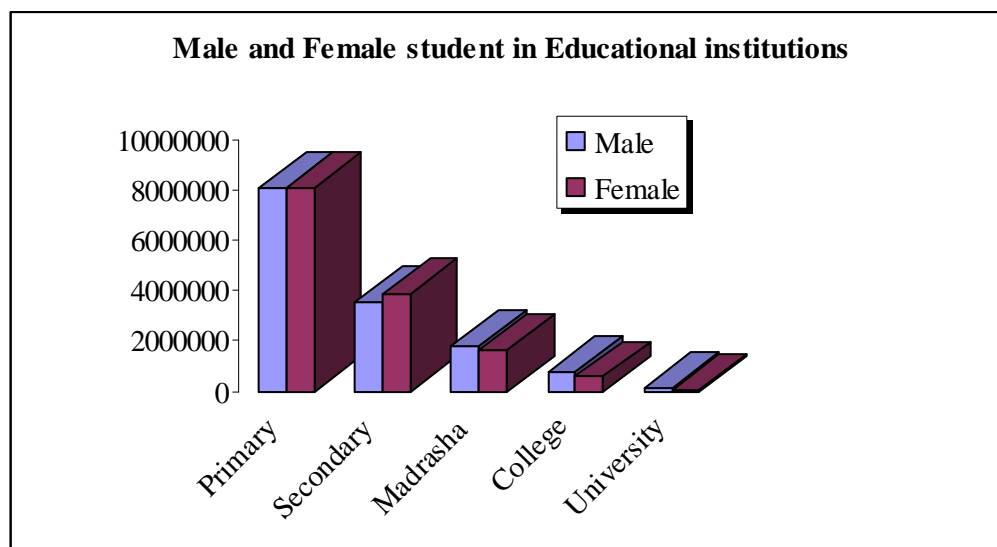
Type of Institution	Number of Institutions		Number of Teachers		Number of Students	
	Total	Female	Total	Female	Total	Female
Primary School	80397	-	344789	124990	16225658	8134437
Total Secondary Education	18500	3708	232929	46983	7398552	3868014
Total College Education	3150	600	90401	17400	1367246	569337
University Education	82	-	10339	1827	207577	49867
Madrasha Education	9215	1138	151967	13230	3453221	1648665
Technical-vocational Education	2728	267	18185	3208	241336	62562
Professional Education	222	47	4158	735	60043	21043
Teacher Education	188	1	2132	524	36265	13525

Source: Ministry of Education

Overall there are more than 17 million students at the primary level, and over 8.0 million at the secondary level. Enrolments at the tertiary level are relatively small but growing very rapidly.

Bangladesh has made significant progress, especially in regard to increasing access and gender equity, both at primary and secondary levels. Gross primary enrollment rates rose from 90 percent in the late 1990s to 98 percent in 2003, while a corresponding increase in enrollment rates at the secondary level rise to 44 percent. Gender parity in access to primary and secondary education has also been achieved. These achievements are particularly spectacular when compared to countries in the South Asian region and other countries at similar levels of per-capita income.

Figure 1: Male and Female Student Ratio



II. Overview of Macroeconomic Activity

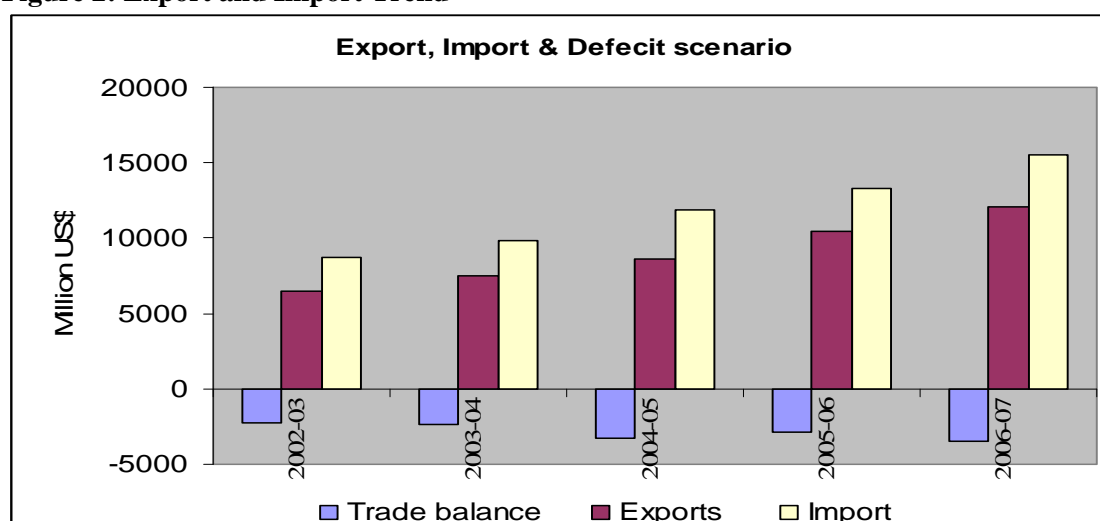
In spite of political instability, administrative snags and severe natural calamities, the economy of Bangladesh has experienced remarkable positive changes over the last two decades. The country has been able to achieve macroeconomic stability and to maintain the trend of GDP growth more than 5 percent in the last couple of years. Despite high pressure on the import bills due to price hike of crude oil and other essential commodities in international market, Bangladesh’s foreign trade remains at a satisfactory level. The remarkable growth of import-export trade, current account surplus, and increasing trend in the flow of remittance kept the external sector stable. In social indicators, Bangladesh’s success has surpassed the achievements of many low income countries. In reduction of infant and child mortality rate, higher contraceptive prevalence rate and declining birth and death rate, the success of Bangladesh has surpassed the achievements of the countries having the same level of income. Considering the positive trend of socio-economic development of Bangladesh, the New York based investment banking organization ‘Goldman Sachs’ has rated Bangladesh as one of the Next Eleven potential countries after Brazil, Russia, India and China (BRIC), who will influence the world economy. The World Bank has identified Bangladesh as one of the most rapidly growing economy among 31 large developing countries in the recent times. However Bangladesh failed to achieve its economic goal satisfactorily. Only the flow of huge amount of foreign remittances rescued the country from the recent world economic imbalances.

II.1 International Environment

Trade Balance

The export quota under Multi-Fiber Arrangement (MFA) on textile and clothing has been abolished since 1 January 2005. Therefore, the country has to face tough competition in export trade with other developing countries. However, if we look at the export scenario of FY 2007 we see a positive performance. The continued strong growth of exports and remittances from workers abroad widened the surplus in the current account of the balance of payments in FY07 and the foreign exchange reserves increased by 45.7 percent to USD 5.08 billion.

Figure 2: Export and Import Trend



Source: Bangladesh Economic Review 2007

A substantial growth of knitwear products (19.3 percent) and woven garments (14.1 percent) continued to support the high growth of merchandise exports in FY07 over FY06. Growth of terry towel, frozen foods and fertilizer depicted an increasing trend. The growth of exports of leather declined substantially in FY07

over the preceding year. The export of miscellaneous products showed a high growth of 25.0 percent in value terms during FY07. As a percentage of GDP, exports increased from 16.8 percent in FY06 to 17.8 percent in FY07.

Merchandise imports (fob) increased by USD 2210.0 million (or 16.6 percent) in FY07 to USD 15511.0 million. Increased demands and international prices induced rising imports for such products as spices, sugar, rice, wheat, capital machinery, staple fibred, edible oil, plastic and rubber & articles thereof, POL, pulses, oil seeds, yarn, raw cotton and clinker etc. On the other hand, import of crude petroleum and pharmaceutical products declined during the year.

Imports as a percentage of GDP increased from 21.5 percent in FY06 to 22.9 percent in FY07. A higher absolute increase of imports than exports widened the trade deficit from USD 2889.0 million in FY06 to USD 3458.0 million in FY07. The deficit in the services account also widened to USD 1261 million in FY07 from USD 1023 million in the previous year as payments increased relatively more than receipts.

Table 3: Value of Export by Major Commodities

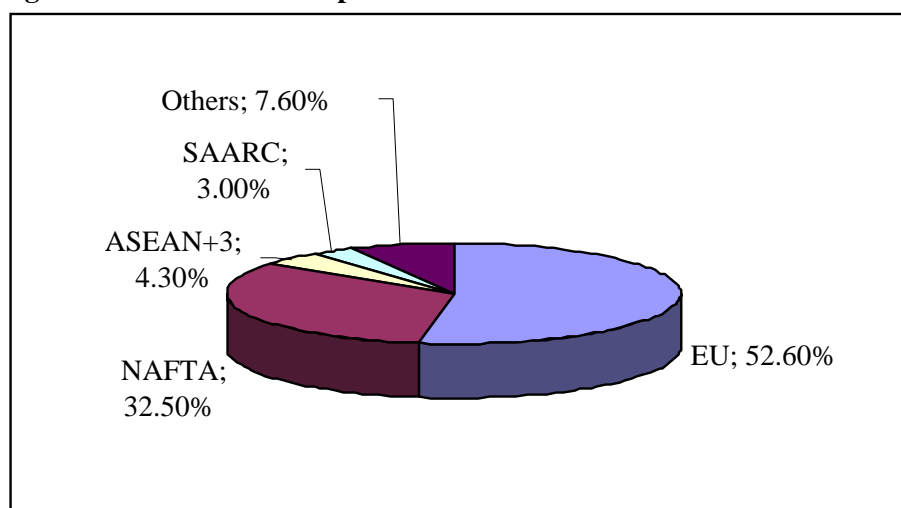
	(In million US dollars)				
	2002-03	2003-04	2004-05	2005-06	2006-07
a) Primary Commodities					
Raw Jute	61	82	80	148	147
Tea	17	15	16	12	7
Frozen food	276	322	390	459	515
Agricultural Product	23	25	41	105	88
Other Primary Commodities	13	18	26	49	75
Total Primary Commodities	390	462	553	773	832
b) Manufactured goods					
Jute goods	244	257	246	361	321
Leather	207	191	211	257	266
Naphtha, furnace oil and bitumen	10	31	37	88	84
Readymade garments	3125	3258	3538	4084	4658
Knitwear	1459	1654	2148	3817	4554
Chemical products	67	100	121	206	215
Shoe	-	47	68	95	136
Handicrafts	6	6	4	4	8
Engineering products	1	13	42	111	237
Other mfg. products	477	529	633	730	867
Sub total	5596	6086	7050	9753	11346
Grand Total (a+b)	5986	6548	7603	10526	12178
Annual Change (%)	-7.44	9.39	16.10	21.63	15.69

Source: Bangladesh Economic Review 2007 and Bangladesh Bank.

Table 4: Value of Import by Major Commodities

	(In million US dollars)				
	2002-03	2003-04	2004-05	2005-06	2007-08
a) Major primary goods	1133	1339	1676	1854	2069
Rice	211	144	262	117	180
Wheat	198	287	312	301	401
Oilseed	64	73	86	90	106
Crude petroleum	267	252	350	604	524
Raw cotton	393	583	666	742	858
b) Major intermediate goods	1548	1910	2662	3001	3569
Edible oil	364	471	440	473	583
Petroleum products	620	770	1252	1400	1709
Fertilizer	109	150	332	342	357
Clinker	144	139	170	210	240
Staple fiber	41	57	75	76	97
Yarn	270	323	393	501	582
c) Capital Machinery	548	729	1115	1458	1929
d) Other goods	6429	6925	7694	8434	9590
Total import (a+b+c+d)	9658	10903	13147	14746	17157
Annual change (%)	13.3	12.9	20.6	12.2	16.4

Source: Bangladesh Economic Review 2007, Bangladesh Bank

Figure 3: Destination of Exports

Source: Bangladesh Bank

The major market for export in FY 2007 was EU and North American region. About 52.6 percent of exports were destined for the EU bloc while another 32.5 percent entered into the NAFTA bloc. Export to the ASEAN+3 (i.e., the ASEAN bloc, China, Japan and South Korea) countries, SAARC and other regions constituted 4.3 percent, 3.0 percent and 7.6 percent respectively of total exports in FY07. (The ratio is shown in figure 3)

Balance of Payment

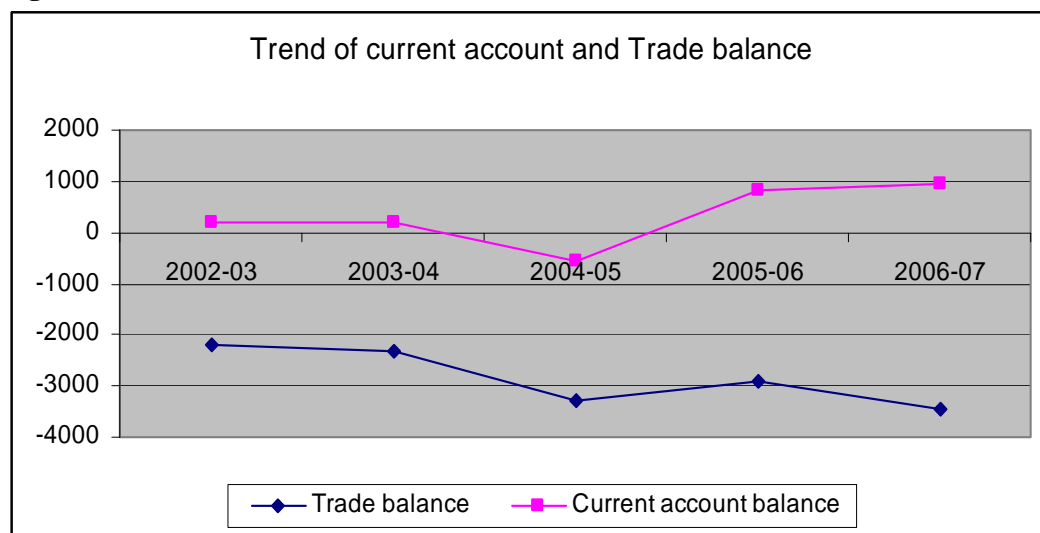
Trade balance deficit was US\$ 3,458 million during FY 2006-07 compared to that of US\$ 2,889 million during FY 2005-06. In spite of large service deficit, current account balance recorded a surplus of US\$ 952 million during FY2006-07 against the deficit of US\$ 824 million over previous year. This happened due to larger current transfers of US\$ 6,554 million during the reporting period.

Table 5: Balance of Payment

Particulars	(In million USD)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Trade balance	-2215	-2319	-3297	-2889	-3458
Exports fob (including EPZ)	6492	7512	8573	10412	12053
Import cif (including EPZ)	8707	9840	11870	13301	15511
Services	-691	-874	-870	-1023	-1261
Receipts	887	924	1177	1340	1484
Payments	1574	1798	2047	2363	2745
Income	-358	-374	-680	-702	-883
Receipts	64	63	116	136	245
Payments	-422	-437	-796	-838	-1128
interest payment	-167	-175	-230	-204	-212
Current transfers	3440	3743	4290	5438	6554
Official	82	61	37	125	97
Private	3358	3682	4253	5313	6457
Workers' remittance	3062	3372	3848	4802	5979
Current account balance	176	176	-557	824	952
Capital account	428	196	163	375	490
Capital transfer	428	196	163	375	490
Financial account	413	-31	784	-141	721
(i) Direct Investment	376	276	800	743	760
(ii) Portfolio investment	2	6	0	32	106
(iii) Other investment	35	-313	-16	-916	-145
Errors and Omission	-202	-170	-323	-720	-670
Overall balance	815	171	67	338	1493

Source: Statistics Department, Bangladesh Bank

For an increase in the financial account of US\$ 721 million, the overall balance recorded a surplus of US\$ 1493 million during FY 2006-07 against the surplus of US\$ 338 million during FY 2005-06. This was mainly due to an increase in current account balance of US\$ 952 million as well as capital account of US\$ 490 million. (Shown in table5)

Figure 4: Trend of Current Account and Trade Balance

Source: Bangladesh Economic Review 2007

Exchange Rate

Bangladesh introduced floating exchange rate since May 31, 2003 where exchange rate is determined by the demand and supply of the currency. However, Bangladesh Bank may engage in foreign exchange trading directly to stabilize the market. During introduction of floating exchange rate, the inter bank exchange rate of Taka was almost stable against US dollar. But exchange rate faced upward pressure up to December 2006 in FY 2006-07 due to the increase in import of capital machinery and for import of petroleum and intermediate goods at higher price from the world market.

Table 6: Average Exchange Rate (Taka per USD)

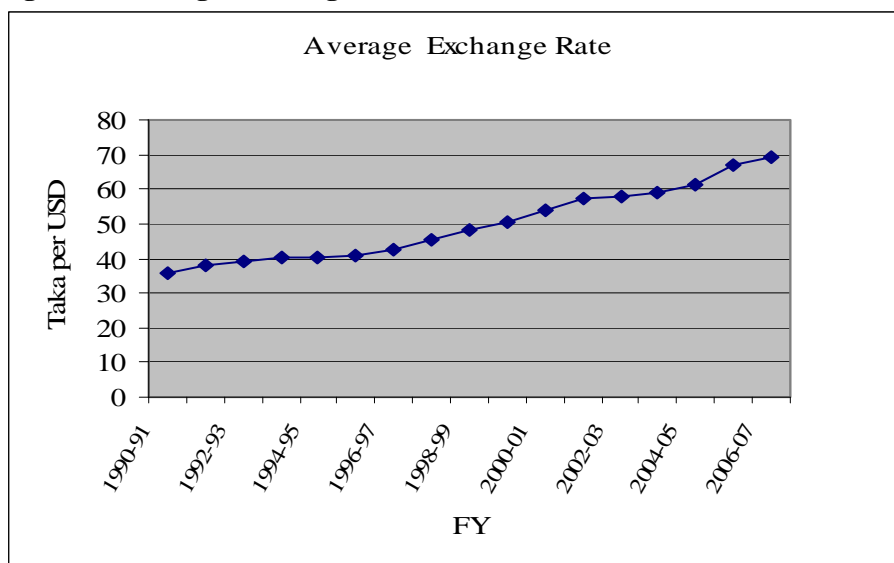
Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average Exchange Rate	53.9592	57.4347	57.9000	58.9353	61.3939	67.0797	69.0318

Source: Bangladesh Bank

In 1991, each dollar was equivalent to Tk.35.6752. After that many times Bangladesh Bank depreciated the value of local currency to attract foreign remittances and to enhance exports. During the 1st quarter of FY07, Taka- Dollar exchange rate experienced a pressure ranging within 69.49-69.85. With the starting of the 2nd quarter, Taka started to recover gradually its lost value and by mid October 2006 it appreciated up to Taka 66.00 per US dollar.

But it again weakened and by end of November 2006, it depreciated up to a record high of Taka 72.95 per US Dollar. During the 3rd quarter of FY07, Taka showed somewhat appreciating trend due to improved liquidity in the market, resulting from increased inward remittances and exchange rate ranged within Taka 68.80-70.55. However, at the end of June 2007, Taka-Dollar exchange rates remained relatively stable with exchange rates at Taka 68.70-69.30.

Figure 5: Average Exchange Rate



Source: Bangladesh Bank

Exchange rate faced a strong pressure recently due to the global recession. But Bangladesh bank tried to maintain the stability to protect export earning and remittance flow.

Foreign Exchange Reserves

Due to increasing export earnings and workers' remittances foreign exchange reserves of the Bangladesh Bank showing an increasing trend over the last few years. The scenario is presented in table 7 and figure

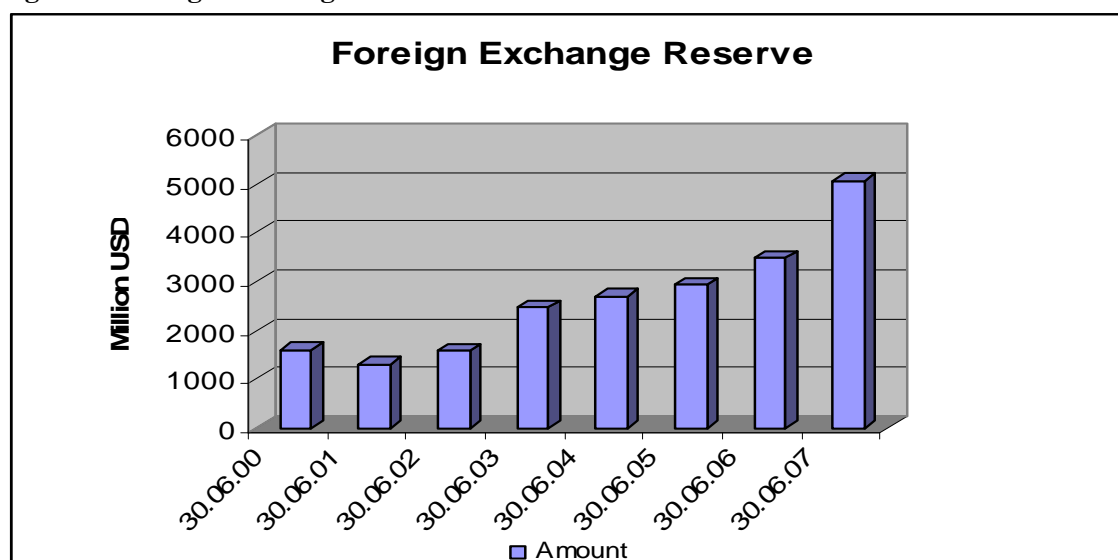
6. At the end of June 2007 the reserve stood at US\$ 5,077 million. It is a growth of 45.7 percent over US\$ 3,484 million of year 2006. Income from reserves is one of the significant sources of Bangladesh Bank.

Table 7: Foreign Exchange Reserves
(In million USD)

Date	Amount
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

Source: Bangladesh Bank

Figure 6: Foreign Exchange Reserve



Sources: Bangladesh Bank

Foreign Direct Investment:

Bangladesh is a very convenient place for FDI. Moreover, the country failed to attract FDI. Because of political unrest, foreign companies are reluctant to invest with cheap labor costs. In 2006, actual FDI inflow in Bangladesh was not provisioned on the last year's expectation.

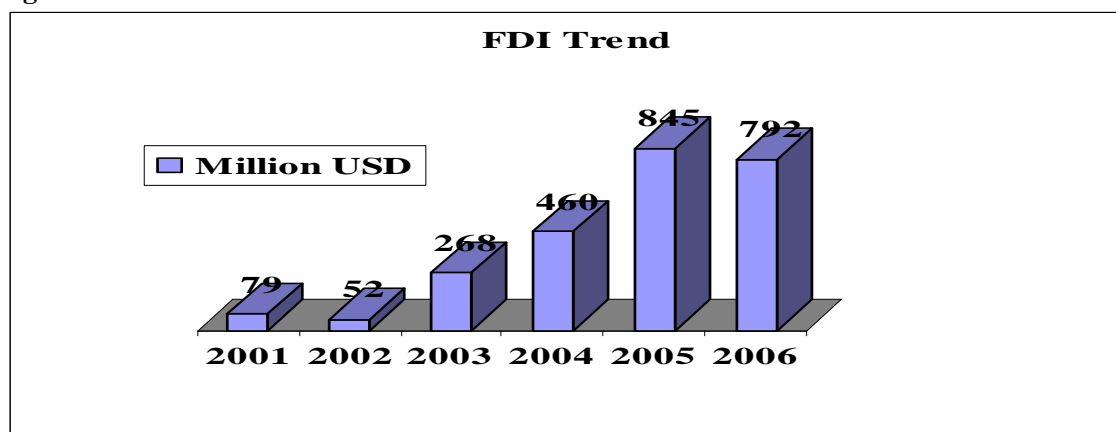
Table 8: Trend in FDI Flow

	(In million USD)					
Year	2001	2002	2003	2004	2005	2006
Amount	79	52	268	460	845	792

Source: Ministry of Finance

Beside political unrest, uncertainties and delays in taking decision on certain large investment proposals in infrastructure development projects hampers FDI flow. In 2006, the total FDI in Bangladesh was US\$ 792 million.

Figure 7: FDI Trends



A component-wise analysis of FDI inflow in 2006 shows that about 64 percent of FDI came as equity, 33 percent as reinvestment, and the rest as intra-company borrowing. The higher reinvestment rate indicates unwavering confidence of foreign investors on overall investment climate of the country and, simultaneously, competitiveness of related business sectors.

Table 9: FDI Inflow in Bangladesh during 2006: Summary by FDI Component

(In million US\$)

FDI Components	2005			2006			Growth (%)
	Jan-Jun	Jul-dec	Total	Jan-Jun	Jul-Dec	Total	
a. Equity Capital	252.4	173.2	425.6	274.0	229.7	503.7	18.35
b. Reinvested Earnings	144.1	103.4	247.5	95.3	169.4	264.7	6.94
c. Intra-Company Loans	85.3	86.9	172.2	11.8	12.3	24.1	-86.00
Total	481.8	363.5	845.3	381.1	411.4	792.5	-6.25

Borrowing from abroad

The economy of Bangladesh is heavily dependent on foreign aid and loan. Though foreign loan is detrimental to economic development, government cannot help borrowing from foreign sources to equalize balance of payment and huge budget deficit. In fiscal year 2006-07, government got US\$ 1631 million as grants and loans. On the other hand, the country had to pay US\$ 1102 million as principal and interest. The trend of grants and foreign loan is presented in table 10.

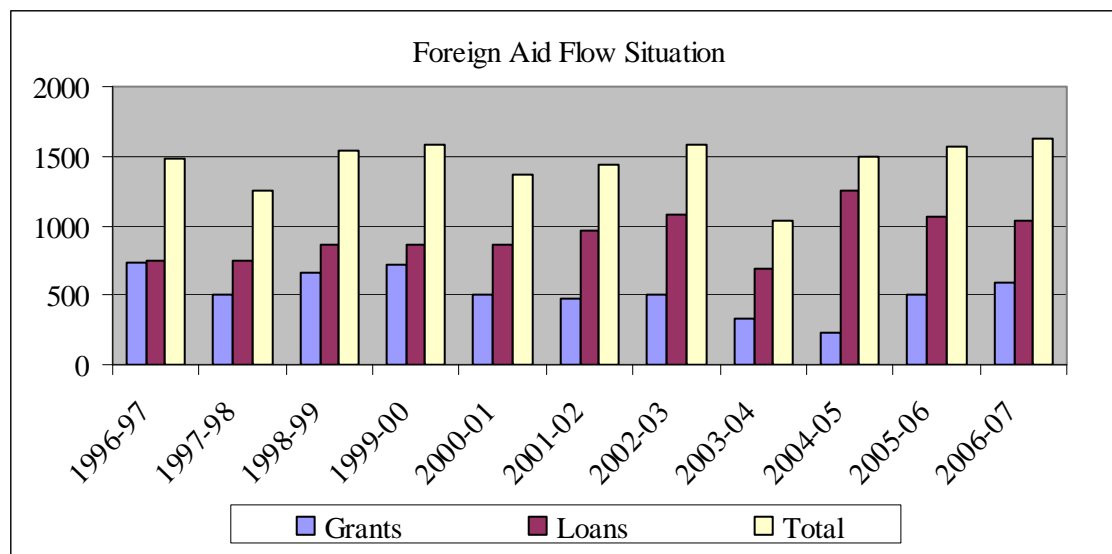
Table 10: Government Borrowing from Foreign Sources

(In million UD\$)

FY	Disbursement of Loans and Grants			Principal and Interest Payment			Net Foreign Aid Flow	
	Grants	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
1996-97	736	745	1481	147	316	463	1165	1018
1997-98	503	748	1251	137	307	444	944	807
1998-99	669	867	1536	166	373	539	1163	997
1999-00	726	862	1588	172	447	619	1141	969
2000-01	504	865	1369	159	438	597	931	772
2001-02	479	963	1442	151	435	586	1007	856
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	1041	1631	181	529	710	1102	921

Source: Economic Relation Division (ERD)

Figure 8: Foreign Aid Flow



In table10, we can see the scenario of debt outstanding. By the end of the fiscal year 2006-07, the outstanding figure is reached US\$ 20,713 million.

Table 11: External Debt Outstanding

(In million US dollars)

FY	Disbursement	Debt service payment			Debt outstanding at the end of each FY
		Principal	Interest	Total	
2001-02	963	435	151	586	16276
2002-03	1075	452	156	607	17411
2003-04	695	423	165	588	18511
2004-05	1257	434	183	617	19286
2005-06	1067	502	176	678	19420
2006-07	1040	540	182	722	20713

Source: ERD, Ministry of Finance.(Only loan and excluding short-term loans like IMF borrowing, food loan, Biman, import of oil)

The debt to GDP ratio has shown a gradual decline in recent years implying a visible improvement in the outstanding debt position. Debt to GDP ratio declined to 49.4 percent in FY07 compared to 51.9 percent in FY04. The external debt to GDP ratio has also been declining

Table 12: Changing Pattern of Debt Ratio

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Debt to GDP ratio	51.6	51.9	51.9	51.7	49.4
External debt to GDP ratio	33.5	33.6	33.2	32.5	30.5
Domestic debt to GDP ratio	18.1	18.3	18.7	19.2	18.8
Interest Payment on External Debt to XGS ratio	1.6	1.6	1.4	1.2	1.1
External Debt to XGS ratio	165.9	155.6	141	116.5	105.5

Source: Ministry of Finance, (XGS= Exports of Goods and Services)

Since FY03 and stood at 30.5 percent in FY07, which is close to the desired threshold (30.0 percent) that is considered as a sustainable benchmark for low income countries like Bangladesh. External Debt as a percentage of Exports of Goods and Services (XGS) reduced significantly from 165.9 percent in FY03 to 105.5 percent in FY07 and at the same period interest payment on external debt as a percentage of XGS also declined from 1.6 percent in FY03 to 1.1 percent in FY07.

II.2 Domestic Environment

Economic Growth

GDP growth rate of Bangladesh was 6.63 percent in FY 2005-06. But in FY 2006-07 the growth rate was estimated 6.43 percent which is lower than that of the previous fiscal year. The average growth rate of fiscal year 2005-06 and 2006-07 is 6.5 percent which reflects the economic stability of the country.

Table 13: GDP Growth Trend

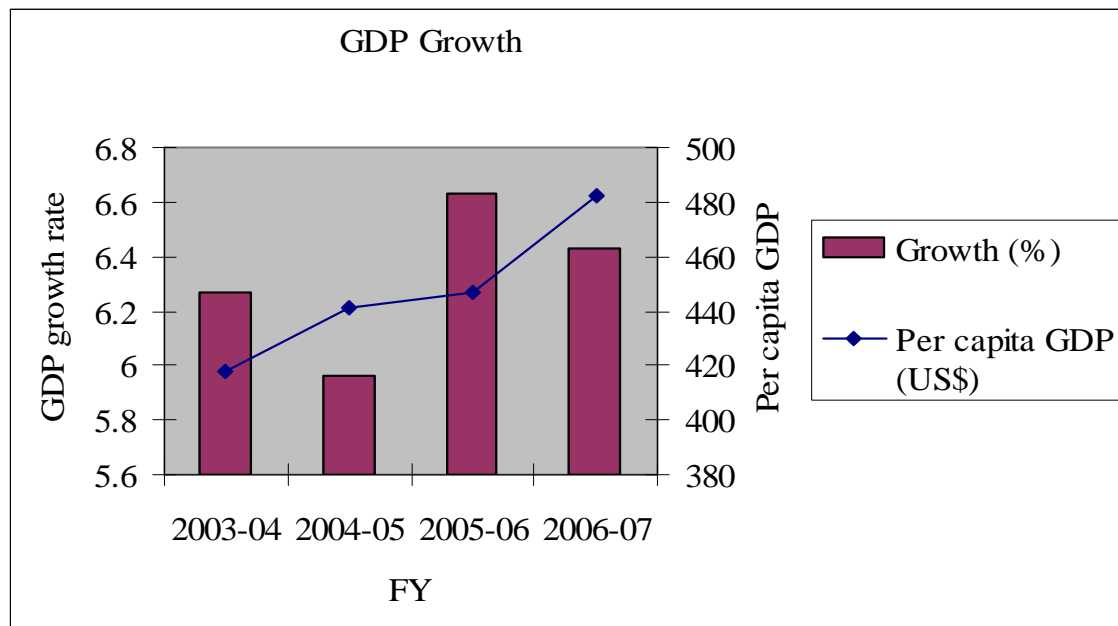
(In million taka)

	2003-04	2004-05	2005-06	2006-07
GDP at constant Price	2519680	2669740	2846726	3029709
Growth (%)	6.27	5.96	6.63	6.43
Agriculture	4.09	2.21	4.94	3.18
Industry	7.60	8.28	9.74	9.51
Service	5.66	6.36	6.40	6.74
GDP at current price	3329731	3707070	4157279	4724769
Growth (%)	10.78	11.33	12.14	12.45
Per capita GDP (US\$)	418	441	447	482

Source: Bangladesh Bureau of Statistics

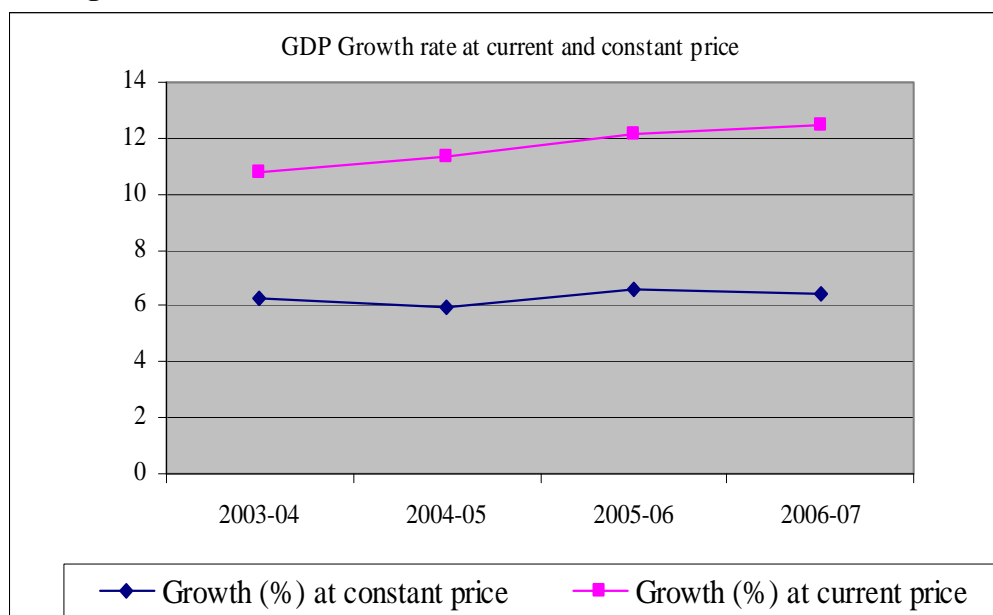
The economic growth rate is slowed down due to the current natural calamities. The country is still fighting with the destruction of cyclone Sidr and great flood which hit the country last year. It is also being noted that global economic growth slowed from 5.0 percent in 2006 to 4.9 percent in 2007. Robust growth in China, India and Russia, and strong economic performance in emerging markets and developing countries contributed to this growth. However, in the US economy growth declined from 2.9 percent in the FY06 to 2.2 percent in the FY07 as a result of the continued downturn in the housing market.

Figure 9: GDP Growth Trend



Beside the world economic turmoil, internal political instability was one of the main causes for economic slowdown. Internal and foreign investments have been discouraged remarkably because of political unrest.

Figure 10: GDP growth at Current and Constant Price



The growth rate of agriculture sector declined 1.76 percent which is one of the main contributors to the GDP. Industry sector also declined. On the other hand, service sector increased slightly due to internal demand.

Inflation

Bangladesh never experienced such a huge inflation in the last couple of years. The rising trend is continued due to higher price of fuel and essential commodities in international market. The supply of rice and wheat is also fall globally which are the major food item in Bangladesh.

Table 14: Consumer Price Index and Inflation

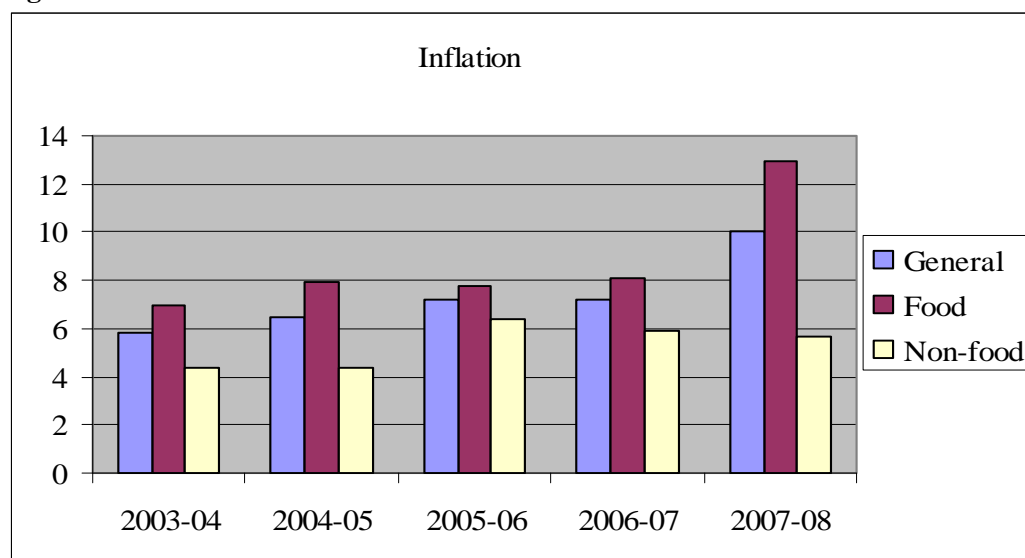
(1995-96 = 100)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-Aug
General	143.90	153.23	164.21	176.06	193.54	207.27
Inflation	5.83	6.48	7.17	7.22	9.90	10.11
Food	146.50	158.08	170.34	184.18	206.79	223.77
Inflation	6.93	7.90	7.76	8.12	12.28	12.36
Non-food	141.03	147.14	156.56	165.79	176.26	185.72
Inflation	4.37	4.33	6.40	5.90	6.32	6.55

Source: Bangladesh Bureau of Statistics

Bangladesh Bureau of Statistics (BBS) has computed National Consumer Price Index (CPI) using food and non-food commodities and services utilized by the consumers in their daily life. As per BBS data general inflation reached double digit in August 2008. The rate of inflation was 5.83 in fiscal year 2003-04 but now the general rate is 10.11. Food items inflation rate is now 12.36 which reached intolerable level of the people.

Figure 11: Trend of Inflation



To tackle this upward trend of the inflation, several steps like open market sale of the essential commodities, market monitoring, and improving ban on hoarding have been undertaken. In addition, government is trying to keep the inflation rate at the tolerable level by introducing moderate monetary policy.

Consumption

The share of private and public consumption decreased as a percentage of GDP gradually over the last few years. In fiscal year 2005-06, the share of consumption to GDP was 79.8 and in fiscal year 2006-07 the share reached 79.5.

Table 15: Year-Wise Consumption

	(In billion taka)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Public	136.6	160.7	184.1	205.3	230.3	259.5
Private	2099.3	2285.0	2495.2	2759.8	3085.2	3458.8
Total	2235.9	2445.7	2679.3	2965.1	3315.5	3718.3

Source: Bangladesh Economic Review 2007

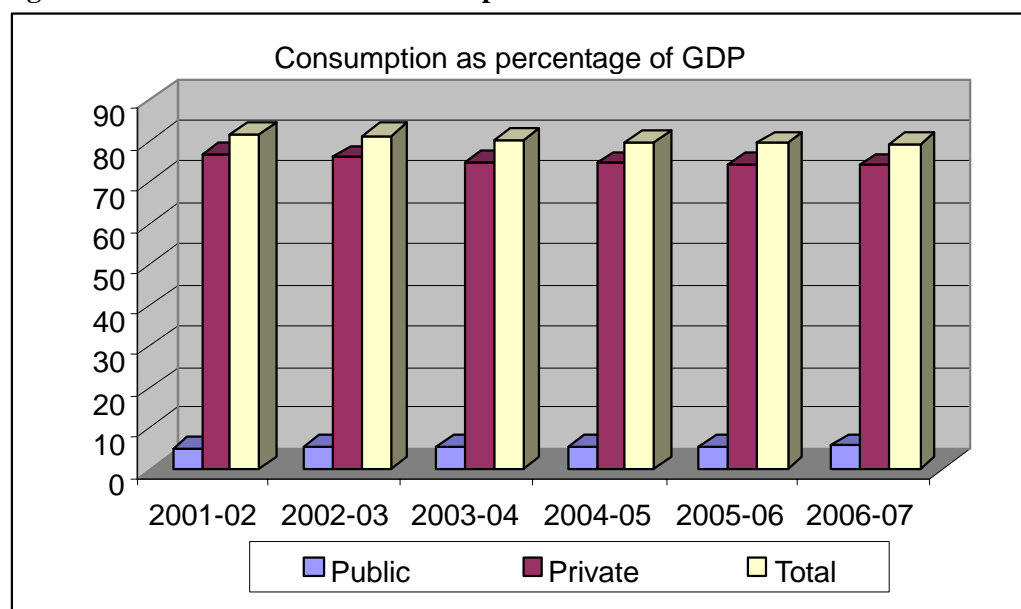
On the other hand, the total amount of consumption increased. In fiscal year 2005 total consumption was Taka 3315.5 billion and in fiscal 2006-07 the figure reached Taka 3718.3 billion. The overall scenario of consumption is shown in tables 15 and 16.

Table 16: Consumption as A Percent of GDP

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Public	5.0	5.4	5.5	5.5	5.5	5.6
Private	76.8	76.0	74.9	74.5	74.2	74.0
Total	81.8	81.4	80.5	80.0	79.8	79.5

Source: Bangladesh Economic Review 2007

Figure 12: Private and Public Consumption Trend



Source: Bangladesh Economic Review 2007

Investment

The contribution of public sector investment is gradually decreasing whereas private sector contribution is increasing. Government has taken a lot of private sector oriented reforms that is why, private investment increasing day by day. In fiscal year 1996-97, the share of private investment in total investment was about 60 percent, which stood at 77 percent in FY 2006-07.

Table 17: Year-Wise Public and Private Investment:

	(In billion taka)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Private	174.0	186.3	206.2	230.1	249.3	261.6
Public	458.4	517.2	593.7	679.2	775.5	875.7
Total	632.4	703.5	799.9	909.2	1024.8	1137.3

Source: Bangladesh Economic Review 2007

In FY 1996-97, the rate of total investment was 20.72 percent of GDP in which the shares of public and private sector were 7.03 percent and 13.70 percent respectively. In spite of many special packages, investment as percentage of GDP has slightly been declined in fiscal year 2006-07 where the shares of public and private sector contribution are estimated 5.60 and 18.73 percent respectively. (Shown in table 18)

Table 18: Year-Wise Private and Public Investment as Percentage of GDP

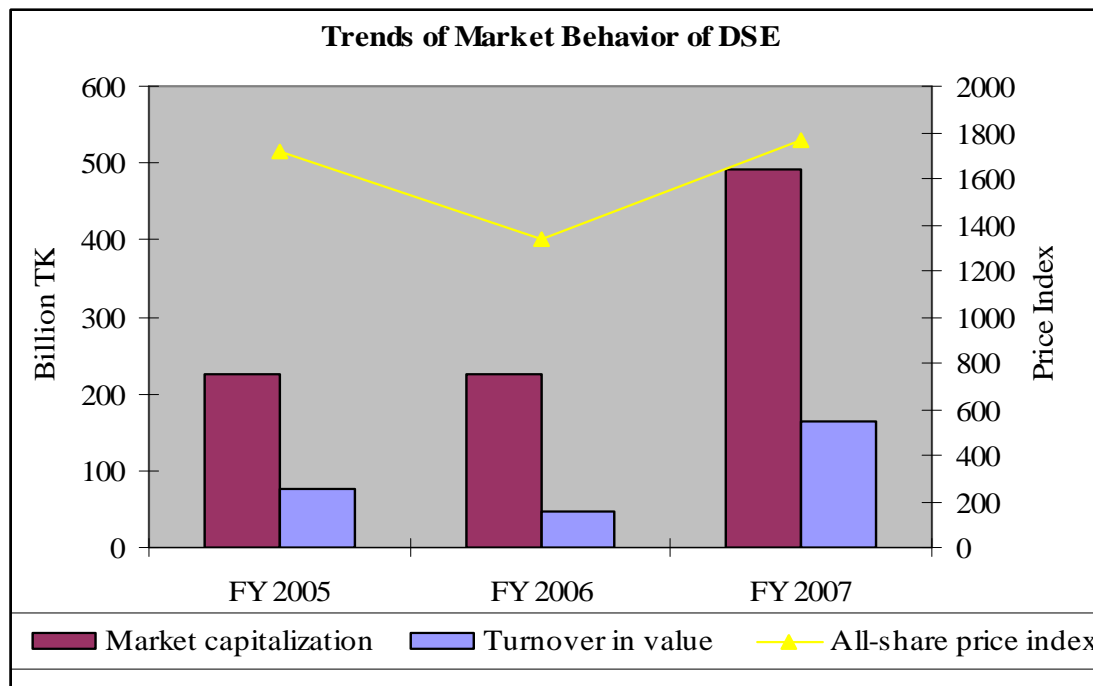
FY	Total Investment	Public Investment	Private Investment
1996-97	20.72	7.03	13.70
1997-98	21.63	6.37	14.26
1998-99	22.19	6.72	15.47
1999-00	23.02	7.41	15.61
2000-01	23.09	7.25	15.84
2001-02	23.15	6.37	16.78
2002-03	23.41	6.20	17.21
2003-04	24.02	6.19	17.83
2004-05	24.53	6.21	18.32
2005-06	24.65	6.00	18.65
2006-07	24.33	5.60	18.73

Source: Bangladesh Economic Review, 2007

Capital Market

At present, there are two stock exchanges operating in Bangladesh. These are Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Capital market is an indicator of economic development of a country. To regulate the activities of stock market, government formed Securities and Exchange Commission (SEC) on June 8, 1993 under the 'Securities and Exchange Commission Act, 1993'. The principal responsibilities of the SEC include ensuring proper issuance of securities, safeguarding the interest of investors in the stock exchange, controlling the stock market and development of the capital market. DSE and CSE are autonomous non-profit organizations.

Figure 13: Trend of Stock Market Behavior



Source: Dhaka Stock Exchange

Dhaka Stock Exchange

The number of securities (including mutual fund and debentures) listed with the DSE increased to 325 by June 2007 from 303 of June 2006. By the end of June 2007, the issued capital of listed securities stood at Tk.164.27 billion, which is 91.64 percent higher than that of June 2006.

Table 19: Dhaka Stock Exchange Activities

Particulars	FY 2005	FY 2006	FY 2007
No. of listed securities	277	303	325
Issued equity and debt (billion Taka)	66.4	85.7	164.3
Market capitalization (billion Taka)	224.6	225.3	491.7
Turnover in value (in billion Taka)	75.6	46.0	164.27
Turnover in volume (no. in billion)	1.0	0.6	2.0
All-share price index	1713.2	1339.5	1764.2

Source: Dhaka Stock Exchange

Chittagong Stock Exchange

The number of securities listed with the CSE reached 219 on June 2007 from 213 of June 2006. By the end of June 2007, the issued capital of listed securities stood at Tk.81.0 billion, which is 29.59 percent higher compared to that at the end of June 2006. On June 2007, market capitalization of securities reached Tk.398.49 billion. General share price index of the CSE reached 5194.77 on June 2007, which was 2879.19 on June 30, 2006.

Table 20: Chittagong Stock Exchange (CSE) Activities

Particulars	FY 2005	FY 2006	FY 2007
No. of listed securities	198	213	219
Issued equity and debt (billion Taka)	50.0	62.5	81.0
Market capitalization (billion Taka)	201.7	195.6	398.5
Turnover in value (in billion Taka)	16.7	11.4	34.2
Turnover in volume (no. in billion)	.35	.25	.59
All-share price index	3347.1	2879.2	5194.8

Source: Chittagong Stock Exchange

Money Supply

Financial sector is one of the key sectors of the economy and it encompasses monetary policy, monetary management and financial market management. Ensuring effective monetary management and developing an efficient and reliable financial market are the prerequisites for achieving the goals of macroeconomic stability and economic growth. To reduce inflation and domestic credit supply, government opted to continue cautious monetary policy in FY07. In order to limit the growth rate of bank credit, the interest rate of reverse repo was enhanced as an effective instrument of monetary policy. Simultaneously, Bangladesh Bank reintroduced 30-day and 90-day bank bills since October 2006, which is considered as a complementary of Statutory Liquidity Ratio (SLR) and an instrument of inter-bank repo.

The auction of treasury bills and bonds is conducted to maintain government debt management. The monetary policy for FY07 had a positive impact on money supply and domestic credit expansion, which eventually helps to attain economic growth and contain inflation. Besides, the present monetary policy supports increase in net foreign assets and foreign exchange reserves.

Table 21: Money Supply and Its Components

(In billion Taka)

		2002-03	2003-04	2004-05	2005-06	2006-07
1	Currency outside banks	139.02	158.11	185.18	228.62	266.44
2	Demand deposits	128.42	146.89	170.28	202.72	240.06
3	Narrow moneysupplyM1(1+2)	267.44	305.00	355.46	431.34	506.50
4	Time deposits	872.51	992.74	1160.42	1380.22	1613.36
5	Broad money supplyM2 (3+4)	1139.95	1297.74	1515.88	1811.56	2119.86
6	% of currency outside bank	12.20	12.18	12.22	12.62	12.57
7	% of demand deposit	11.27	11.32	11.23	11.19	11.32
8	% of time deposit	76.54	76.50	76.55	76.19	76.11

Source: Bangladesh Bank

In FY 2006-07, broad money (M2) increased by Tk.308.30 billion (17.02 percent) than that of the previous year. Broad money (M2) increased by Tk.295.68 billion (19.51 percent) in FY06 than that of the previous year. During FY07, currency in circulation increased by 16.54 percent, while demand deposit and time deposit showed an increase of 18.42 and 16.89 percent respectively.

Labor Force and Employment**Table 22: Labor Force Characteristics**

		1999-00	2002-03	2005-06
1.	Economically active population/ Labor force (Million)(15+)			
	Total	40.7	46.3	49.5
	Male	32.2	36.0	37.4
	Female	8.6	10.3	12.1
2.	Employed population (million)			
	Total	39.0	44.3	47.4
	Male	31.1	34.5	36.1
	Female	7.9	9.8	11.3
3.	Unemployed population (million)			
	Total	1.7	2.0	2.1
	Male	1.1	1.5	1.2
	Female	0.7	0.5	0.9
4.	Not in labor force (million)			
	Total	33.5	34.5	35.1
	Male	6.2	5.2	5.7
	Female	27.3	29.3	29.4
5.	Unemployment rate (%)			
	Total	4.3	4.3	4.2
	Male	3.4	4.2	3.4
	Female	7.8	4.9	7.0

Source: Bangladesh Bureau of Statistics

According to Labor Force Survey 2005-06 of Bangladesh Bureau of Statistics, the total amount of labor force (above 15 years) is 49.5 million(male 37.4 million and female 12.1 million). This huge amount of labor force engaged in a variety of professions. But agriculture is still dominant sector where highest (48.1 percent) portion of laborer is working.

Table 23: Share of Employed Labor Force by Major Industry

(In thousand)

	1999-00	2002-03	2005-06
Agriculture, forestry & fisheries	19785	22931	22767
Mining and quarrying	174	82	51
Manufacturing	3721	4343	5224
Electricity, Gas and water	134	98	76
Construction	1095	1541	1525
Trade, hotel and restaurant	6153	6671	7820
Transport, storage & communication	2471	3015	3976
Finance & business services and real estate	403	417	745
Health, education, public admin. & defense	2124	2677	2550
Community and personal services	2919	2549	2622
Total	38979	44322	47357

Source: Bangladesh Bureau of Statistics

In Labor Force Survey 1999-00, the amount of labor force was 39.0 million where male 31.1 million and female 7.9 million. The highest 50.77 percent was in agriculture sector. But in 2005-06 labor survey population dependence on agriculture has been decreased. The experts think that due to global warming and climate change people are not continuing their prime profession. Because of global warming and climate change, every year Bangladesh is facing severe cyclone, storms and floods which seriously damage the agricultural products.

Table 24: Share of Employed Labor Force by Major Industry

(In percentile)

	1999-00	2002-03	2005-06
Agriculture, forestry & fisheries	50.8	51.8	48.1
Mining and quarrying	0.4	0.2	0.1
Manufacturing	9.5	9.8	11.0
Electricity, Gas and water	0.3	0.2	0.2
Construction	2.8	3.5	3.2
Trade, hotel and restaurant	15.8	15.1	16.5
Transport, storage & communication	6.3	6.8	8.4
Finance & business services and real estate	1.0	0.9	1.6
Health, education, public admin. & defense	5.4	6.0	5.4
Community and personal services	7.5	5.8	5.6
Total	100.0	100.0	100.0

Source: Bangladesh Bureau of Statistics

The country is still male dominated. Female workers are not encouraged enough to come up in the labor force of the country. In manufacturing industry, huge numbers of female workers are working in garments sector. As government has taken a lot of steps to enhance female education, now the scenarios are being changed gradually.

Overseas Employment

Overseas employment became one of the vital foreign currency earning sources. Workers remittances contribute significantly to the economic development of the country through reduction of unemployment and augmenting foreign exchange reserves and income. Overseas employment also played a vital role to eradicate rural poverty. Flow of foreign remittance also mobilizes rural economy of the country.

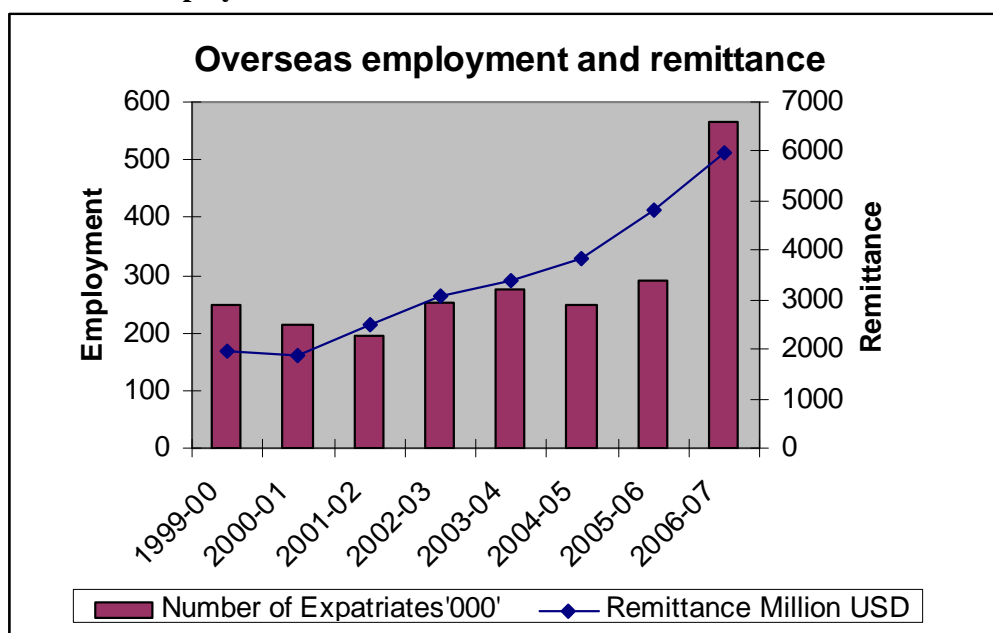
Table 25: Overseas Employment and Remittances

Fiscal Year	Number of expatriates (`000`)	Remittances	
		Million USD	Million Tk.
1999-00	248	1949	98250
2000-01	213	1882	102660
2001-02	195	2501	143770
2002-03	251	3062	177300
2003-04	277	3372	198700
2004-05	250	3848	236470
2005-06	291	4802	322110
2006-07	564	5978	413040

Source: Bangladesh Economic Review 2007, Bangladesh Bank

A huge number of Bangladeshi professionals, skilled, semi-skilled and unskilled labor force is employed in different countries of the world. Manpower export has been increasing every year. A total of 250 thousand Bangladeshis had gone abroad for employment in FY 2004-05, which is 9.75 percent higher than that of the previous year.

Figure 14: Overseas Employment and Remittance Flow



The number stood at 291 thousand in FY 2005-06, which is 16.4 percent higher than that of the previous year. In FY 2006-07, manpower exports reached 564 thousand, which is 93.81 percent higher than the performance of the previous year. Government has taken a lot of steps to encourage overseas workers to send remittance through the banking channel.

Table 26: Country-Wise Worker Remittances

Countries	In million USD				
	2003	2004	2005	2006	2007
Saudi Arabia	1254.3	1386.0	1510.5	1697.0	1734.7
UAE	327.4	373.5	442.2	561.4	804.8
UK	220.2	297.5	375.8	555.7	886.9
Kuwait	338.6	361.2	406.8	494.4	680.7
USA	458.1	467.8	557.3	760.7	930.3
Qatar	113.6	113.6	136.4	175.6	233.2
Oman	114.1	118.5	131.3	165.3	196.5
Singapore	31.1	32.4	47.7	64.8	80.2
Germany	9.6	12.1	10.1	11.9	14.9
Bahrain	63.7	61.1	67.2	67.3	80.0
Japan	18.2	18.7	16.0	9.4	10.2
Malaysia	41.4	37.1	25.5	20.8	11.8
Other countries	71.8	92.3	121.5	217.6	314.3
Total	3062.0	3372.0	3848.3	4801.9	5978.5

Source: Foreign Exchange Policy Department, Bangladesh Bank

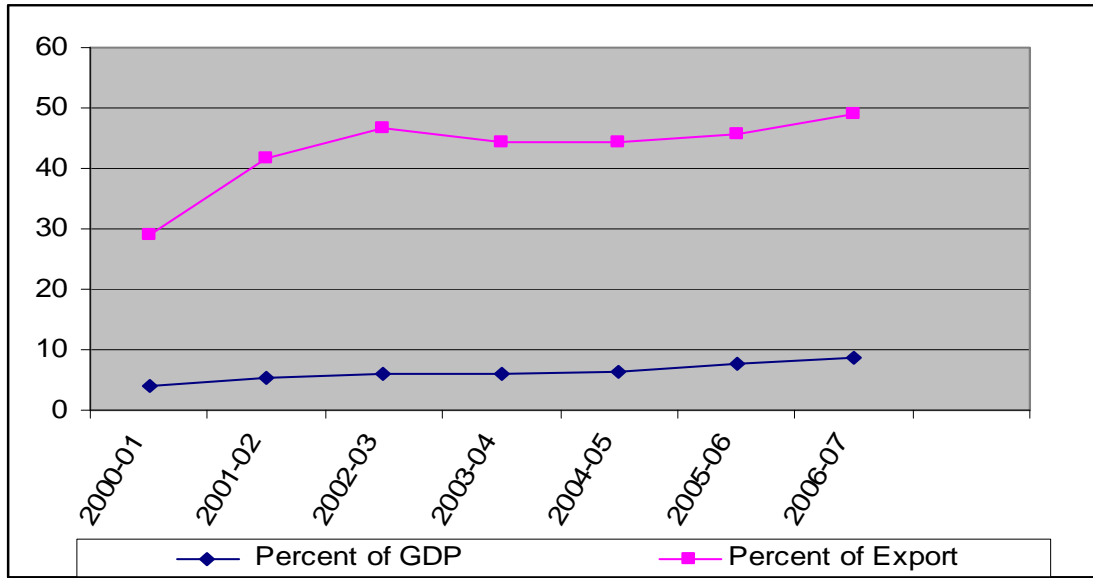
Simultaneously, the country is trying to export skilled labor forces. Because of government's motivational initiatives expatriate worker's remittances flow has been increasing gradually. In FY 2005-06, the remittances from expatriate Bangladeshi workers stood at US\$ 4801.88 million reflecting 24.78 percent rise over the previous year. In FY2006-07, remittances stood at US\$ 5978.47 million reflecting 24.50 percent rise over the previous year.

Table 27: Remittance as Percentage of GDP and Export

Fiscal Year	As Percent of GDP	As percent of Export
2000-01	4.01	29.10
2001-02	5.26	41.78
2002-03	5.90	46.76
2003-04	5.98	44.35
2004-05	6.37	44.47
2005-06	7.75	45.62
2006-07	8.83	49.09

The amount of remittances in terms of GDP and export earnings has also increased. In FY 2000-01 remittance as percent of GDP and export stood at 4.01 percent and 29.10 percent respectively. In FY 2006-07 remittances as percent of GDP and export stood at 8.83 percent and 49.09 percent respectively.

Figure 15: Workers Remittances as Percent of GDP and Export



Major share of total remittances come from the countries of the Middle East. But individually, the position of USA is just behind Saudi Arabia over the last few years.

II.3 Fiscal Position

Government Expenditure

As a developing country Bangladesh cannot cut her coat according to her cloths. Always expenditure is more than revenue. If we look at the table we see that every fiscal year there is a big revenue-expenditure gap. So to fill up this gap, government goes for foreign and domestic debt. (Shown in table 28 and figure 16)

Figure 16: Revenue-Expenditure Gap

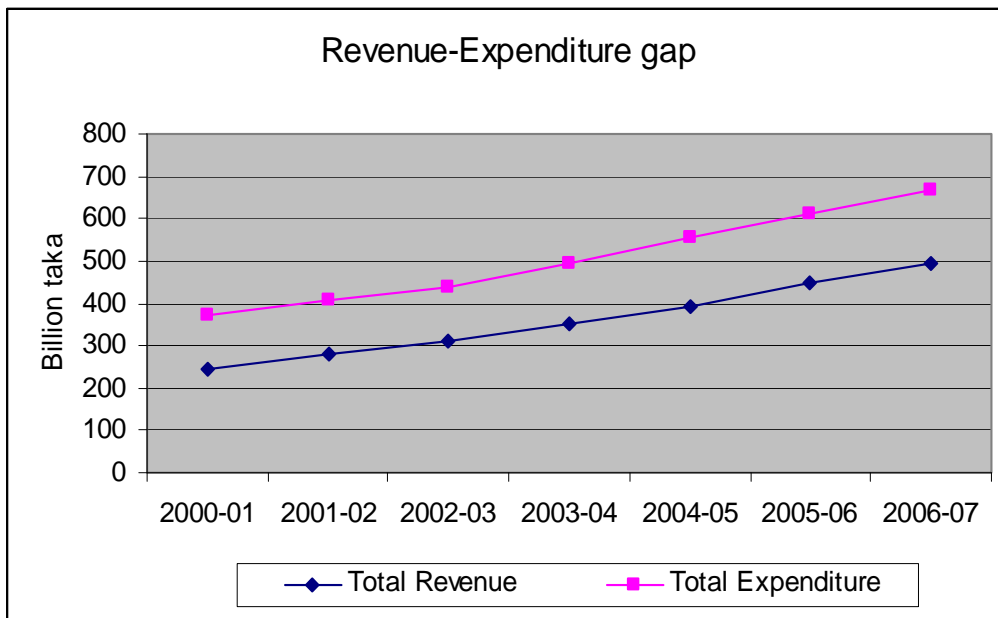


Table 28: Total Revenue-Expenditure

(In billion taka)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total Revenue	243.4	278.9	311.2	354.0	392.0	448.7	494.7
Total Expenditure	374.0	407.6	437.0	493.7	556.3	610.6	668.4

Source: Bangladesh Economic Review 2007

Table 29: Overall Budget Deficit

(As percent of GDP)

Budget deficit/financing	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Overall budget deficit (excluding foreign grants)	-4.7	-4.2	-4.2	-4.5	-3.9	-3.7
Overall budget deficit (including foreign grants)	-3.7	-3.4	-3.4	-3.7	-3.3	-3.3
Net foreign financing	2.1	2.3	2.4	2.4	1.7	1.6
Net domestic financing	2.6	1.9	1.8	1.8	2.2	2.0

In FY 05-06 and FY06-07, budget deficit persistently remained below 4.0 percent of GDP showing gradual improvement. External assistance has played a vital role in the economic development of Bangladesh, assisting in bridging the internal gap (savings-investment gap) and external gap (export-import gap). The costs, risks and maturity structure related to external debt management analysis are important. The cost of external debt is low as the most of the foreign loans received are through the concessional window of IDA, ADB and Japan. The structure of maturity of the external debt of Bangladesh is composed of medium and long term debt with an average grace period of 10 years and a repayment period of 20 years. With the shrinkage of share of grant aid in the external aid package in recent years, the volume of external borrowings is increasing which has resulted in a progressive increase of per capita debt obligation which stood at US\$ 139.9 in FY06.

Table 30: Economic Classification of Non-Development Revenue Expenditure

(In billion Taka)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Pays and Allowances	79.13	87.62	191.22	128.87	135.07
Goods and services	48.80	57.94	62.03	62.90	74.58
Payment of Interest	58.42	65.03	75.45	91.54	107.85
Subsidies & Current Transfer	81.86	104.37	110.73	142.83	166.74
Block	4.41	6.34	6.21	6.12	14.23
Procu. of Assets & Public works	15.83	17.33	18.13	16.75	18.70
Total	288.45	338.63	373.77	448.91	517.08
Deduction-recovery	4.55	5.40	7.59	10.59	14.49
Total	283.90	333.23	366.18	438.32	502.59

Source: Bangladesh economic Review 2007

Table 31: Sector wise ADP (Annual Development Program) Expenditure

(In billion taka)

Economic sectors	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture	6.3982	6.7879	5.8704	10.1169	10.5004
Rural Development & Institution	17.2578	23.2641	25.0559	30.8174	30.7160
Water Resources	7.3288	6.7869	9.1260	6.2634	4.1053
Industries	1.9458	4.6146	5.1052	31.5943	2.2229
Power	23.5201	29.0314	31.8742	3.1520	24.8521
Oil, Gas and natural resources	6.8542	8.5929	8.4462	.8352	1.3235
Transport	29.1238	30.3412	30.3096	27.8454	25.8055
Communication	6.2081	3.7448	10.4970	5.4927	4.8659
Physical Plan, water sup. & Housing	9.5978	9.7355	13.5982	3.1900	11.9838
Education and religious affair	23.7397	20.6513	19.7559	26.9254	27.7417
Sports & culture	.8254	.9621	1.0569	1.5629	.6944
Health, Population & Family welfare	11.4901	13.9148	13.8938	18.6688	17.8632
Mass Media	.2538	.2486	.1562	1.7948	.1800
Social Wel., Women, Youth Dev.	1.9554	1.6576	1.6021	.8536	1.3520
Public Admin.	.6808	1.1140	1.7516	2.4650	3.0928
Science and Technology	.7548	.6769	.6833	14.7236	.8539
Labor and Employment	.2383	.3989	.6955	.1132	.5715
Block	6.1702	5.4389	8.2242	8.3145	3.3379
Total	154.3431	168.1738	187.7033	194.7290	172.0629

Source: Bangladesh Economic Review 2007

Public Borrowing

Besides foreign loans and grants, the government borrowed money from internal sources. Government borrows money from Bangladesh Bank, commercial banks and by issuing bonds and saving certificates. In fiscal year 2006-07, government borrowed 90.98 million taka from internal sources which was 2 percent of GDP. Internal borrowing has been decreased from 2.2% in 2005-06 to 2.0% in 2006-07 in terms of GDP. The overall domestic borrowing scenario is given in table 32.

Table 32: Net Government Borrowing from Domestic Sources

(In billion taka)

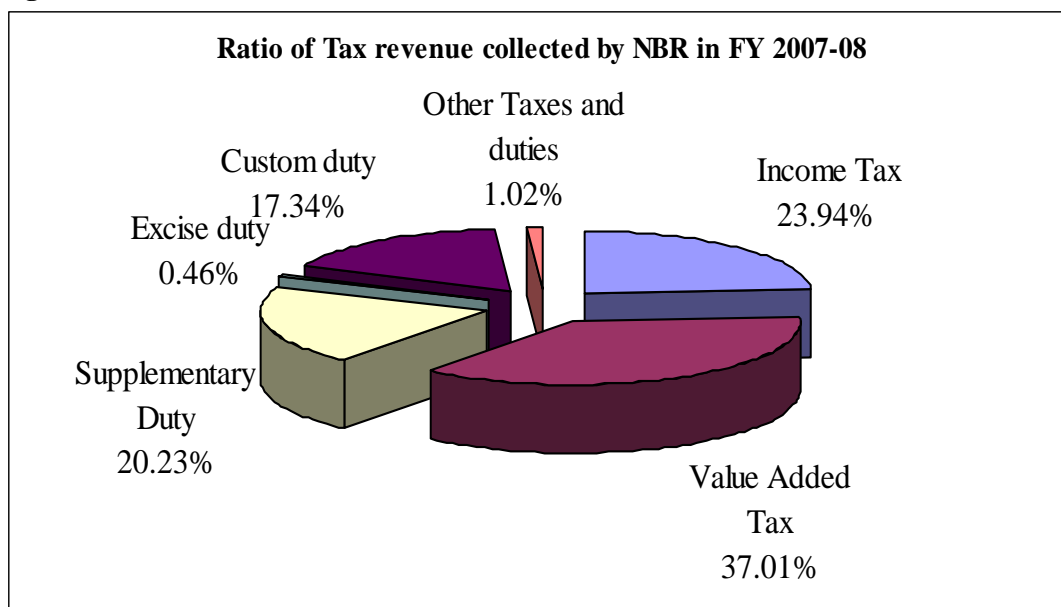
FY	Net govt. borrowing from the banking system			Govt. borrowing from non-bank sources	Total govt. borrowing	Percentage of GDP
	Borrowing from Bangladesh Bank	Borrowing from scheduled banks	Total			
2001-02	27.2700	-1.5860	25.6840	47.1147	72.7987	2.7
2002-03	-25.8970	16.0720	-9.8250	47.9522	38.1272	1.3
2003-04	16.5300	10.1610	26.6910	46.5890	73.2800	2.2
2004-05	38.2670	-1.4280	36.8390	29.7257	66.5647	1.8
2005-06	93.5280	-33.1040	60.4140	31.0323	91.4463	2.2
2006-07	9.0500	35.1090	44.1590	46.8230	90.9820	2.0

Source: Bangladesh Economic Review

Tax Revenue:

National Board of Revenue, known as NBR, is the highest authority of collecting tax revenue. NBR works under Ministry of Finance. NBR collects direct and indirect taxes through Income tax, Customs and Value Added Tax wings. As a developing nation, the country still heavily depends on the indirect taxes. In fiscal year 2007-08, the target of collecting revenues which was achieved at the end of fiscal year has shown in figure 17. The share of custom duties was 17.34% and Supplementary duty was 20.23%. The collection of VAT is increasing gradually in spite of huge exemptions and distortions. In fiscal year 2007-08, VAT was 37.07% of total tax revenue. In direct taxation, the authority collected 23.94% of total tax in fiscal year 2007-08. It is very difficult to increase income tax amount as people are not interested to pay direct tax. Moreover, government also collects non-tax revenue from different sources. The collection trend of non-tax revenue is given in table 33.

Figure 17: Share of Duties and Taxes in FY 2007-08



Source: Bangladesh Economic Review 2007

Table 33: Revenue Receipt/Revenue Budget

(In billion Taka)

	2003-04	2004-05	2005-06	2006-07	2007-08
(A) Revenue under NBR					
1. Income Tax	52.70	58.50	69.60	89.24	110.05
2. Value Added Tax	85.75	106.05	123.98	136.83	170.13
3. Custom Duty	73.00	80.00	82.35	82.79	93.00
4. Excise duty	1.70	1.50	1.63	1.85	2.13
5. Supplementary Duty	54.30	56.00	63.94	60.95	79.70
6. Other Taxes and duties	3.05	2.95	3.06	3.13	4.69
Total (A)	270.50	305.00	344.56	374.79	459.70
(B) Receipts from non-NBR					
7. Narcotics duty	.40	.45	.45	.50	.50
8. Motor vehicles tax	2.41	2.67	3.31	3.67	4.95
9. Land tax	2.59	3.26	3.84	4.02	3.63
10. Stamp (non-judicial)	7.10	8.12	9.59	9.49	11.33
Total (B)	12.50	14.50	17.19	17.68	20.41
(C) Non-tax receipts					
11. Dividend & profit	10.54	11.65	12.71	19.95	24.76
12. Interest	7.50	6.36	7.32	10.43	11.10
13. Administrative fees	9.64	9.88	11.03	11.9	14.13
14. Penalty and forfeiture	.62	.67	.72	.8	1.07
15. Receipt from services	4.82	4.33	4.66	4.58	4.92
16. Rent and leasing	.78	.92	.98	1.03	.96
17. Toll and levies	1.39	1.51	1.51	1.65	1.89
18. Non-commercial sale	3.10	2.64	2.84	3.07	2.45
19. Receipt from Defense	1.33	2.28	6.93	7.17	6.28
20. Non-tax receipts	7.15	8.82	13.09	15.75	30.69
21. Railway	4.53	4.79	5.21	5.15	5.63
22. Post Office department	1.47	1.50	1.58	1.89	1.99
23. T&T Board	17.02	16.50	17.72	18.22	18.82
24. Capital receipts	1.11	.65	.63	.57	.52
Total (C)	71.00	72.50	86.93	102.25	125.26
Grand Total (A+B+C)	354.00	392.00	448.68	494.72	605.37

Source: Bangladesh Economic Review 2007 & Budget 2008-09

III. Tax Structure: Institution and the Reality

Because of trade liberalization, dependence on import duties has been reducing gradually. Bangladesh is trying to mobilize internal resources efficiently by using the benefits of globalization. Thus, the main vision of tax authority is to enhance internal revenue collections instead of customs duties.

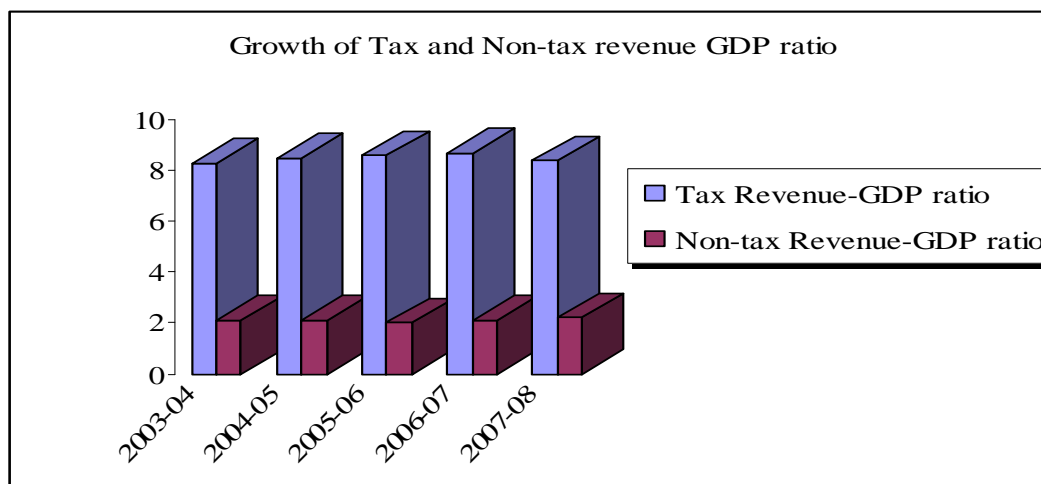
Table 34: Revenue as Percent of GDP

	2003-04	2004-05	2005-06	2006-07	2007-08
Tax Revenue	8.3	8.5	8.6	8.7	8.4
Non-tax Revenue	2.1	2.1	2.0	2.1	2.2
Total Revenue	10.4	10.6	10.6	10.8	10.6

Source: Bangladesh Economic Review 2007

The authority is trying to envision such a revenue policy which will increase revenue through smooth economic growth. Though government has taken a lot of initiatives to improve revenue GDP ratio but it is still very poor. Tax-GDP ratio of Bangladesh is the poorest among SAARC (South Asian Association for Regional Co-operation) countries. Revenue-GDP ratio has been around 10 for the last five fiscal years. In the table 34, it is shown that tax revenue to GDP ratio is estimated 8.4 in fiscal year 2007-08. In previous fiscal year it was 8.7. Situation is same in case of non-tax revenue GDP ratio. It has been around 2 for the last many fiscal years.

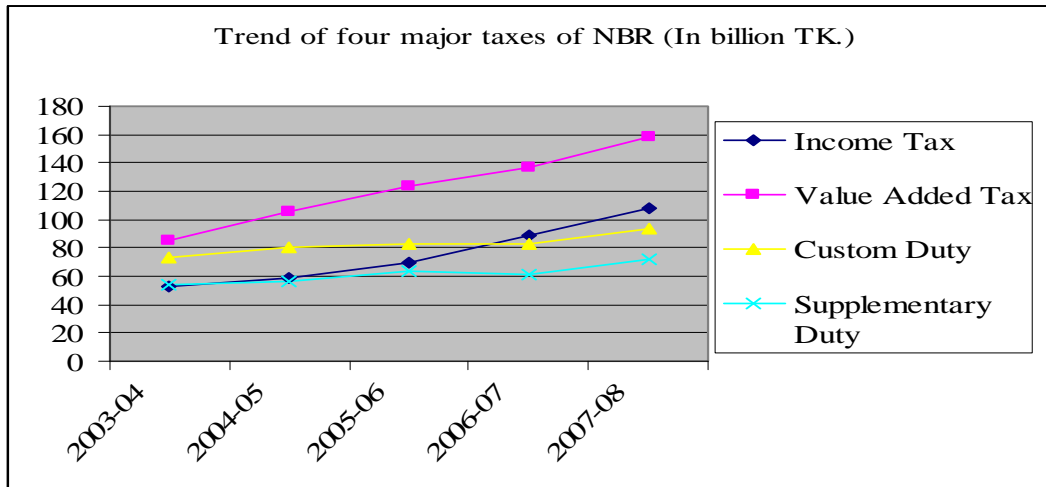
Figure 18: Growth of Tax and Non-tax GDP Ratio.



National Board of Revenue

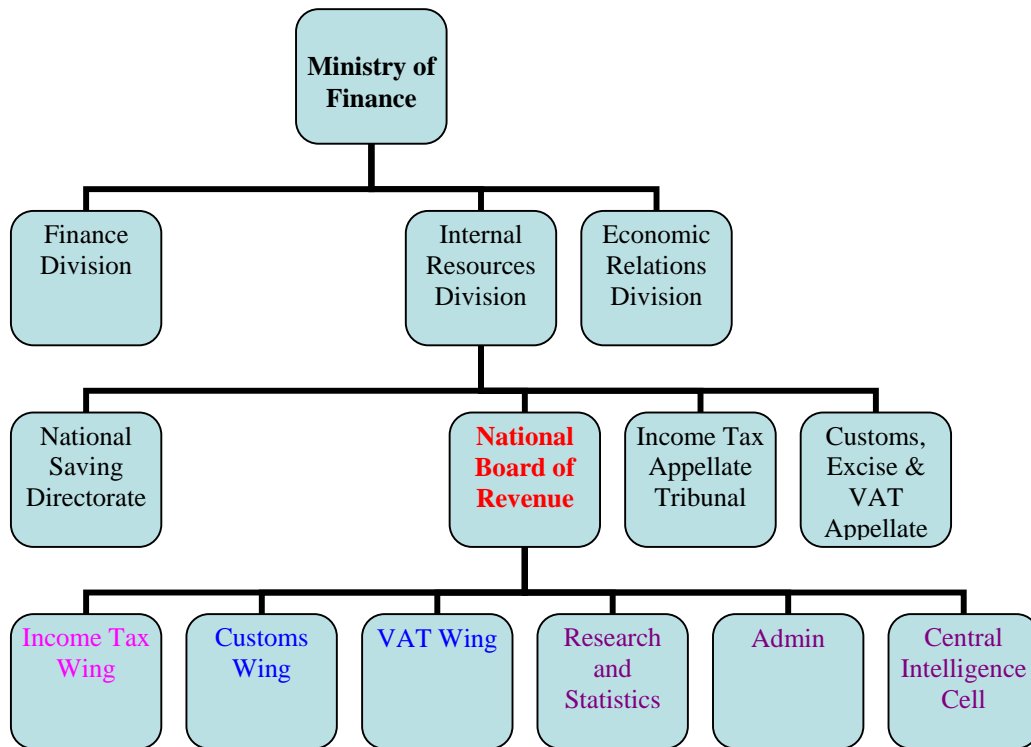
National Board of Revenue (NBR) is the apex body for collecting tax revenue. Before independence of Bangladesh, this office was called Central Board of Revenue of Pakistan which was inherited from British colonial regime. Immediately after the independence of Bangladesh, NBR was institutionalized by presidential order no. 76 in 1972. NBR is headed by the Chairman. To assist chairman, there are eight members who are the most senior officials of direct and indirect tax wings. NBR consists of Income Tax, Customs and Value Added Tax wings. NBR is responsible for collecting revenue, administering revenue administration and designing policy regarding revenues.

Figure 19: Trend of Four Major Taxes in NBR



Source: Ministry of Finance, National Board of Revenue

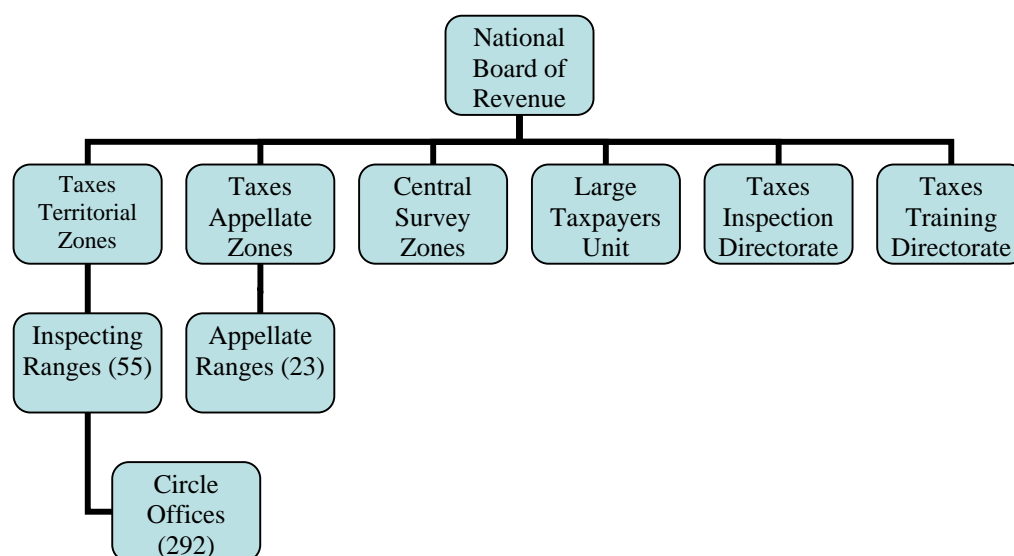
Figure 20: Organization Chart of MOF and NBR



Income Tax Wing

National Board of Revenue divided its total revenue collection 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.

Figure 21: Organizational Chart of Income Tax Department



The root level office for collecting income tax is circle office. There are 292 circle offices for collecting income tax. The circle office is headed by a class one officer of income tax cadre. He is assisted by one inspector and few clerks. There are four types of circles depending on jurisdictions and type of activities. These four types are companies circle, salaries circle, contractors circle and normal 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 respectively. A normal circle holds territorial jurisdiction of sole proprietorship and partnership businesses.

Table 35: Total Employee of Income Tax Department

Class of Employees	Number
First Class	397
Second Class	132
Third Class	2257
Fourth Class	1348
Total	4134

Source: National Board of Revenue

Circle office is monitored by inspecting range official. A range officer normally assigned to monitor all functions of 5 to 6 circle offices. Range officer reports to Commissioner of Taxes who is the administrative head of taxes zone.

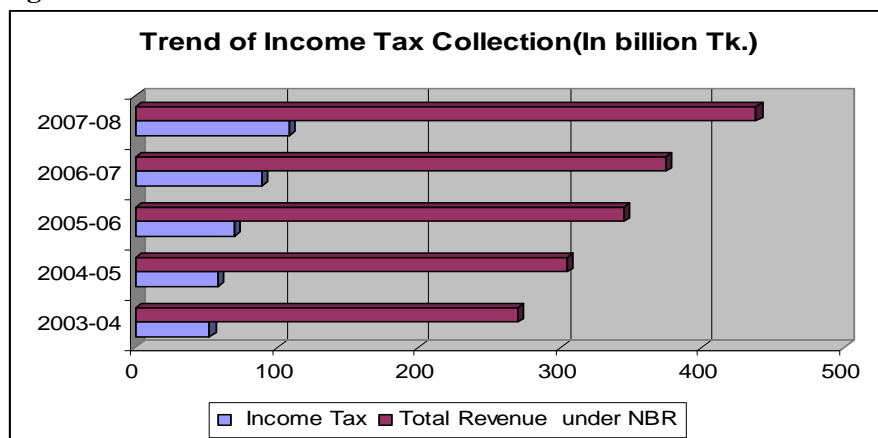
Commissioner of tax is responsible for overall administration and management of a tax zone. He monitors every legal and administrative aspect of taxes circles. Generally, a tax zone consists of four range offices and around 20 circles. A typical circle office processes 3000 to 4000 income tax cases a year. Since everything is done almost manually with no significant support of information technology, managing a circle becomes a daunting task for an officer. There are some circles which handle more than 10,000 files, which is almost impossible to manage efficiently by a single officer.

Table 36: Trend of IT Revenue

	(In billion taka)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Income Tax	52.70	58.50	69.60	89.24	108.34
Total Revenue under NBR	270.50	305.00	344.56	374.79	438.50

Source: Ministry of Finance

Figure 22: Trend of Income Tax Collection



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.

Sources 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 TIN. TIN is a computer generated 10 digit number which remains unchanged for a taxpayer for good. Each taxpayer is assigned with a unique Taxpayer Identification Number (TIN). At present total number of TIN stood at around 2.2 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 70 years and above during the income year exceeds Tk 1,65,000/-.
- b) If total income of any female taxpayer, senior taxpayer of 70 years and above during the income year exceeds Tk 1,80,000/-.
- c) If any person was assessed for tax during any of the 3 years immediately preceding the income year.

- d) 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.
- e) If any person runs a business or profession having trade license.
- f) Any professional registered as doctor, lawyer, income tax practitioner, Chartered Accountant, Cost & Management Accountant, Engineer, Architect and Surveyor etc.
- g) Member of a Chamber of Commerce and Industries or a trade Association.
- h) Any person who participates in a tender.
- i) A person who has a Taxpayer's Identification Number (TIN).
- j) Candidate for Union Parishad, Paurashava, City Corporation or Parliament election.

Income Tax Rates

From assessment year 2008-09 National Board of Revenue introduced a new style of individual tax rates for individuals. NBR introduced separate tax rate for female, senior taxpayers of 70 years old and above. Female and old taxpayers will be required to pay tax if their initial income exceeds TK.180, 000. The overall tax rates for assessment year 2008-09 has been presented in the following tables.

Table 37: Tax Rate for General Individual (Assessment Year- 2008-09)

For individuals other than female taxpayers, senior taxpayers of 70 years and above, tax payable for the		
First	TK.165,000	Nil
Next	TK.275,000	10%
Next	TK.325,000/	15%
Next	TK.375,000	20%
Rest Amount	-----	25%

Source: National Board of Revenue

Table 38: Tax Rates for Female and Senior Taxpayers (Assessment Year- 2008-09)

For female taxpayers, senior taxpayers of age 70 years and above, tax payable for the		
First	TK.180,000	Nil
Next	TK.275,000	10%
Next	TK.325,000	15%
Next	TK.375,000	20%
Rest Amount	-----	25%

Source: National Board of Revenue

Table 39: Tax rates for Companies (Assessment Year- 2008-09)

For Companies	
Publicly Traded Company	27.5%
Non-publicly Traded Company	37.5%
Bank, Insurance & Financial Company	45%
Mobile Phone Operator Company	45%

Source: National Board of Revenue

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, petro-chemicals, 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 2.2 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 75% 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 28 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

Indirect Taxes

Indirect taxes in Bangladesh are Customs duties, VAT and Excise duties. These taxes are collected by Customs, Excise and Value Added Tax wings of NBR. In case of indirect taxes, officials of Customs, Excise and VAT department are responsible for collecting total indirect taxes under the same administration.

Table 40: Total Employee of Customs, Excise & VAT Department

Class of Employees	Number
First Class	552
Second Class	1693
Third Class	2762
Fourth Class	381
Total	5388

Source: National Board of Revenue

The officers of indirect tax administration work in different wings of indirect tax in a regular rotation. Senior officers are recruited through Bangladesh Public Service Commission as Bangladesh Civil Service (Customs and Excise) Cadre. Firstly, we would discuss Customs department.

Customs Department

Customs department is responsible for the collections of overall customs duties at the import stage. Apart from collection of government revenue, it is also responsible for trade facilitation, enforcement of government regulations, protection of society and environment, preparation of foreign trade statistics, trade compliance and protection of cultural heritage. In addition to these activities, customs department leads the anti smuggling movements. Presently, there are five main customs houses in Bangladesh. These are

Customs House Chittagong (Import), Customs House Chittagong (Export), Customs House Dhaka, Customs House Mongla and Customs House Benapole. Customs House Chittagong is the biggest and oldest customs house in Bangladesh. Recently, government divided this customs house into two parts namely Customs House Chittagong (Import) and Customs House Chittagong (Export). Now one house exclusively working on import and the other on export. Because of the bifurcation, import and export through the Chittagong custom houses have been enhanced which playing a vital role to the overall growth of international trade of the country.

Besides five custom houses, seven Customs, Excise and VAT commissionerates also look after customs related activities throughout the country. Due to the geographical location of the country, it has international trade through land boarder with India and Myanmar. To continue business with neighboring countries, Bangladesh has about 100 land customs stations on the boarder of the country of which around 50 stations are active. The biggest land customs station is Customs House Benapole which executes international trade with India.

Simplification of Tariff Structure

As a member of WTO, Bangladesh has gradually been reducing the rate of import duties to open the door of the country widely for welcoming globalization. The tariff structure of last few years has given below:

Table 41: Tariff Rate from 1995-96 to 2008-09

Fiscal Year	Operative Tariff Rate (%)	Maximum Tariff	Tariff Slab
1995-96	0, 5, 7.5, 15, 22.5, 30, 45, 50	50	8
1996-97	0, 2.5, 7.5, 15, 22.5, 30, 45	45	7
1997-98	0, 2.5, 5, 7.5, 15, 22.5, 30, 42.5	42.5	8
1998-99	0, 5, 7.5, 15, 25, 30, 40	40	7
1999-00	0, 5, 15, 25, 37.5	37.5	5
2000-01	0, 5, 15, 25, 37.5	37.5	5
2001-02	0, 5, 15, 25, 37.5	37.5	5
2002-03	0, 7.5, 15, 22.5, 32.5	32.5	5
2003-04	0, 7.5, 15, 22.5, 30	30	5
2004-05	0, 7.5, 15, 25	25	4
2005-06	0, 6, 13, 25	25	4
2006-07	0, 5, 12, 25	25	4
2007-08	0, 10, 15, 25	25	4
2008-09	0, 3, 7, 12, 25	25	5

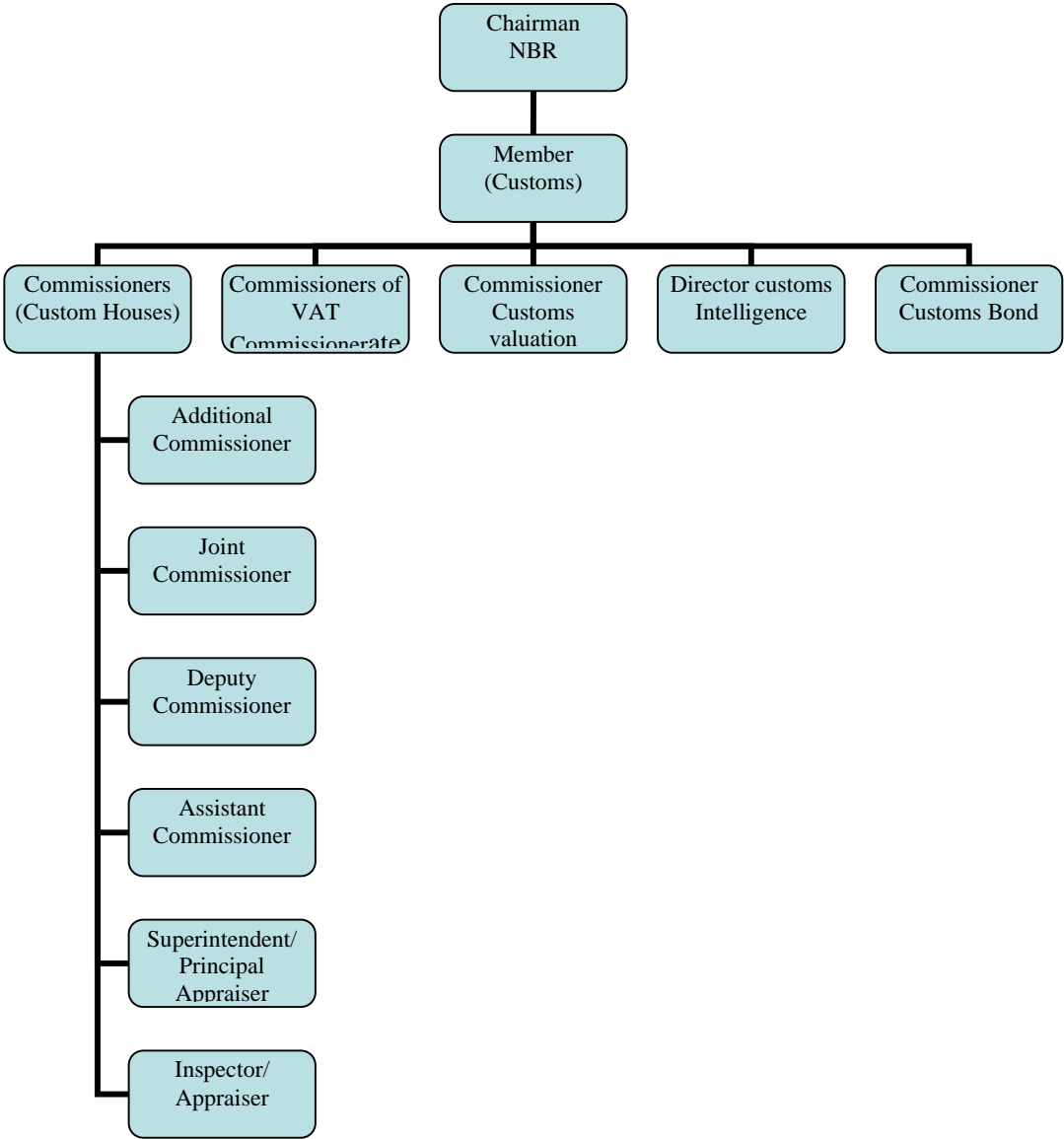
Source: National Board of Revenue and Ministry of Finance

Customs Assessment System

Customs assessment procedure is the only partially automated area in the revenue department of Bangladesh. Customs department introduced ASYCUDA⁺⁺ (Automated System for Customs Data) program for quick disposal of import-export consignment. After the implementation of this system an importer or an exporter can easily get his consignment assessed. By this system, an importer or his agent submits necessary documents to the data entry section of Customs house. Then the data entry operators input the data in the soft copy of Bill of Entry. Computer system automatically assigns a Bill of Entry number and assessment officers who would assess the consignment. The assigned Principal Appraiser and Appraiser of customs calculate the duties and taxes if everything found correct. After the assessment, they would print an assessment notice and the importer would pay the duties and taxes in the bank counter of customs office as per assessment notice. Then the customs officer who stays in the bank counter will issue

a release order by which the importer can take delivery of his goods from the port. Customs department also introduced DTI (Direct Traders Input). By this DTI system, an importer or exporter need not come to the customs house; he can input data from his office to customs computer system through on line. DTI is not introduced in all customs houses except Customs House Chittagong (Export) and Customs House Chittagong (Import)

Figure 23: Organization Chart and Hierarchal Position of Bangladesh Customs



Valuation System

Valuation is one of the important issues in customs administration. Traditionally, imported goods were valued by the customs authority. Mainly, earlier they used reference value and their discretion to value the imported goods. Besides in many cases, there were specific tariff values determined by National Board of Revenue. But as a signatory of WTO, the customs authority now is following the guidelines of WTO for valuation. In most of the cases, the assessment of imported goods is done as per transaction value. It is to be noted that transaction value is the total declared amount by the importer which is actually paid or payable by the buyer to the seller to import goods. The importer submits the invoice of transaction value

including insurance, freight and other necessary costs to the customs authority. Customs officials assess the goods as per the very invoice submitted by the importer. If any dispute arises in determination of value of the imported goods, customs authority has to follow the prescribed method of WTO valuation rules. But the reality is that it is very difficult for customs authority to find out any under invoicing or over invoicing in the transaction value as per WTO valuation guidelines. It is needless to say that after implementation of transaction value method of WTO, import and export has been enhanced remarkably.

Table 42: Customs Revenue Collection

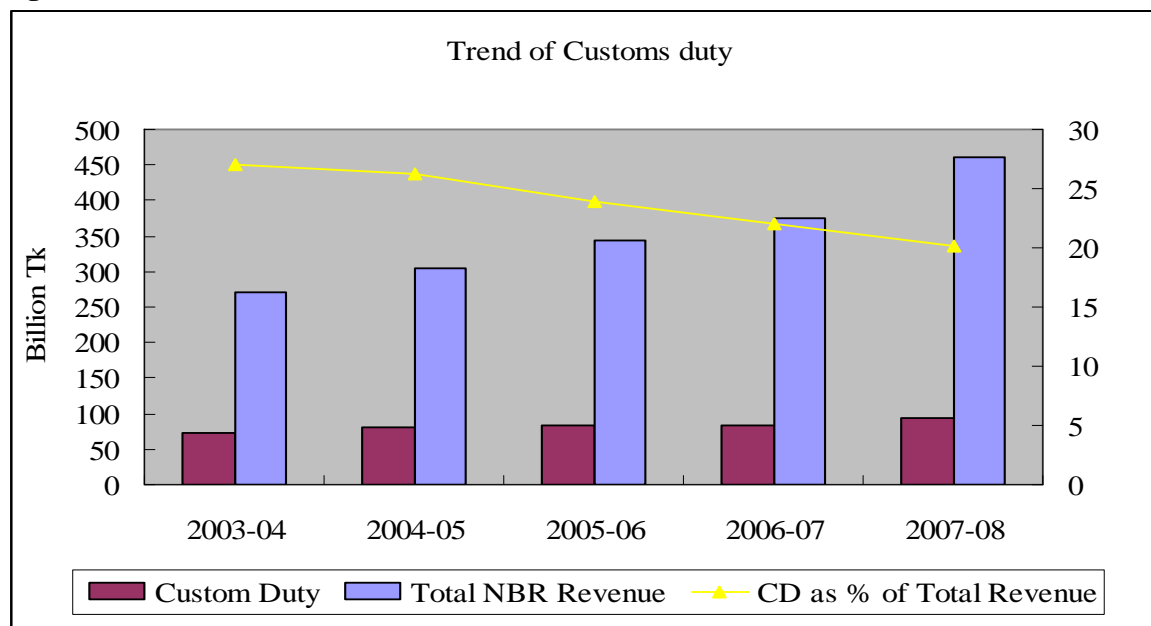
	(In billion Taka)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Custom Duty	73.00	80.00	82.35	82.79	93.00
Total NBR Revenue	270.50	305.00	344.56	374.79	459.70
CD as percent of Total Revenue	26.98	26.22	23.90	22.08	20.23

Source: Bangladesh Economic Review, 2007

Examination of Goods

Examination of imported goods is another routine work of customs authority. But it is very difficult to examine all imported consignment. To enhance import, government introduced Pre-shipment Inspection System (PSI). Some PSI agencies are working for Bangladesh Customs through out the world. Before shipment of imported goods for Bangladesh, those goods have to be examined thoroughly by the PSI agency. After examination they will issue a Clean Report of Findings (CRF) to customs authority through LC (Letter of Credit) opening banks. If the imported goods have CRF certificate, the customs authority will release that goods without examination. If the commissioner of customs wants, he can select randomly 10 percent of PSI certified consignments for physical examination by customs officials.

Figure 24: Trend of Customs Duties Collection



Revenue Collection

Due to the simplification of tariff and trade liberalization, customs revenue has been reducing gradually. In fiscal year 2007-08, customs revenue was 93 billion taka. Still the amount is significant and higher than that of the previous fiscal year. The trend is upward because of increasing volume of import. If we look at

the figure 24, we would notice that customs revenue collection is almost static in respect of total revenue collection.

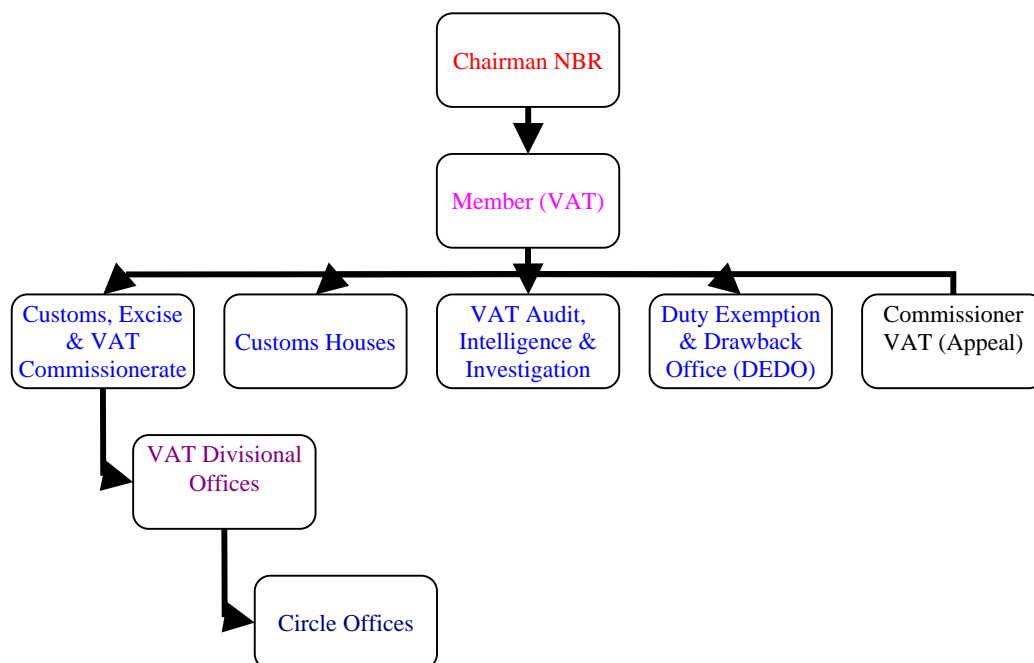
Value Added Tax (VAT)

Value Added Tax (VAT) was introduced in Bangladesh on 1 July in 1991 replacing Excise duties partially and Sales Tax completely. The single rate of VAT is 15%. This uniform rate is applicable on both service and product at import stage as well as domestic level. Besides, in some cases VAT is calculated on truncated base.

Administration

Value Added Tax wing is another most vital wing of NBR. The VAT administration is run by the officers of indirect tax department who are recruited as officers of Customs and Excise department. They are being posted in Customs and VAT department in a regular rotation. Member (VAT) of NBR is the head of VAT department who has to report to the Chairman NBR. At present, there are eight VAT commissionerates including one Large Taxpayers Unit (VAT). The head of VAT commissionerate is Commissioner. Each commissioner is responsible for the administration and management of his commissionerate. The Customs, Excise and VAT Commissionerates are Dhaka (North), Dhaka (South), Chittagong, Rajshahi, Khulna, Jessore, Sylhet and Large Taxpayers Unit (VAT). There are some Divisions under each commissionerate and under each Division there are some Circle offices.

Figure 25: Organization Chart of Value Added Tax Department



Customs Houses are responsible for collecting VAT at the import stages. Therefore, these houses and customs land stations are regarded as a vital point of VAT collection. On the other hand, VAT chain starts from the customs points. VAT commissionerates and Customs Houses always maintain a strong communication among them to calculate and find out the real VAT payable by the importers and manufacturers.

In the figure 25, it is shown that besides customs houses and VAT commissionerates, there are three more offices namely, VAT audit, intelligence and investigation, Duty Exemption and Drawback Office (DEDO), and Appeal Commissionerate.

The VAT audit, intelligence and investigation office is headed by a Director General (DG). The main function of this office is auditing the vulnerable units throughout the country. The officials of this office conduct secret investigation and intelligence work to catch VAT evaders. After being confirmed, they introduced intensive audit of selected business unit. This office enhances the audit based VAT system in the country. It may be mentioned here that VAT commissionerate also conduct 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.

Duty Exemption and Drawback Office which is known as DEDO works for refund of VAT and customs duties. This office is headed by a Director General (DG). As per the provision of Value Added Tax Act 1991, DEDO was introduced to encourage the exporter through the quick refund of VAT. If any exporter exports anything, he is entitled to get the VAT and other duties which were paid during the purchase of the raw materials to produce that finished exported goods. Sometimes, National Board of Revenue determine a flat rate on the basis of duties and taxes paid on imported raw materials if the exporter apply to the Board to reduce the difficulties to get refund.

VAT appeal commissionerate is headed by a commissioner of VAT. If one taxpayer is aggrieved with the decision of any officials other than the Commissioner of VAT, one can appeal to the Commissioner (appeal). If one is not satisfied with the decision of Commissioner (appeal), one can appeal against the order of Commissioner (Appeal) to the President, Customs, Excise and VAT Appellate Tribunal.

VAT Mechanism and Procedure

Value Added Tax is run as per The Value Added Tax Act, 1991 and The Value Added Tax Rules, 1991. Value Added Tax is an indirect tax on consumption that is levied on the value addition of goods or services at each point in the chain of raw material stage to the final consumption. Personal end-consumers of products and services cannot recover VAT on purchases, but businesses are able to recover VAT on the materials and services that they buy to make further supplies or services directly or indirectly sold to end-users. In this way, the total tax levied at each stage in the economic chain of supply is a constant fraction of the value added by a business to its products, and most of the cost of collecting the tax is borne by business, rather than by the state. It is already mentioned that VAT rate is 15% for all business or industrial units with an annual turnover of Taka 2.3 million and above. If yearly turnover is less than taka 2.3 million, the taxpayers can be registered as turn over taxpayers instead of VAT. At present, turnover tax rate is 4%. In case of turnover tax, a taxpayer is not entitled to get credit. VAT is an audit based tax system and credit mechanism is the vital point of this system. In Bangladesh, taxpayers have to get registered first. There are two type of registration system in VAT namely, voluntary and compulsory. After being registered under VAT, the taxpayer has to submit return in every month. The taxpayers have to maintain three important register for getting rebate such as Purchasing Register, Selling Register and Current Account register. The taxpayer has to pay tax before the delivery of goods or services and has to maintain a positive balance in current account register. If payment deposit is not satisfactory (positive balance) in the current account register, the taxpayer cannot supply VAT-able goods or services outside of his premises. Through the current account register the taxpayer can easily get rebate. The taxpayer registers the amount of taxes in the current account register which is creditable. So he can take rebate automatically. If his credit amount is finished, he has to increase the balance by paying revenue to the government. After one month he will show the total account in the prescribed return form to the respective tax office.

VAT Exemption

As a developing country, Bangladesh also has a big list of goods and services which are exempted from VAT. The list of goods exempt from VAT is given in the First Schedule of the VAT Act, 1991. Some goods are also exempted by Statutory and Regulatory Order. Important exemptions are: live animals, poultry, fish, meat, milk, cream, eggs, natural honey, herbs and spices, vegetables, fruits, cereals, nuts, natural sand, natural rubber, animal hides, skins, hair and fur, wool, fuel wood, cotton and raw jute.

The list of exempted services has given in the Second Schedule of the VAT Act 1991. Generally services necessary for livelihood, services for social welfare, services related to culture, services relating to finance and financial activities, transport service, and personal services are exempted from VAT. Some services are also exempted by Statutory and Regulatory Order.

VAT Base

In the case of domestic supply of goods, VAT is levied on the total price received or deemed to have been received, which may include the value of raw material, all cost of manufacture or production, profit and, where applicable, any charge, fee, all other duties and taxes except advance income tax and VAT. In case of services, VAT is levied on the total receipt for the supply of services including Supplementary Duties excluding VAT.

In case of imports, the VAT base is the total of the assessable value for customs duties, plus the amount of customs duties, supplementary duty and all other duties and taxes, (if any), except advance income tax and VAT.

Rate of VAT

Basically, there are two rates for VAT such as 15% and 0%. Zero-rate means the particular supplies of goods and services are treated as taxable, but the rate of tax is zero, or nil. All exports and deemed exports of goods and services are zero-rated. Goods produced or manufactured in Bangladesh and stores on any transport leaving Bangladesh for consumption/sales in the transport outside Bangladesh are also zero-rated. Exemption and zero-rating are significantly different. As per existing VAT laws businesses supplying only exempt goods or services are not required to fulfill any VAT formalities. They do not charge VAT on their outputs, nor are they able to take credit for any input tax. On the other hand, those dealing with zero-rated transactions have to be registered and fulfill all the VAT formalities. No tax is chargeable on their zero rated goods and services, but they can take credit/refund for the input tax they have paid which relates to their zero rated supplies.

Supplementary duties also imposed at the import and local stage under the purview of VAT Acts.

Existing rate of Supplementary duties on goods are 20%, 35%, 65%, 100%, 250% & 350% and on services are 10%, 15% & 35%.

Government also declared some other provisions for small traders for paying VAT with easy calculation as lump sum basis which is called presumptive VAT. Small traders and retailers are required to be registered and to pay a flat rate VAT. The actual rate depends upon the location. Taxpayers residing in Dhaka City Corporation area are required to pay an annual VAT of Taka 4,200 while in other City Corporation areas pay Taka 3,600. The corresponding rate for taxpayer residing in District-Paurashava areas and other areas are Taka 2,400 and Taka 1,200, respectively.

Moreover, National Board of Revenue is authorized to fix the rate and quantum of the value to be added for specified goods or services through gazette notification for the purpose of calculating the VAT due. This deemed value addition becomes the truncated value base for the VAT calculation. In accordance with these provisions the National Board of Revenue has fixed a truncated value for certain goods and services for the purpose of VAT.

Value Declaration

Value declaration is a very important part in Value added tax system. In value declaration, the manufacturer declares his input-output co-efficient before the VAT authority. Prior to the first supply of taxable goods, VAT registered manufacturers are required to submit a declaration of value and input-output co-efficient of the goods to the concerned Divisional Officer. It is also necessary to report any changes in value and/or input-output coefficient to the concerned Divisional Officer within 7 days before the execution of such a change. Currently, value declaration is mandatory in case of goods only.

Tariff Value

According to the present Value added Tax Act 1991 The National Board of Revenue can fix a value for specified goods or services on which VAT is imposed, through gazette notification. This is called tariff

value. In case of tariff value, the manufacturers or suppliers do not need to submit value declaration to VAT authority or taxes will not be imposed as per actual value at import stages as well.

VAT Drawback

Mainly exporters who are not able to get credit automatically may claim VAT drawback for their extra credit. Taxpayers who export all of their outputs and consequently will be in a consistent credit situation can apply to be treated as 'registered exporters'. If their application is approved, their monthly VAT returns are treated as claims, and are passed by the VAT office to the Duty Exemption and Drawback Office (DEDO) for processing. Taxpayers are also able to claim drawback of import duty through this procedure. Refunds of VAT and duty are made directly into a bank account which must be opened for this purpose.

If an exporter is not registered with VAT, he may also apply to the DEDO for drawback of VAT which incurred in the production and distribution of that exported output. An exporter has to apply within the six months of exporting anything. Drawback of customs duty incurred is also payable through this procedure. A claim for drawback of VAT should be finalized within 90 days time from the date of receipt of the claim. A claim for duty drawback should be finalized within 21 days of the claim. Sometimes refund may also be made for overpayment of VAT mistakenly. If any taxpayer paid VAT overpayment in error, he has to apply to the VAT authority within the six months of that overpayment made.

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 a very high goodwill they pay tax in LTU, so it is very difficult to evaluate whether there is any special charisma of LTU mechanism to enhance government revenue. The structure of VAT LTU is similar to income tax LTU which have already been described in Income Tax chapter.

VAT Revenue

From the very beginning of VAT in Bangladesh, its contribution to the total revenue is remarkable. Because of the guidelines of WTO and trade liberalization government reduced customs duties drastically. So government didn't have any other better alternatives without depending on VAT revenue. One another important thing behind the introduction of VAT was reducing dependency on foreign loans. Thus, replacing traditional Excise duties and sales tax government introduced VAT with the Customs and Excise officials of indirect tax department. Though some people advocate merging VAT with income tax but the customs official made their proposals false by achieving the revenue target for many times. Because of working in customs and VAT simultaneously indirect tax officials can easily understand the mechanism of VAT. In spite of many exemptions, still VAT is the leading revenue in NBR. Its contribution is the highest in the total revenue of NBR. In the fiscal year 2007-08, total VAT was collected 170.13 billion taka. It is 37 percent of the total collected revenue of NBR. In fiscal year 2006-07, the total VAT was 136.83 which was 4.5 percent of GDP. VAT authority has achieved the target due to the transparency, hard working and effective implementation of VAT laws.

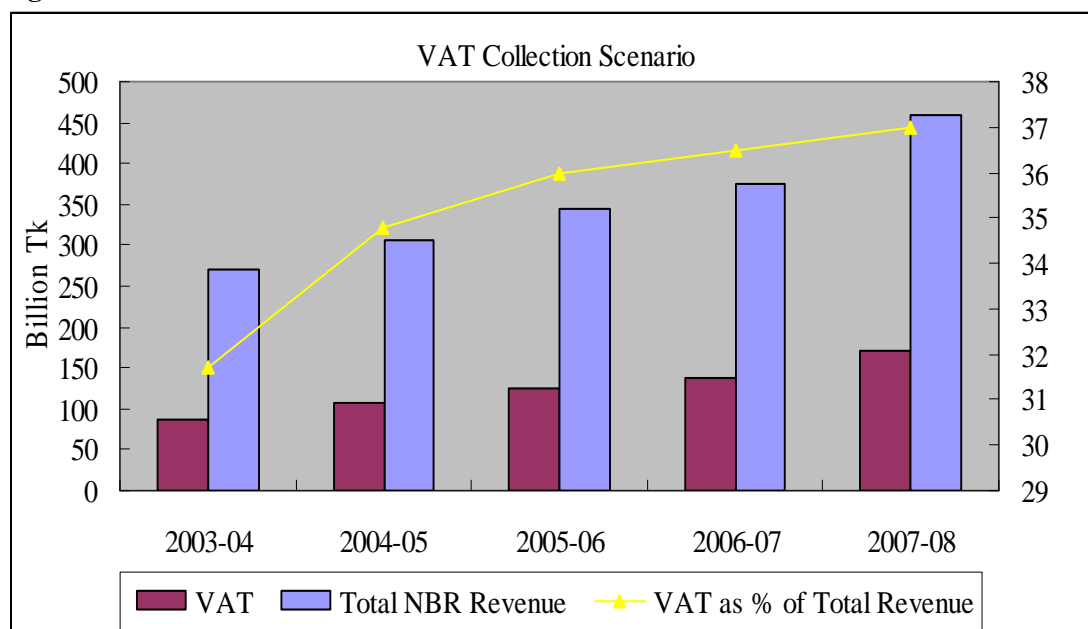
Table 43: Trend of VAT Collection

(In billion Tk.)

	2003-04	2004-05	2005-06	2006-07	2007-08
Value Added Tax	85.75	106.05	123.98	136.83	170.13
Total NBR Revenue	270.50	305.00	344.56	374.79	459.70
VAT as % of Total Revenue	31.70	34.77	35.98	36.50	37.00

Sources: Ministry of Finance

Figure 26: VAT Collection Trend



Source: Ministry of Finance

IV. Country Specific Fiscal Issues

Narrow Tax Base

Bangladesh is a country of about 150 million people. But only around two million people have Taxpayers Identification Number (TIN). Around 20 percent of TIN holders file regular return in income tax office. There is no tax culture as people are not interested to pay tax. Basically, people are reluctant to pay income tax. People have a misconception about the tax offices which regarded as one of the vital causes for not paying income tax. Though government is trying to motivate people in various ways but still tax to GDP ratio is around 10 which is very low among the South Asian countries. Tax to GDP ratio is not significant because of narrow tax base and huge exemption in income tax and VAT. If government extends tax base reducing exemptions, tax to GDP ratio will automatically be increased. External debt is increasing in such a way that it will create a serious problem in future. Thus, to stop depending on foreign loan government should reduce exemptions and broaden the tax base.

Reform in Revenue Administration

The most unfortunate chapter for Bangladesh is modernization of revenue administration. The country has inherited bureaucracy from British colonial regime. Many times it has been reformed. But still it is not up to the mark because reforms measures were not taken by the people of the country but some outsiders who work there as so called consultants. Reforms may be fruitful if local cultures and mentality of people valued highly. As local situations were not considered before reforms that is why no reforms were effective in revenue administration. Only customs administration is partially automated. Income tax and VAT administration are still running without computerization. Without internal modernization and computerization of these two departments, some expert advocates to merge direct and indirect tax department which will create a mess in revenue administration. To coup with the age of information technology, there is no alternative for revenue administration without being well equipped with computerization.

Export Diversification

Presently, the world is going through a great recession. This recession may affect the export of Bangladesh. Export is heavily dependent on readymade garments and knit wear. Its share is about 75 percent of total export of the country. The main export market for garments product of Bangladesh is EU and NAFTA. We know that current recession severely hit US and European economy. So due to the impact of global recession, export to those developed countries will heavily be faced some obstacles. The country has a lot of scope to diversify its exports. Government should assist private entrepreneurs to diversify their export products. To reduce the dependency on garments product, government can assist private firms to emphasis on jute products, frozen food specially shrimp and agro based product exports. Simultaneously, government should explore new market for exports.

Environment for FDI

Bangladesh is a densely populated country that is why, labor is very cheap and available. In spite of availability of cheap and skilled laborer, FDI is not remarkable. Main cause of insignificant FDI flow is lack of environment for business. Because of political instability, proper policy and bureaucratic complexities foreigners are not interested to invest in the country. The country is affluent with natural resources. Government has no alternative without creating the proper environment for investment. To enhance GDP growth and to reduce unemployment, there is no alternative without welcoming FDI.

Global Warming and Economy

Global warming creates another problem for the economy of Bangladesh. Some meteorologists have already warned that Bangladesh may be disappeared by the end of the current century. Because of global warming, natural calamities have been increased. Every year the country suffers from severe draughts, floods and storms which cause huge losses of economy. Recently, the government has allocated some

extra money in global warming head. Regular natural disaster is also responsible for FDI. If the developed countries do not stop greenhouse gases emission, Bangladesh economy has to suffer a lot in the near future.

Trade Deficit

Trade deficit is also another challenge for Bangladesh. Gap between import and export has been increasing day by day. Overall current account is positive and in a significant position because of foreign workers' remittances. If foreign workers' remittance flow is hampered, the overall balance of payment will face a tough situation. Government has to try to reduce trade deficit by increasing volume of exports. On the other hand, government should find out the new world job market for workers. Still foreign Bangladeshi workers face many problems in their working place abroad and even they cannot send money through legal channel from many countries.

V. Where We Stand and Where We Go?

Bangladesh as a least developed country has been suffering from budget deficit, trade deficit, low GDP growth, rapid population growth, global warming and finally political instability. Population density in Bangladesh is the highest in the world. In spite of government initiatives, still population growth is alarming. It is very impossible for any country providing fundamental needs of such a huge population with limited resources. If the country cannot stop increasing population growth, its economic situation will be worsened in near future.

Infrastructure is another important element for economic development. Infrastructural development needs more government attention. The country has two sea ports but due to lack of facilities these two sea ports are not giving any fruitful achievement to the economy. Foreign Direct Investment is diverted to other neighboring countries because of the lack of infrastructure. Power crisis creates severe problem for local and foreign investment. The country failed to ensure uninterrupted power supply to the business units. No government takes the proper policy to solve the power crisis by setting power plants. Indeed, the country is not using its natural gas in a productive way.

The country had taken the policy of open market economy without equipping herself first. Customs duties have been reduced steeply. On the other hand, government efforts to increase internal revenue were not satisfactory. The country failed to create a tax culture. The politicians allowed huge exemptions for cheap popularity. In addition, they go to donor agencies to borrow money. The dependency on foreign loan instead of internal revenue creates a real problem for the country. In a word, the country is now in a vicious cycle of external loans. Every year the country has to pay a huge amount of interest and again the amount is gradually increasing. Without proper revenue policy, it will be very tough for the country to come out from the vicious cycle of external loans.

Revenue administration is not computerized enough to cope with the age of information technology. A lot of projects have been taken but result was not so effective. Customs administration is partially computerized but VAT and income tax is fully manual. If the authority modernizes the revenue administration with automation, the scenery of revenue collection will be changed dramatically. Of late, Large Taxpayers Unit (Income Tax) and Large Taxpayers Unit (VAT) have been set up. The main motto of establishing LTUs now became the unification of direct and indirect tax administration which may lead the country's tax administration to another serious problem. Income tax department is totally manual and they are struggling to extend the tax network. Still huge numbers of potential people are outside of tax network. If two departments are amalgamated, there will be a golden scope for tax evaders to evade tax. At present, income tax and VAT department separately audit the suspicious taxpayers. So there is a chance of cross check between two authority's audit reports. Because of being audited by two separate departments there is also a transparency which helps to minimize the corruption of revenue officials. Moreover, merging two departments will create an administrative chaos. This prescription of donor agencies would be a suicidal decision for the government.

Corruption is also another problem for economic development of the country. As the salary structure is very poor and politicians have no commitment to the country, corruption is increasing day by day. Government set up independent Anti Corruption Commission to tackle corruption but that organization itself also controversial. Without the proper implementation of policies and rule of laws, it will be impossible to reduce corruption. If bureaucracy can go on with less corruption, institutions will be efficient which will help the economy of the country boost up.

The country has many problems but still people have hopes and expectations. The proper utilization of huge manpower and natural resources as well as strengthening the government institutions can lead the country to a positive economic growth.

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