

3 Bangladesh

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I. Introduction

Bangladesh, officially The People's Republic of Bangladesh is a country in South Asia. It is bordered by India on all sides except for a small border with Myanmar to the far southeast and by the Bay of Bengal to the south. Together with the Indian state West Bengal, it makes up the ethno-linguistic region of Bengal and the name Bangladesh means **The Country of Bengal**. The border of present Bangladesh was established with the partition of Bengal and India in 1947, when the region became the eastern wing of the newly formed Pakistan. However, it was separated from the western wing by 1,600 kilometers (1,000 miles) across India. Political and linguistic discrimination as well as economic neglect led to popular agitations against West Pakistan, which led to the war for independence in 1971 and after that nine months 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 thousands year old. The civilization in the greater Bengal was settled by Dravidian, Tibeto-Burman and Austro Asiatic people. It is believed that the word Bangla and Bengal derived from Bang, the Dravidian speaking tribe that settled in the area around the year 1000 BC.

The religion, Islam, was introduced to Bengal in the twelfth century by Sufi missionaries, and subsequent Muslim conquests helped spread Islam throughout the region. Bakhtiar Khilgi, a Turkish General, defeated Lakshman Sen of the Sen Dynasty and conquered large parts of Bengal. The region was ruled by dynasties of Sultans and federal 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 Munity, resulted in transfer of authority to the crown, with a British Viceroy running the administration. During the 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 (late 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 delta in the world. The monotony of flatness has been relived inland by two elevated tracts – the Madhupur and the Barind Tracts and on the northeast and southeast by row of hills. Some 75% of the land is less than 3 meter above the sea level (MSL) and vulnerable to floods and cyclones. The maximum elevation is 1280m above MSL at Saichal range in Rangamati district. Tajindong is the highest peak and called as "Bijoy".

Bangladesh is called Nadimatric Bangladesh (the land of rivers). 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 of Bangladesh are: Padma, Meghna, Jamuna, Brahmaputra, Surma, Kushiya, Karnaphuli, Arial Khan, Buriganga etc.

There are four main seasons in Bangladesh- summer, rainy season, winter and spring. Average maximum and minimum summer temperatures are 35°C and 22°C respectively where as, average maximum and minimum winter temperatures are 29°C and 11°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 and Language

Bangladesh is the 7th most populous country in 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-cities. The total fertility rate is now 2.4 children per woman, compared with 6.2 thirty years ago. The population is relatively young, with the 0-25 age group comprising 60 percent. While 3 percent are 65 or older. Life expectancy is 66 years for both males and females.

The majority ethnic group of Bangladesh is the Bengali people, comprising 98 percent of the population. The remainder is most 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. This region has been a source if ethnic tension since the inception of Bangladesh. The largest tribal groups outside the Hill Tracts are Sawthals and Garos. There are also kaibartta, Mundas, Oraons and Zomi ethnic people. The official and most widely used language in Bangladesh, as in West Bengal, is Bangla or Bengali. It is 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 percent. There is gender disparity, though, as literacy rates are 50 percent among men and 32 percent among women, according to a 2004 UNICEF estimate. Literacy has gone up due to many programs introduced in the country. Among those, 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.

Table 1: Selected Demographic Statistics

Year	2002	2003	2004	2005	2006	2007	2008
Total Population (million)	132.9	134.8	137.7	138.6	140.6	141.8	144.5
Natural Population Growth (%)	1.50	1.48	1.42	1.42	1.41	1.48	1.39
Crude Birth Rate (thousand)	20.1	20.9	20.8	20.7	20.6	20.9	20.8
Infant Mortality Rate (per 1000)	53	53	50	50	45	43	43
Total Fertility Rate (per women)	2.55	2.57	2.46	2.46	2.41	2.40	2.40
Life Expectancy (both sexes)	64.9	64.9	65.1	65.2	65.4	66.6	66.7

Source: Bangladesh Economic Review 2009

Government and Politics

Bangladesh is run by parliamentary- democratic system. Elections held every five years for the unicameral parliament known as Jatiyo Sangshad. All citizens over 18 years are eligible for votes. The parliament building is known as the Jatiyo Sangshad Bhaban designed by famous architect Louis Kahn and currently has 300 members, elected from single-member constituencies. There are also 45 selected women members. The Prime Minister, as the Head of the Government, forms the cabinet and runs the day-to-day affairs of state. While the Prime Minister is formally appointed by the President, he or she must be a member of the parliament (MP) who commands the confidence of the majority of 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 advisors 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 still weak in Bangladesh. 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 law such as marriage and inheritance are based on religious scripts, and therefore differ between religious communities.

The two major parties of Bangladesh are the Bangladesh Awami League (BAL) and Bangladesh Nationalist Party (BNP). BNP is led by Begum Khaleda Zia and finds its allies among Islamist parties like Jamaat-E-Islami Bangladesh and Islami Oikyo Zot; While BAL is led by Sheikh Hasina and aligns with Bangladesh Jatiyo Party, leftist and secularist parties. Hasina and Khaleda are bitter rivals who have dominated politics from 1991; both are women and each is related to one of the leaders of the independent movement.

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 literacy 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 100 films a year. Mainstream Indian movies 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 fish curry are traditional favourites. Bangladeshis make distinctive sweetmeats from milk products; some common ones are Roshogolla, Chomchom and Kalojum. The Shari is the most widely worn dress by Bangladeshi women. However; Salwar Kameez is also very popular among young ladies. Among men, European dressing has greater acceptance. The lungi, is a kind of long skirt, is widely worn by Bangladeshi men.

The two Eids, Eid-ul-fitr and Eid-ul-Azha are the largest festivals to the Muslims in Bangladesh. Major Hindu festivals are Durga Puja and Saraswari 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 Dibosh.

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). Overall there are more than 17 million students are at primary level and over 8.0 million at the secondary level. Enrollments 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 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

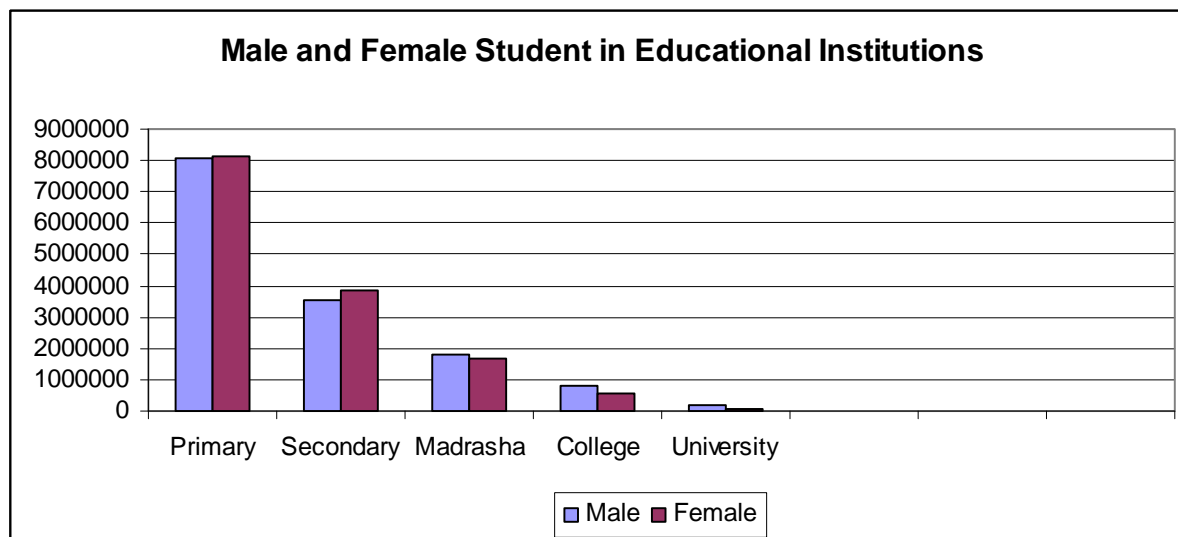
countries at similar levels of per-capita income. Figure-1 and Table-2 give a scenario of education in Bangladesh.

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
High School	18500	3708	232929	46983	7398552	3868014
Total College	3150	600	90401	17400	1367246	569337
University	82	-	10339	1827	207577	49867
Madrasha	9215	1138	151967	13230	3453221	1648665
Technical-vocational	2728	267	18185	3208	241336	62562
Professional	222	47	4158	735	60043	21043
Teacher	188	1	2132	524	36265	13525

Source: Ministry of Education.

Figure 1: Male and Female Student Ratio



II. Overview of Macroeconomic Activity

Desperately poor when it own it's independence in 1971, over populated and reeling from overwhelming war damage to it's institutional and physical capital, Bangladesh looked to become, as Henry Kissinger forecast, "an international basket case". Thirty some years later, doubts and doubters have been disproved. The economy of Bangladesh has reached a sustained growth trajectory with strong macroeconomic fundamentals. Life expectancy in Bangladesh has been raised from 55 to 66 years. Population growth rates of 3 percent a year have been halved. Unemployment that ran at 25-30 percent has shrunk to 5 percent. Child-mortality rates of 240 per 1000 birth have been cut by 70 percent. Literacy has more than doubled, and Bangladesh is on track in meeting its Millennium Development Goal in gender parity, having already achieved the goal in primary and secondary schooling. This and other gains, aside from being the result of targeted government efforts and exemplary social entrepreneurship, owe a primary debt to income growth, the strongest engine for raising living standards and reducing poverty. Bangladesh's real (inflation-adjusted) per-capita Gross Domestic Product (GDP) has more than doubled since 1975. The GDP growth over the last five years consistently remained above 5 percent. Despite the losses caused by the two consecutive floods, the cyclone "Sidr" in 2007, the adverse effects arising from unprecedented price hike of crude oil in international market and also in the global financial crisis, the economy of Bangladesh showed remarkable resilience. The satisfactory growth of import-export trade, secular increasing trend in the flow of remittance and the favorable balance of the current account kept the external sector stable. 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.

II.1 International Environment

Trade Balance

Just after the independence of Bangladesh, In FY 1972-73 the total number of exporting products were 25, whereas in FY 2007-08 it becomes 154 and number of market increased from 68 to 184. Now non-traditional export item readymade garment (RMG) industry is the main source of export earning for Bangladesh for last fifteen years. About 75.83 percent of total export earnings come from this sector in FY 2007-2008 though Bangladesh is facing tough competition in export of RMG with other developing countries as the export quota system under Multi-Fiber Arrangement (MFA) on textile and clothing has been abolished since 1 January 2005. However, FY 2005-06 to FY 2007-08 witnessed a consistent rising trend in export trend.

Table 3: Value of Export by Major Commodities

	(In million USD)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
a) Primary Commodities						
Raw Jute	61	82	80	148	147	165.06
Tea	17	15	16	12	7	14
Frozen food	276	322	390	459	515	534
Agricultural Product	23	25	41	105	88	120
Other Primary Commodities	13	18	26	49	75	153.4
b) Manufactured goods						
Jute goods	244	257	246	361	321	318
Leather	207	191	211	257	266	284.4
Readymade garments	3125	3258	3538	4084	4658	5167
Knitwear	1459	1654	2148	3817	4554	5532.5
Chemical products	67	100	121	206	215	215.7
Shoe	-	47	68	95	136	169.6
Handicrafts	6	6	4	4	8	5.4
Petroleum by products	-	-	-	88.43	83.90	185.11
Ceramic products	-	-	-	27.55	29.95	38.33
Total (Export with others)	5986	6548	7603	10526	12178	14110.8
Annual Change (%)	-7.44	9.39	16.10	21.63	15.69	15.87

Source: Bangladesh Economic Review 2009 and Bangladesh Bank.

The export of knitwear and woven garments registered growth at 21.50 percent and 10.94 percent respectively in FY 2007-08 which was 19.30 percent and 14.05 percent in FY 2006-07. The export earnings of Bangladesh stood at US\$14,110.80 million in FY 2007-08, which was 15.87 percent higher than the export earnings (US\$ 12,177.86 million) of FY 2006-07. It increased mainly for petroleum by products (120.63%), tea (114.55%), agricultural products (36.79%), ceramic products (27.98%), shoes (24.76%), knitwear (21.50%), woven garments (10.94%), leather (6.89%) and frozen food (3.64%). On the other hand, export earnings decreased in respect of handicrafts (32.72%), engineering products (7.2%) and jute goods (0.76%). Table-3 shows the export scenario by commodities.

The total import payments (CIF) amounted to US\$20372.60 million in FY 2007-08, which is 27.56 percent higher than the import payments of US\$15791.35 in the previous year. Analysis of import reveals that in FY 2007-08, the following commodities contributed to the overall growth of import payments: rice (397.09%), fertilizer (99.17%), edible oil (74.06%), crude petroleum (55.64%), clinker (34.46%), wheat (35.13%) and yarn (22.7%). Table-4 shows the overall import situation of the country.

Table 4: Import Growth and Composition

	(In million USD)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
a) Major Primary Goods						
Rice	211	144	262	117	180	744
Wheat	198	287	312	301	401	453
Oilseed	64	73	86	90	106	105
Crude petroleum	267	252	350	604	476.32	741.34
Raw cotton	393	583	666	742	858	902
b) Major intermediate goods						
Edible oil	364	471	440	473	563.76	981.31
Petroleum products	620	770	1252	1400	1557.03	1548.69
Fertilizer	109	150	332	342	358.47	713.96
Clinker	144	139	170	210	240	258
Staple fiber	41	57	75	76	97	84
Yarn	270	323	393	501	582	492
c) Capital Machinery	548	729	1211	1539	1544.5	1415.06
d) Other goods (including EPZ)	6429	6868	7598	8351	9414.45	11581.52
Total import Payments (CIF)	9658	10903	13147	14746	15971.35	20372.60
Annual change (%)	12.3	12.9	20.6	12.2	8.31	27.56

Source: Bangladesh Economic Review 2009, Bangladesh Bank

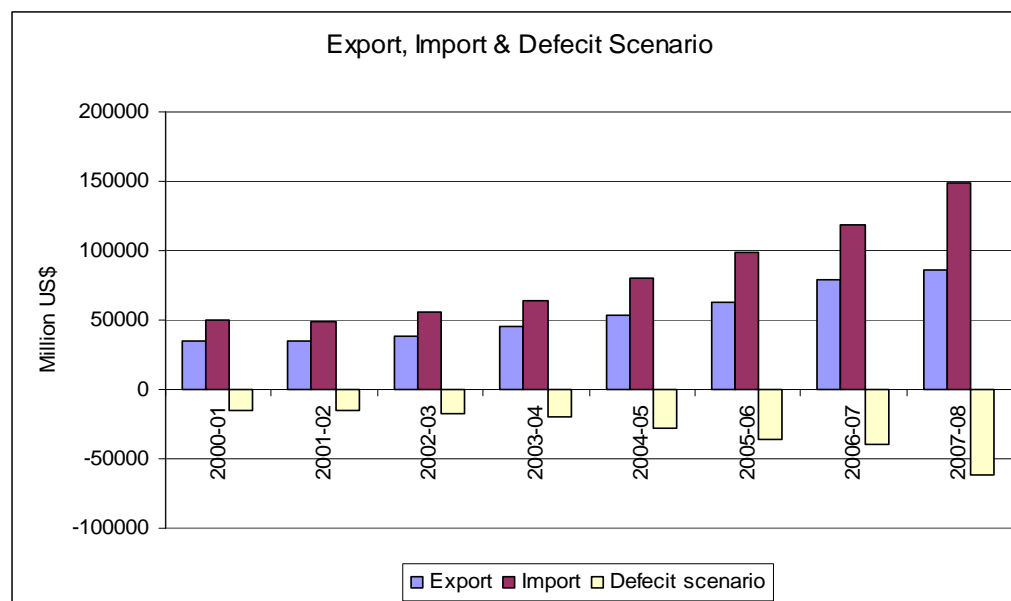
As a percentage of GDP, export is as same as in FY 2007-08 and FY 2006-07, 17.6% and 17.5% respectively. On the other hand, Import as a percentage of GDP increased from 22.7 percent in FY 2006-07 to 24.5 percent in FY 2007-08. A higher absolute increase in imports than exports widened the trade deficit (7 percent of GDP) in FY 2007-08. But a good thing is that, Trade openness in FY 1998-99 was 21.96 percent which increased to 43.30 percent in FY 2007-08. Table-5 shows the Export, import and trade openness from FY 2000-01 to FY 2007-08. The external trade of Bangladesh has recently increased in comparison with last few years due to liberalization of import policy and promoting the strategy of export expansion. The deficit in the services account also widened to USD 1575 million in FY2007-08 from USD 1261 million in the previous year as payments increased relatively more than receipts.

Table 5: Export, Import and Trade Openness of different Fiscal Years

FY	GDP at current price	Export	Import	Total	(In crore taka)	
					Trade Openness (%)	
2000-01	253546	34895	50371	85266		33.63
2001-02	273201	34380	49049	83430		30.54
2002-03	300580	37915	55920	93835		31.22
2003-04	332973	44809	64257	109066		32.76
2004-05	370707	53136	80715	133851		36.11
2005-06	415728	62608	99130	161738		38.90
2006-07	467497	78918	118478	197396		42.22
2007-08	541919	86283	148370	234653		43.30

Source: Bangladesh Bank and Ministry of Commerce

Figure 2: Export and Import & Deficit Trend



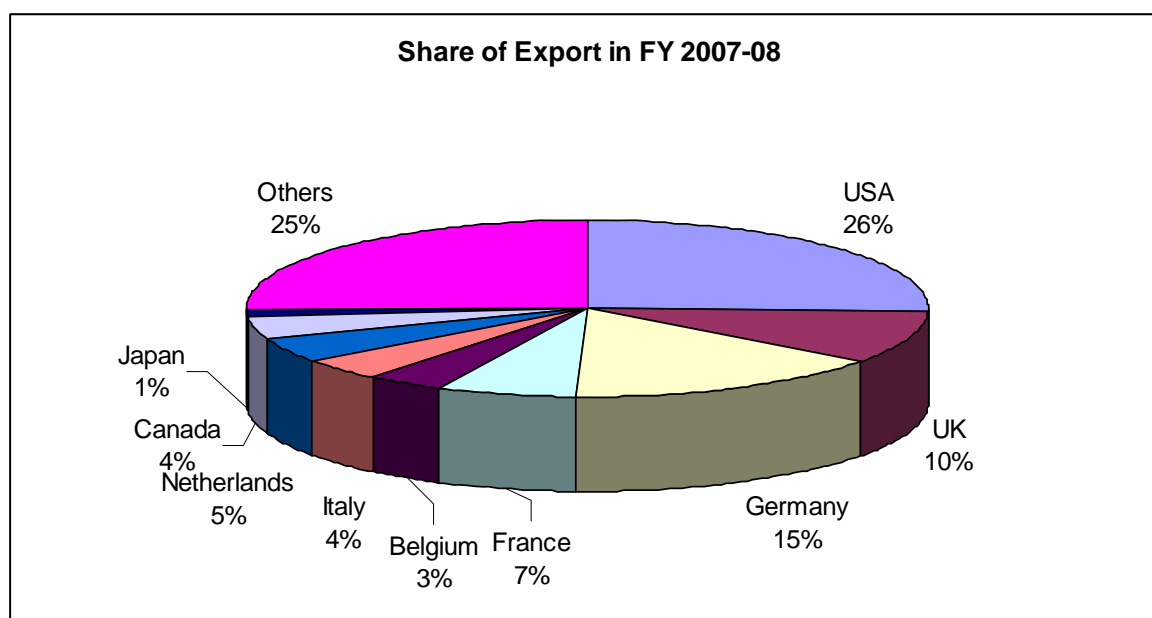
The major market for export in FY 2007-08 was European Union and North American region. About 55.60 percent of exports were destined for the EU bloc while another 29.1 percent entered into the NAFTA bloc. Export to the South Asian region to SAARC countries in only 3.0 percent in 2007-08. But the amount of exports are increasing relatively (Table-6 shows the scenario of export in SAARC countries). Among the SAARC countries, the biggest export market is India. Bangladesh is trying its best to enter into the SAARC market.

Table 6: Export in SAARC Countries

Country	(In Million USD)						
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Afghanistan	4.61	2.92	6.07	0.51	0.88	0.76	2.77
Bhutan	1.67	1.55	3.99	3.35	1.65	1.40	1.35
India	55.57	99.36	101.16	186.95	279.14	289.41	358.08
Maldives	-	-	-	0.48	0.26	0.27	0.08
Nepal	0.36	0.30	1.27	0.47	0.83	0.85	6.71
Pakistan	32.54	38.22	34.78	84.14	50.26	61.06	71.01
Sri-Lanka	2.86	7.06	10.15	12.16	14.39	14.82	19.32

Source: Bangladesh Bank

Analysis of country wise export shows that USA is the main destination of our export. It appears from figure-3 that in FY 2007-08, USA secured the top position in respect of importing commodities from Bangladesh followed by Germany (15%), UK (10%) and France (7%).

Figure 3: Destination of Exports

During this period, goods worth with US\$3,590 million were exported to USA, which was 26 percent of total export of Bangladesh. Of her total exports, Bangladesh during FY 2007-08 exported 49.06 percent of woven garments, 38.36 percent of frozen shrimps and 16.74 percent knitwear to USA.

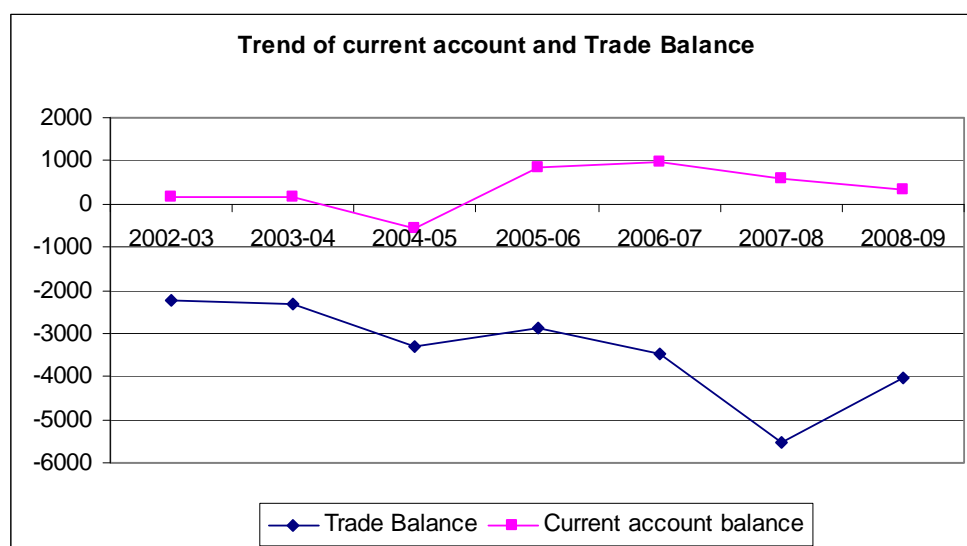
Balance of Payment

Trade balance recorded a deficit of US\$ 5,541 million in FY 2007-08 compared to the deficit of US\$ 3,458 million in FY 2006-07. Despite large service deficit, the current account balance recorded a surplus of US\$672 million during FY 2007-08 against the deficit of US\$ 936 million ago. This was happened due to larger current transfers of US\$ 8,743 million during the reporting period. For the decrease in the financial account of US\$ 431 million, the overall balance recorded a surplus of US\$ 604 million during FY 2007-08 against the surplus of US\$ 1,493 million in FY 2006-07. This was mainly due to an increase in current account balance of US\$ 672 million as well as capital account of US\$ 576 million.

Table 7: Balance of Payment

Particulars	(In million USD)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Trade balance	-2215	-2319	-3297	-2889	-3458	-5541
Exports, fob (including EPZ)	6492	7512	8573	10412	12053	13945
Import, fob (including EPZ)	-8707	-9840	-11870	-13301	-15511	-19486
Services	-691	-874	-870	-1023	-1261	-1525
Receipts	887	924	1177	1340	1484	1879
Payments	1574	1798	2047	2363	2745	-3404
Income	-358	-374	-680	-702	-883	-1005
Receipts	64	63	116	136	245	221
Payments	-422	-437	-796	-838	-1128	-1226
Interest Payment	-167	-175	-230	-204	-212	-234
Current transfers	3440	3743	4290	5438	6554	8743
Official	82	61	37	125	97	127
Private	3358	3682	4253	5313	6457	8616
Workers' remittance	3062	3372	3848	4802	5979	7054
Current account balance	176	176	-557	824	936	672
Capital account	428	196	163	375	490	576
Capital transfer	428	196	163	375	490	576
Financial account	413	-31	784	-141	721	-431
(i) Direct Investment	376	276	800	743	760	650
(ii) Portfolio investment	2	6	0	32	106	48
(iii) Other investment	35	-313	-16	-916	-145	-1129
Errors and Omission	-202	-170	-323	-720	-670	-213
Overall balance	815	171	67	338	1493	604

Source: Statistics Department, Bangladesh Bank

Figure 4: Trend of Current Account and Trade Balance

Source: Bangladesh Economic Review 2009

The balance of payments from FY 2001-02 to FY 2007-08 and trade balance and current account balance are shown in Table-7 and Graph- 4 respectively.

Exchange rate

Bangladesh introduced floating exchange rate since May 31, 2003. At present, Exchange rate is determined by the demand and supply of the currency under the market-based floating exchange rate. 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 in the last half of FY2006-07 due to surge in international prices of the essential commodities including petroleum. Supply of US dollar couldn't match the market demand due to higher growth of import payment against corresponding lower growth of export. So the exchanged rate of US dollar against Taka increased exacerbating further inflationary pressure on the economy. Under this circumstance, Bangladesh Bank stabilized exchange rate of US dollar in the inter bank market by selling adequate foreign currency through depreciating local currency in an attempt to curb inflation.

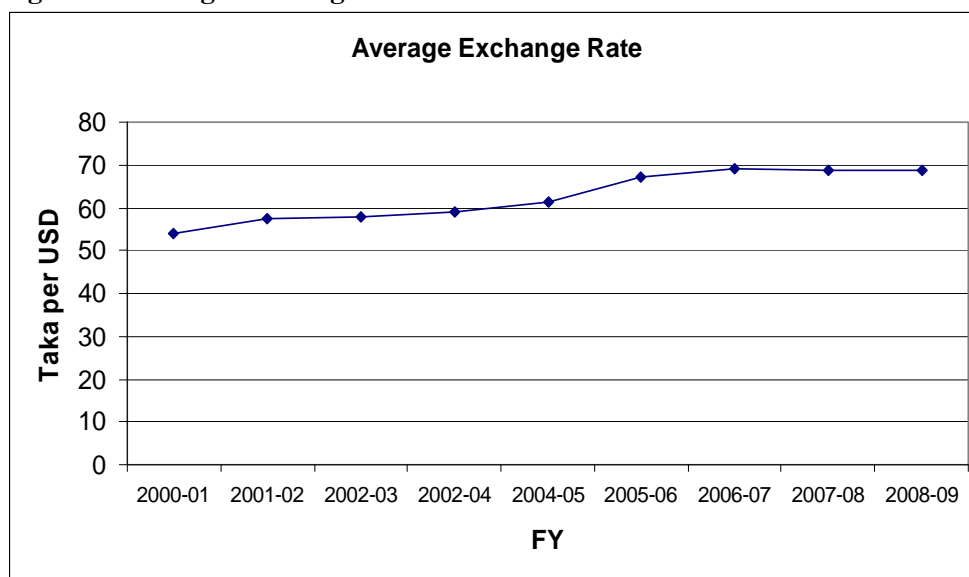
Table 8: Average Exchange Rate (Taka per USD)

Fiscal Year	2000-01	2001-02	2002-03	2002-04	2004-05	2005-06	2006-07	2007-08	2008-09
Average Exchange Rate	53.9592	57.4347	57.9000	58.9353	61.3939	67.0797	69.0318	68.6019	68.7200

Source: Bangladesh Bank

Bangladesh's export rebounded in the first half of the FY2007-08 with the corresponding surge in worker remittance. These eased out pressure on foreign currency demand by increasing supply. But Bangladesh Bank had to continue selling of dollar in the inter bank as the demand of foreign currency grew to finance larger imports payments to the face of economic damage caused by Sidr in November 2007

Figure 5: Average Exchange Rate



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 remittance and to enhance exports. Now in FY 2008-09, Taka-Dollar exchange rates relatively stable with exchange rate at Taka 68.7000.

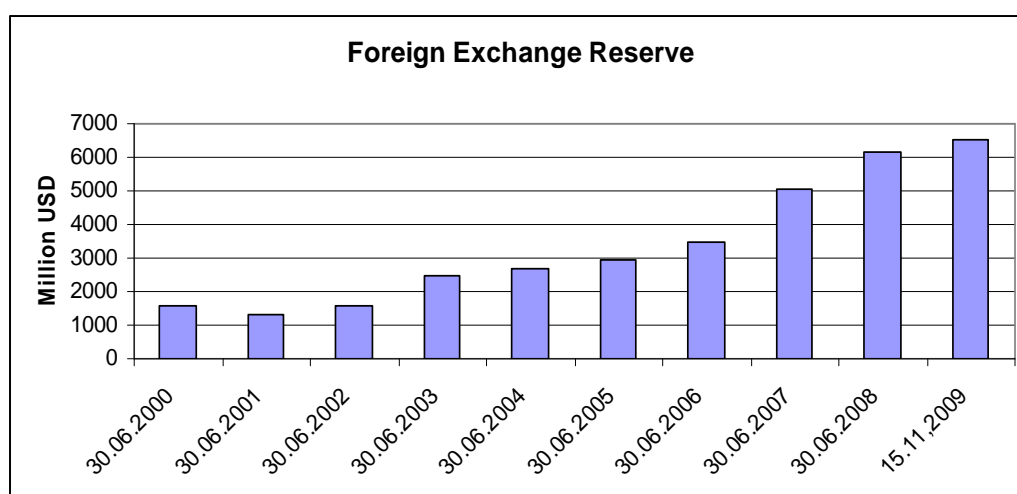
Foreign Exchange Reserve

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 9 and Figure 6.

Table 9: Foreign Exchange Reserves

Date	Amount
30.06.2000	1,602
30.06.2001	1,307
30.06.2002	1,583
30.06.2003	2,470
30.06.2004	2,705
30.06.2005	2,930
30.06.2006	3,484
30.06.2007	5,077
30.06.2008	6,149
15.11.2009	10,000

Source: Bangladesh Bank

Figure 6: Foreign Exchange Reserve

On June 30, 2007 foreign exchange reserve rose to US\$ 5,077 million compared to US\$ 3,484 million on the same date in the preceding year, reflecting a growth of 45.72 percent. As of June 30, 2008 the foreign exchange reserve shot up to US\$ 6,419 million, which is 21.11 percent higher than year-end reserve of the previous year. At November 15, 2009 foreign exchange reserve became US\$ 10,000 million.

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 cost. In FY 2007-08, actual FDI inflow in Bangladesh was not provisioned on the last year's expectation.

Table 10: Trend in Net FDI Flow in Bangladesh

Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Amount	391	376	385	776	743	760	650	882

Source: Ministry of Finance

Beside political unrest, uncertainties and delays in taking decision on certain large investment proposals in infrastructure development projects hamper FDI flow. In FY 2007-08, the total FDI in Bangladesh was US\$ 650 million and in FY 2008-09, the amounts increased to US\$ 882 million.

Figure 7: FDI Inflow Trend in Bangladesh: FY2001-02 to FY2008-09

(In million USD)

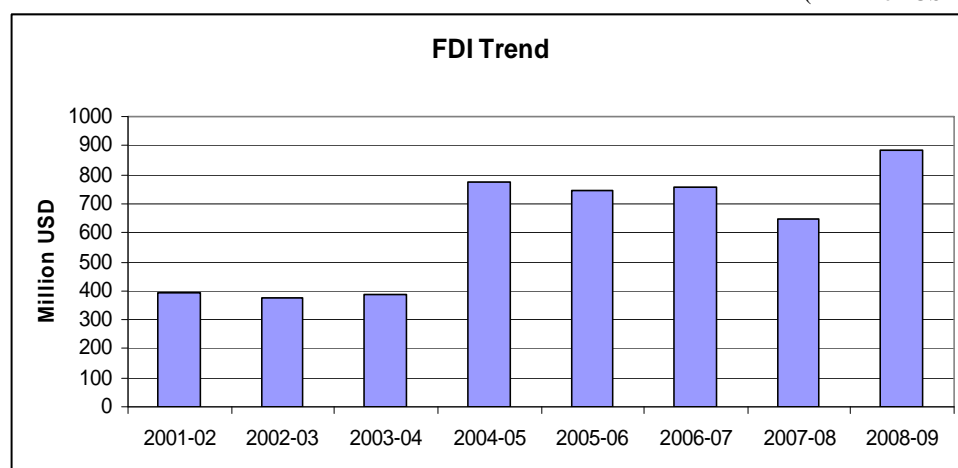


Table 11: FDI Inflow in Bangladesh during 2001-2007: Distribution by Components

(In Million USD)

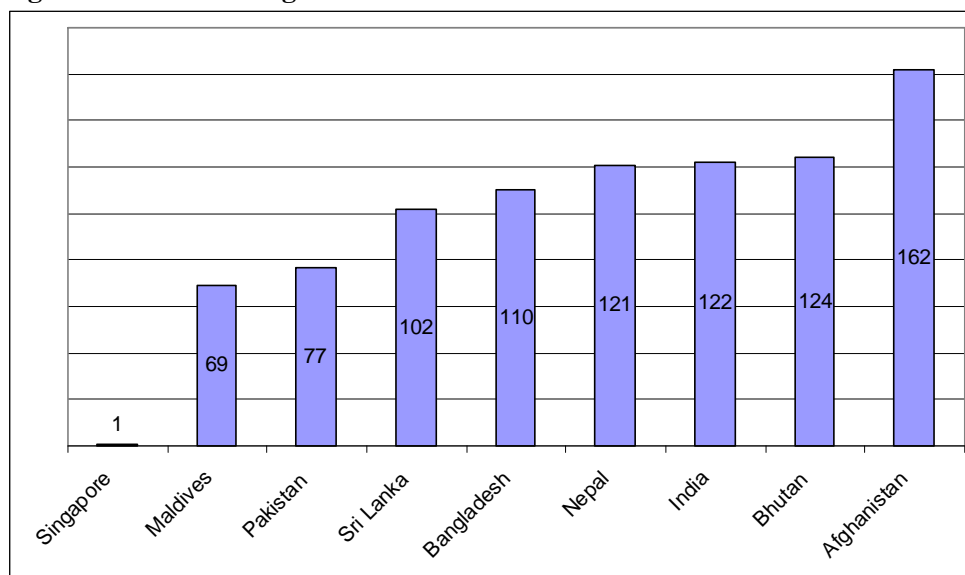
FDI Components	2001	2002	2003	2004	2005	2006	2007
a. Equity Capital	233.8	133.8	156.1	155.9	425.6	503.7	401.6
b. Reinvested Earnings	65.0	116.8	170.2	239.8	247.5	264.7	213.2
c. Intra-Company Loans	55.7	77.7	24.0	64.7	172.2	24.1	51.5
Total FDI	354.5	328.3	350.3	460.4	845.3	792.5	666.3

Source: Enterprise Survey, Bangladesh Bank

A component wise analysis of FDI in 2007 shows that about 60 percent of FDI came as equity, 32 percent as reinvestment, and the rest 8 percent as intra-company loans. The highest reinvestment rate indicates unwavering confidence of foreign investors on overall investment climate of the country and, simultaneously, competitiveness of related business sectors.

Now a day, Bangladesh is considered as an attractive destination in South Asia for doing businesses. The recently published Doing Business 2009 report by the World Bank and IFC has ranked Bangladesh 110th among 181 economies of the world (figure-8). However, the rank of Bangladesh in “Investor Protection” is 18, which is even better than many developed economies. Besides, Bangladesh’s position in starting a business, getting credit and paying taxes are 90, 59 and 90 respectively.

Figure 8: Ease of Doing Business- Rank of Selected Countries



Source: Doing Business 2009, World Bank and IFC 200

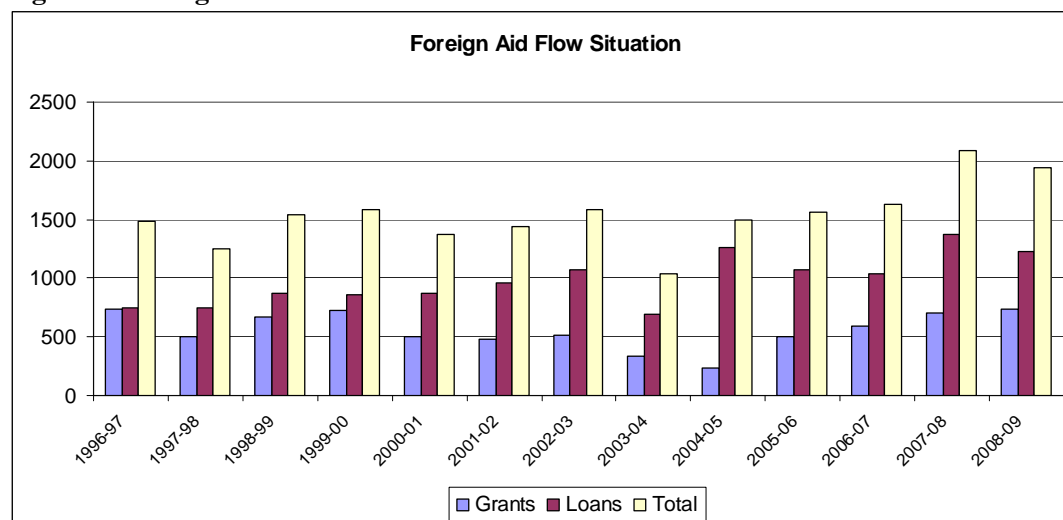
Borrowing from abroad

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. The government has preferred concessional foreign borrowing to domestic borrowing because of the lower cost of foreign borrowing. In fiscal year 2008-09, government got US\$ 1,945 million as grants and loans. On the other hand, the country had to pay US\$ 1,340 million as principal and interest. Table-12 shows the government borrowing from foreign sources during FY 1998-99 to FY 2008-09 and the situation on foreign aid flow is shown in Figure 9.

Table 12: Government Borrowing from Foreign Sources

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
2007-08	705	1378	2084	183	580	763	1504	1321
2008-09	740	1230	1945	185	605	790	1340	1155

Figure 9: Foreign Aid Flow



In Table 13, we can see the debt outstanding. By the end of the fiscal year 2007-08, the outstanding figure is reached at US\$ 21,294 million.

Table 13: External Debt Outstanding

(In million USD)

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
2007-08	1403.399	585.7	184.5	770.2	21294.2

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 47.10 percent in FY 2007-08 compared to 49.4 percent in FY 2006-07. The external debt to GDP ratio has also been declining. In financial year 2006-07 external debt to GDP ratio stood at 30.5 percent, which is close to the desired threshold (30.0 percent) that is considered as a sustainable benchmark for low income countries like Bangladesh. In FY2007-08, it becomes 27.0 percent. External debt as a percentage of Exports of Goods and Services (XGS) reduced significantly from 165.9 percent in FY 2002-03 to 99.5 percent in FY 2007-08 and at the same period interest payment on external debt as a percentage of XGS also declined from 1.6 percent in FY 2002-03 to 1.1 percent in FY 2007-08 (Table 14).

Table 14: Changing Pattern of Debt Ratio

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Debt to GDP ratio	51.6	51.9	51.9	51.7	49.4	47.10
External debt to GDP ratio	33.5	33.6	33.2	32.5	30.5	27.0
Domestic debt to GDP ratio	18.1	18.3	18.7	19.2	18.8	20.2
Interest Payment on External Debt to XGS ratio	1.6	1.6	1.4	1.2	1.1	1.1
External Debt to XGS ratio	165.9	155.6	141	116.5	105.5	99.5

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

II. 2 Domestic Environment

Economic Growth

The rising growth trend of the global economy that commenced from the year 2002 of this century continued for six years until it encountered a global slowdown that started in 2008 with the debacle of sub prime mortgages in the United States. The contagion of the crisis first spread to Europe including the all the developed economies of the world before engulfing the emerging economies and finally hitting the developing countries as well with all its wrath. Before the beginning of the crisis, the global economy registered a growth of 5.2 percent in 2007 which slid to 3.2 percent in 2008 and negative 1.1 percent before July, 2009.

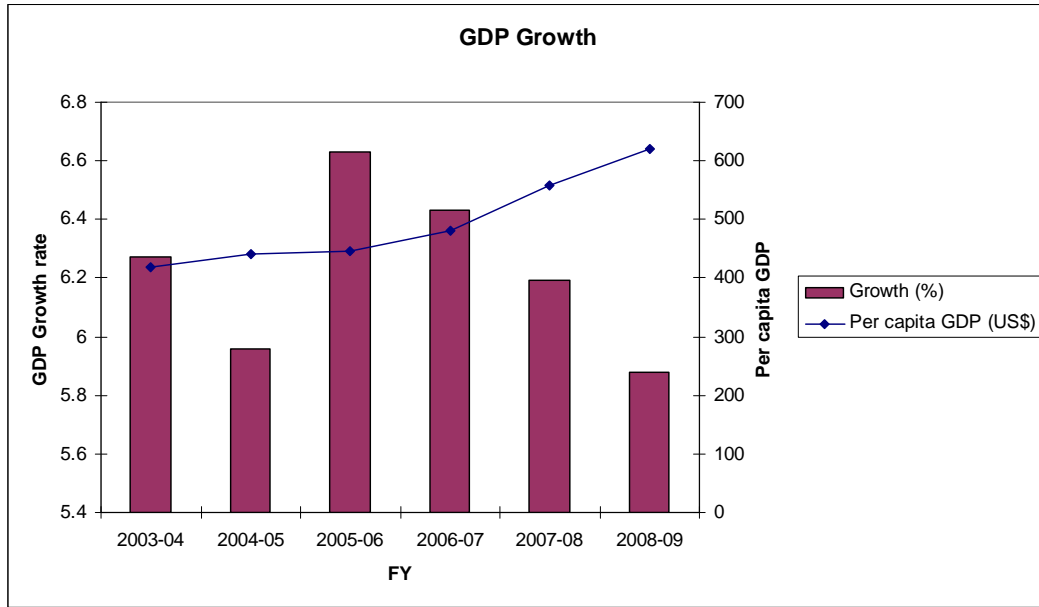
Table 15: GDP Growth Trend

	(In Million Tk.)					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
GDP at constant Price	2519680	2669740	2846726	3029709	3217269	3406521
Growth (%)	6.27	5.96	6.63	6.43	6.19	5.88
Agriculture(% of GDP)	4.09	2.21	4.94	3.18	3.20	4.63
Industry(% of GDP)	7.60	8.28	9.74	9.51	6.78	5.93
Service(% of GDP)	5.66	6.36	6.40	6.74	6.49	6.25
GDP at current price	3329731	3707070	4157279	4724769	5458221	6149438
Growth (%)	10.78	11.33	12.14	12.45	15.52	12.66
Per capita GDP (US\$)	418	441	447	482	559	621

Source: Bangladesh Bureau of Statistics

Despite the effects of the global economic meltdown and the two consecutive floods and super cyclone Sidr that hit Bangladesh last year, its economy was able to maintain stability. GDP growth rate of Bangladesh was 6.19 percent in FY 2007-08, whereas the growth rate was 5.88 percent in FY 2008-09. But the average growth rate of last six fiscal years was 5.19 percent which reflects the economic stability of the country

Figure 10: GDP Growth Trend

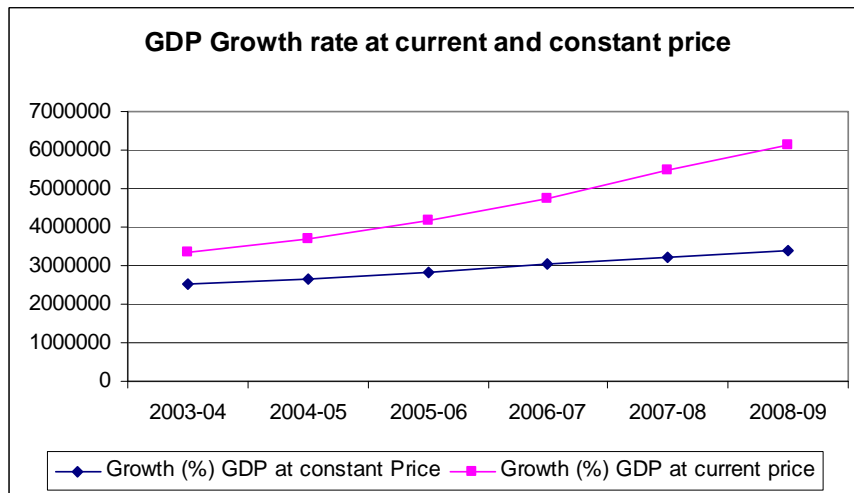


Beside the world economic turmoil, internal political instability was one of the main causes for economic slowdown in FY 2008-09. Internal and foreign investments have been discouraged remarkably because of political unrest in this period.

The data on sectoral growth (Table-15) show, the growth rate of agricultural sector (including fishery) declined in FY 2006-07 and 2007-08, but it increased 1.43 percent in FY 2008-09 which is one of the main contributors to the GDP. On the other hand, industry sector and service sector is declining in last two financial years. But previously these two sectors showed significant success in increasing growth compared to agricultural sector.

Figure 11: GDP growth at Current and Constant Price

(In Million Taka)



Inflation

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 the first half of the FY 2008-09. The rate of inflation was 5.83 in fiscal year 2003-04 but it becomes 10.11 at that period.

Bangladesh never experienced such a huge inflation like the last couple of years. The rising trend is continued due to high price of fuel and essential commodities in international market. Besides these, the production of food grains declined all over the world for climate change and natural calamities. The crisis was further intensified due to use of some agricultural commodities as raw materials for producing fuel by some developed countries in recent times. So the supply of rice and wheat fall globally which are the major food items in Bangladesh. Food item inflation rate reached at 12.34 which were intolerable to the general people.

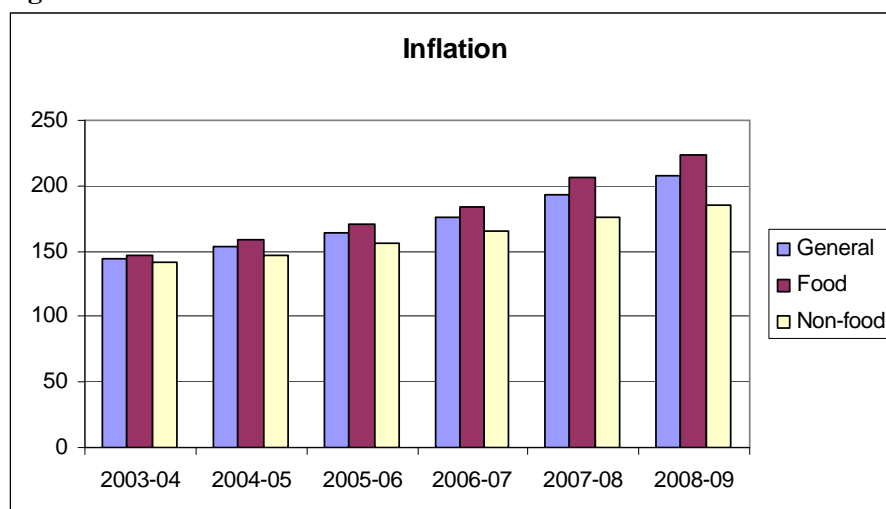
Table 16: Consumer Price Index and Inflation

	(1995-96=100)					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008, December
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

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 tried to keep the inflation rate at the tolerable level by pursuing accommodative monetary policy. On a point to point basis the inflation declined to 5.4 percent in June 2009. This trend of low inflation is expected to continue due to fall in prices of fuel and other essential commodities and also due to favorable production conditions. Consumer price index and trend of inflation is shown at Table-16 and Figure-12.

Figure 12: Trend of Inflation



Consumption

The share of private and public consumption decreased as a percentage of GDP gradually over the last few years, but it increased in last two financial years. In fiscal year 2006-07, the share of consumption to GDP was 79.5 but in fiscal year 2008-09 it reaches to 80.0.

Table 17: Year-Wise Consumption

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	(Billion taka)							
Public	136.6	160.7	184.1	205.3	230.3	259.5	288.3	319.0
Private	2099.3	2285.0	2495.2	2759.8	3085.2	3458.8	4061.4	4599.9
Total	2235.9	2445.7	2679.3	2965.1	3315.5	3718.3	4349.7	4918.9

Source: Bangladesh Economic Review 2008

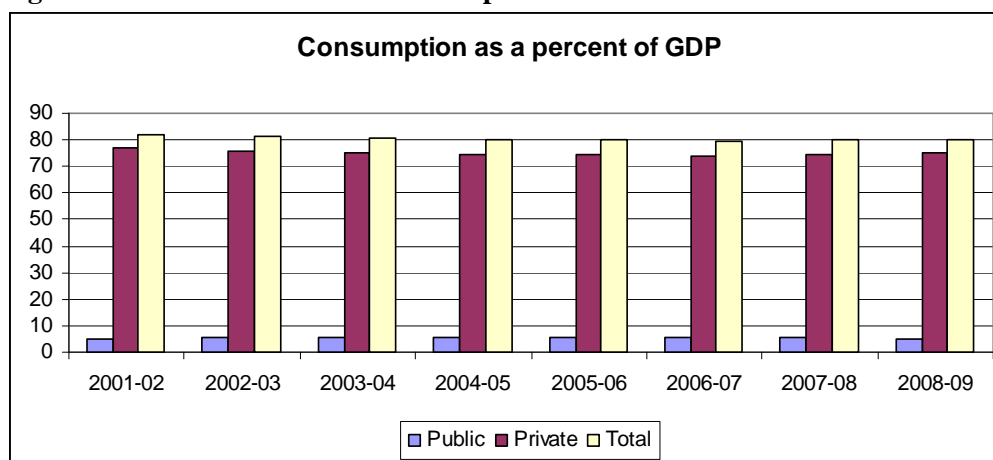
The total amounts of consumption, both private and public are increasing over the years. In the FY 2007-08, total consumption was Taka 4,349.7 billion and in FY 2008-09 the figure reached to Taka 4,918.9 billion. The overall scenario of consumption is shown in Tables 17 and 18.

Table 18: Consumption as a percent of GDP

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Public	5.0	5.4	5.5	5.5	5.5	5.6	5.3	5.2
Private	76.8	76.0	74.9	74.5	74.2	74.0	74.4	74.8
Total	81.8	81.4	80.5	80.0	79.8	79.5	79.9	80.0

Source: Bangladesh Economic Review 2009

Figure 13: Private and Public Consumption Trend



Investment

In the free market economy, the private sector works as an engine of growth. So Government has put in place necessary institution and infrastructure to create a private investment-friendly environment. Remarkable growth in RMG and knitwear industry in the private sector has brought dynamism in the manufacturing sector that has played a catalytic role in creating an investment-friendly environment in the country. An analysis of investment data reveals that the contribution of public sector in total investment is gradually decreasing whereas the contribution of the private sector investment is gradually increasing.

Table 19: Year-Wise Public and Private Investment

	(In billion taka)							
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Public	174.0	186.3	206.2	230.1	249.3	261.6	270.4	284.9
Private	458.4	517.2	593.7	679.2	775.5	875.7	1050.9	1202.0
Total	632.4	703.5	799.9	909.2	1024.8	1137.3	1321.3	1486.9

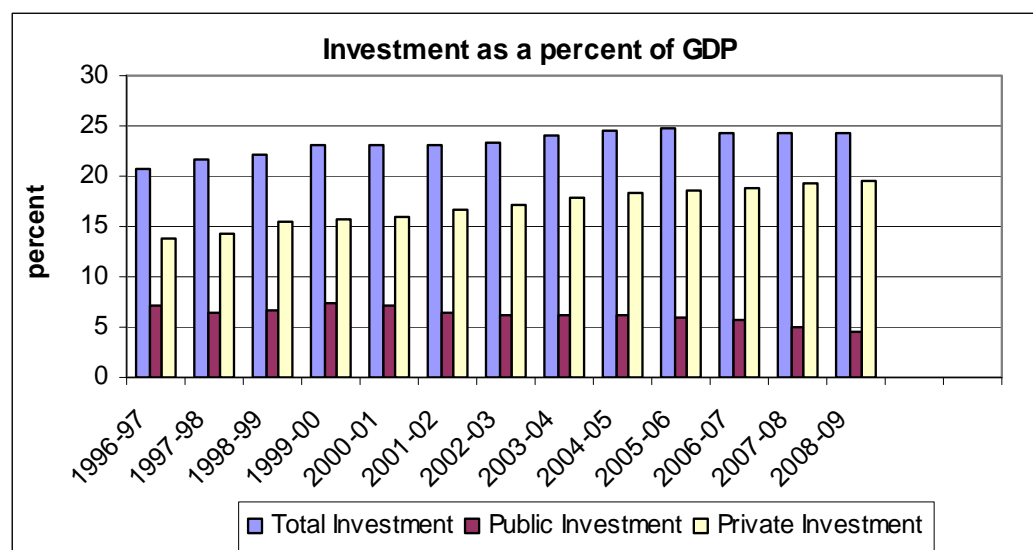
Source: Bangladesh Economic Review 2009

At the beginning of the nineties, the share of private investment in total investment was about 60 percent, which stood at 80.84 percent in FY 2008-09. In financial year 1996-97, the rate of total investment was 20.72 percent of GDP, in which the shares of public and private sector was 7.03 percent and 13.70 percent respectively. The rate of national investment gradually picked up to 24.95 percent of GDP in FY 2005-06 but from FY 2006-07 it is declining and reached to 24.18 percent on FY 2008-09. Political unrest in Bangladesh from 2007 and global financial crisis of 2008 are the main causes for the downward trend of investment. Table 20 and figure 14 show the year wise investment as percentage of GDP for the last few years.

Table 20: 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
2007-08	24.21	4.95	19.25
2008-09	24.18	4.63	19.55

Source: Bangladesh Economic Review, 2009

Figure 14: Investment as a Percent of GDP

Capital Market

The level of development of capital market is an indicator of the development of an economy. To achieve private sector-led growth objective, it is necessary to make capital market more efficient. As a capital market watchdog, the Securities and Exchange Commission (SEC) of Bangladesh was formed 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. Currently two stock exchanges are operating in Bangladesh: Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Both the stock exchanges are autonomous non-profit organizations.

Dhaka Stock Exchange

The number of securities (including mutual fund and debentures) listed with the DSE increased to 378 by June 2008 from 325 of June 2007. By the end of June 2008, the issued capital of listed securities stood at Taka 28,438.00 crore, which is 73.12 percent higher than that of June 2007. Up to June 2008, market capitalization of securities stood at TK. 93,120.50 crore. General share price index of the DSE stood at 2588.03 in June 2008, which were 2535.96 in June 2007. It should be noted here. That all share price index is calculated on general share price index (excluding Z group) by withdrawing weighted average method from 9 December, 2003. The index base earlier was 100 for DSE, now it is 1000 for Both DSE and CSE. The DSE introduced All Share Price Index on March 28, 2005 (Table 21)

Table 21: Comparative Statement of Dhaka Stock Exchange

Indicators	As on 30 th June 2007	As on 30 th June 2008	% Increasing	
Total number of listed securities	325	378	16.30	
Total Issued Capital of all listed securities (Tk. in crore)	16,427	28,438	73.12	
Total Market Capitalization of all listed securities (Tk. in crore)	49,168	96,480	96.22	
All Share Price Index	1764.18	2588.03	46.70	

Source: Dhaka Stock Exchange.

Chittagong Stock Exchange

The number of securities listed with the CSE reached 231 as of June 2008 from 219 as of June 2007. By the end of June 2008, the issued capital of listed securities stood at Tk. 10,220.00 crore which is 26.15 percent higher compared to that at the end of June 2007. As of June 2008, market capitalization of securities reached Tk. 77,774.00 crore. General share price index of the CSE reached 9050.56 as on June 2008, which was 7657.06 on June 30, 2007.

Table 22: Comparative Statement of Chittagong Stock Exchange

Indicators	As on 30 th June 2007	As on 30 th June 2008	% Increasing	
Total number of listed securities	219	231	5.48	
Total Issued Capital of all listed securities (Tk. in crore)	8,103.29	10,222	26.15	
Total Market Capitalization of all listed securities (Tk. in crore)	39,849	77,774.30	95.17	
All Share Price Index	5194.77	9050.56	74.22	

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 is the prerequisites for achieving the goals of macroeconomic stability and economic growth. In order to achieve high and sustained GDP growth as well as to keep control over the expected demand pull inflation, cautious monetary policy was pursued in FY2008. In order to limit the growth rate of bank credit, the interest rate of reserve repo was enhanced as an effective instrument of monetary policy. The monetary policy for FY 07 had a positive impact on money supply and domestic credit expansion, which eventually helped to attain economic growth and contain inflation. Besides present monetary policy supports increase in net foreign assets and foreign exchange reserve.

Table 23: Money Supply and its component

		(In billion Taka)					
		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	Currency outside banks	139.02	158.11	185.18	228.62	266.44	326.90
2	Demand deposits	128.42	146.89	170.28	202.72	240.06	266.25
3	Narrow money supplyM1(1+2)	267.44	305.00	355.46	431.34	506.50	593.14
4	Time deposits	872.51	992.74	1160.42	1380.22	1613.36	1894.81
5	Broad money supplyM2(3+4)	1139.95	1297.74	1515.88	1811.56	2119.86	2487.95
6	% of currency outside bank	12.20	12.18	12.22	12.62	12.57	13.14
7	% of demand deposit	11.27	11.32	11.23	11.19	11.32	10.92
8	% of time deposit	76.54	76.50	76.55	76.19	76.11	75.94

Source: Bangladesh Bank

Bangladesh Bank has introduced 30-day and 90-day Bangladesh Bank bills since October 2006 to operate its monetary policy. As a result, auction of weekly Bangladesh Bank is being used to control the level of reserve money and auction of repo and reserve repo is being used for fine tuning. In FY 2008, reserve money increased by Tk.8716.50 crore (19.78 percent) over that of the previous fiscal year. The supply of M2 wasTk.2119.86 billion at the end of June 2007 and was increased to Tk. 2,487.95 billion at the end of June, 2008. During FY 08, currency in circulation increased by 22.69 percent, while demand deposit and time deposit showed an increase of 15.45 and 17.11 percent respectively.

Labor Force and Employment

According to the Labor force survey 2005-06 of Bangladesh Bureau of Statistics (BBS), the total number of labor force (above 15 years) is 49.5 million, of which male 37.4 million and female 12.1 million.

Table 24: 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

Source: Bangladesh Bureau of Statistics

The huge amount of labor force engaged in a variety of professions. But agriculture is still dominant sector where highest (48.1 percent) portion of labor is working. In labor force survey 1990-00, the amount

of labor force was 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 expert's think that due to global warming and climate change people are not continuing their prime profession. Because of global warming and climate change, almost every year Bangladesh is facing severe cyclone, storms and floods which seriously damage the agricultural products.

Table 25: Share of Employed Labor Force by Major Industry

	(In thousand and in percentile)		
	1999-00	2002-03	2005-06
Agriculture, forestry & fisheries	19785 (50.8)	22931 (51.8)	22767 (48.1)
Mining and quarrying	174 (0.4)	82 (0.2)	51 (0.1)
Manufacturing	3721 (9.5)	4343(9.8)	5224 (11.0)
Electricity, Gas and Water	134 (0.3)	98 (0.2)	76 (0.2)
Construction	1095(2.8)	1541 (3.5)	1525 (3.2)
Trade, hotel and restaurant	6153 (15.8)	6671 (15.1)	7820 (16.5)
Transport, storage & communication	2471 (6.3)	3015 (6.8)	3976 (8.4)
Finance & business services and real estate	403 (1.0)	417 (0.9)	745 (1.6)
Health, education, public admin. & defense	2124 (5.4)	2677 (6.0)	2550 (5.4)
Community and personal services	2919 (7.5)	2549 (5.8)	2622 (5.6)
Total	38979 (100.0)	44322 (100.0)	47357 (100.0)

Source: Bangladesh Bureau of Statistics

The country is still male dominated. Female workers are not encouraged enough to come up in 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

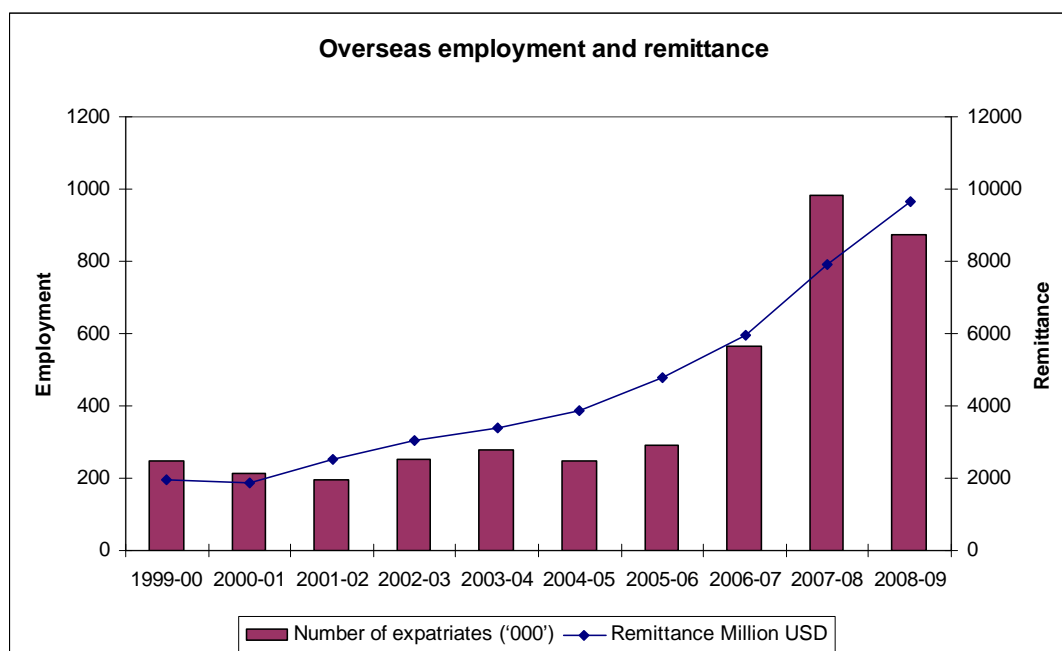
Overseas employment and workers remittances contribute significantly to the economic development process of the country through generating income, employment opportunities and bolstering foreign exchange reserves. It also played a vital role to eradicate rural poverty. Flow of foreign remittances also mobilizes rural economy of the country.

Table 26: 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
2007-08	981	7915.78	542932
2008-09	875	9663.26	666765

Source: Bangladesh Economic Review 2009, Bangladesh Bank

Figure 15: Overseas Employment and Remittance Flow



A sizeable number of Bangladeshi professionals, skilled, semi-skilled and un-skilled labor force are employed in different parts of the world. Manpower export has been increasing every year with a few exceptions. During 1976 to June 2009 more than 5.5 million Bangladeshi workers went abroad. Bangladesh has achieved a huge success in manpower export during FY 2007-08. A total of 0.981 million Bangladeshis went abroad for employment in this year, which is 73.94 percent higher than the previous fiscal year. But for global financial crisis, sharp decline of fuel price in the Middle East and withdrawn of some big construction projects by UAE Government decreased the upward trend in manpower export in FY 2008-09 (Table 26 and figure 15).

Table 27: Country-Wise Worker Remittances

Countries	2003	2004	2005	2006	2007	2008	2009 (March)
Saudi Arabia	1254.3	1386.0	1510.5	1697.0	1734.7	2324.2	2121.4
UAE	327.4	373.5	442.2	561.4	804.8	1135.1	1209.7
UK	220.2	297.5	375.8	555.7	886.9	896.1	577.9
Kuwait	338.6	361.2	406.8	494.4	680.7	863.7	726.4
USA	458.1	467.8	557.3	760.7	930.3	1380.1	1213.7
Qatar	113.6	113.6	136.4	175.6	233.2	289.8	253.2
Oman	114.1	118.5	131.3	165.3	196.5	220.6	216.2
Singapore	31.1	32.4	47.7	64.8	80.2	130.1	115.4
Bahrain	63.7	61.1	67.2	67.3	80.0	138.2	121.8
Japan	18.2	18.7	16.0	9.4	10.2	-	-
Malaysia	41.4	37.1	25.5	20.8	11.8	92.4	168.6
Other countries	71.8	92.3	121.5	217.6	314.3	444.5	309.6
Total	3062.0	3372.0	3848.3	4801.9	5978.5	7914.8	7033.0

Source: Foreign Exchange Policy Department, Bangladesh Bank

Middle Eastern countries taken together constitute major source of total remittances for Bangladesh. But individually Saudi Arabia tops the list followed by the USA. Country wise remittances of expatriate Bangladeshi workers over the last few years are shown in Table 27.

In order to increase flow of workers remittances and encourage remittance using banking channel some important steps have been taken by the Government in the recent years:

- a) Increased number of foreign exchange houses has been involved in remittance and their drawing system is being closely monitored by the Bangladeshi Banks.
- b) Speeding up disbursement procedure and delivery service of remitted money to the beneficiaries.

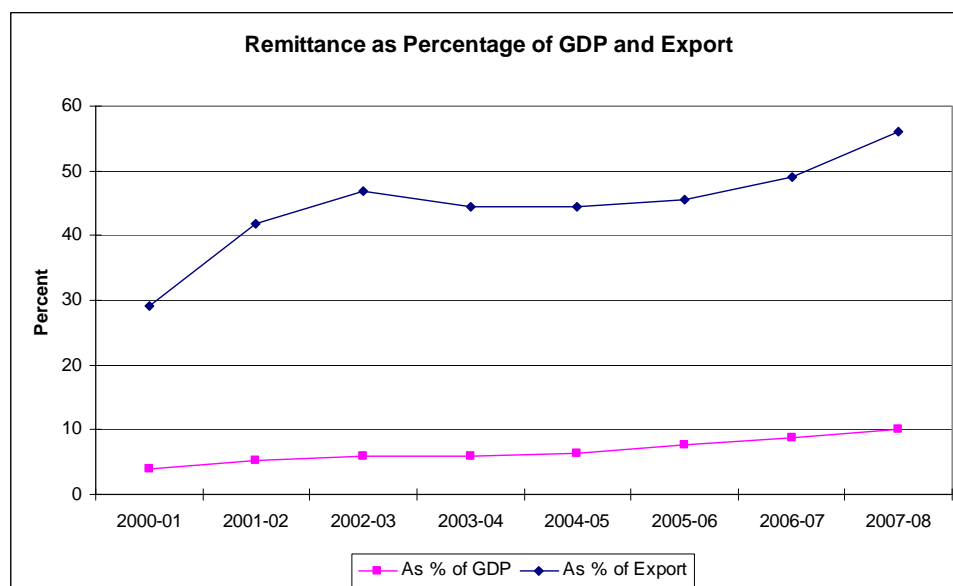
With increase in employment of skilled manpower and creation of improved facilities for remittances flow shows a significant growth in the recent years. In 2007-08, remittances shot up to US\$ 7,914.78 million reflecting 32.39 percent rise over the preceding year. In 2008-09, the total amount of the remittance became US\$ 9663.26 million and growth rate become 18.30 percent than that of the previous year.

Table 28: 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
2007-08	10.02	56.09

Source: Bangladesh Bank, BBS.

Figure 16: Remittances as percent of GDP and export



The amount of remittances in terms of GDP and export earnings has also increased over the years. In FY 2001-02, remittances as percent of GDP and export stood at 5.26 percent and 41.78 percent respectively. In FY 2007-08, remittances as a percent of GDP and export were 10.02 percent and 56.09 percent respectively

II. 3 Fiscal position

Government Expenditure

Formulation and implementation of sound fiscal policy is one of the most important functions of the Government. Fiscal policy is formulated in line with the government's National Strategy for accelerated

poverty reduction. Excess expenditure over revenue collection (fiscal deficit) may have adverse effect on the other sectors of the economy. Prudent fiscal management is, therefore, of immense importance in the overall economic management of the Government.

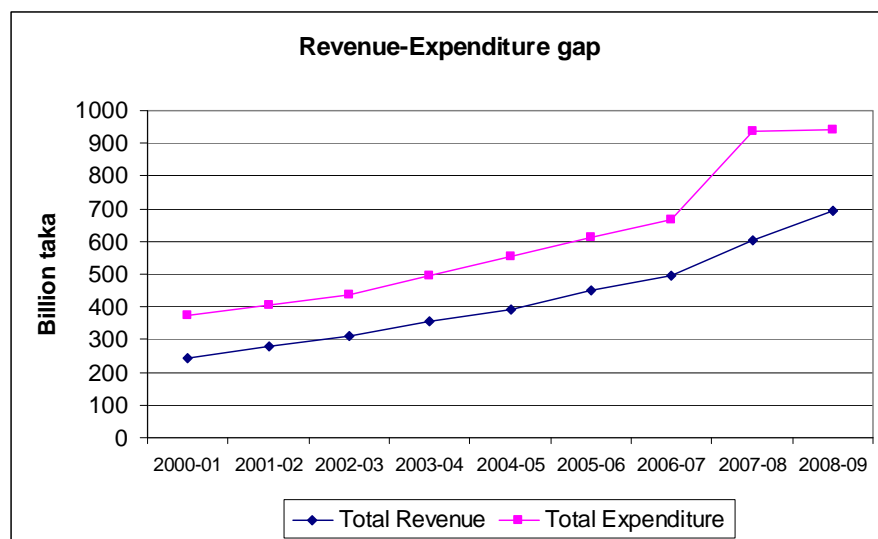
Table 29: Total Revenue-Expenditure

	(In billion taka)								
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Total Revenue	243.4	278.9	311.2	354.0	392.0	448.7	494.7	605.39	691.80
Total Expenditure	374.0	407.6	437.0	493.7	556.3	610.6	668.4	936.0	941.4

Source: Bangladesh Economic Review 2009

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 29 and Figure 17 we notice that every fiscal year there is a big revenue expenditure gap. So to fill up this gap, the Government goes for foreign and domestic debt.

Figure 17: Revenue-Expenditure Gap



According to the actual outturn, the overall budget deficit in FY 2005-06, FY 2006-07, FY 2007-08 and FY 2008-09 stood 4.5, 3.9, 3.7, 6.2 and 4.0 percent. In FY 2005-06 and 2006-07, budget deficit remained below 4.0 percent of GDP was showing gradual improvement, but in FY 2007-08, it reached to 6.2 percent and again improved in 2008-09. External assistance has played a vital role in the economic development of Bangladesh, assisting in bridging the internal gap (saving-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 Government.

Table 30: Overall Budget Balance

Budget deficit/financing	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Overall budget deficit (excluding foreign grants)	-4.2	-4.2	-4.5	-3.9	-3.7	-6.2	-4.0
Overall budget deficit (including foreign grants)	-3.4	-3.4	-3.7	-3.3	3.3	-5.4	-3.2
Net foreign financing	2.3	2.4	2.4	1.7	1.6	2.5	1.8
Net domestic financing	1.9	1.8	1.8	2.2	2.0	3.7	2.2

Source: Bangladesh Economic Review, 2009

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 FY 2006

Table 31: Public Expenditure as a percentage of GDP

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Public Expenditure	13.55	14.54	14.75	14.92	14.00	14.17	15.01	14.18	12.79	17.27
Non-development Expenditure	7.54	7.67	8.10	8.31	8.42	8.53	8.99	8.80	8.81	10.6
Development Expenditure	5.61	6.42	6.27	5.51	5.08	5.05	5.53	4.68	3.68	4.15
Other Expenditure	0.41	0.44	0.38	1.10	0.50	0.59	0.49	0.71	0.30	2.52

Source: Bangladesh Economic Review, 2008

Public expenditure management is an important segment of the fiscal management of the government. The main objectives of public expenditure are to improve the living conditions of the people, develop human resources and physical infrastructure and reduce poverty. Public expenditure/GDP ratio over the last decade is presented in Table 31, where we see development expenditure is always fluctuating and non-development expenditure is gradually increasing.

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

Table 32: ADP Expenditure and its Composition by Major Sectors (%)

Sector	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Agriculture	4.5	4.9	4.7	4.5	4.4	3.74	4.04	3.62	5.20	5.86	7.00
Rural Development	8.2	10.1	12.2	12.2	11.1	10.09	13.83	14.27	15.83	17.14	15.00
Water Resources	8.1	7.0	6.9	6.1	5.4	4.29	4.04	2.44	3.22	2.29	4.00
Industries	0.8	0.8	1.7	3.3	1.9	1.14	2.74	2.42	1.64	1.24	1.00
Power	10.9	12.0	12.9	12.2	12.1	13.70	17.26	20.74	16.22	13.87	13.00
Gas, Oil & Natural Resources	4.9	4.7	4.8	2.5	3.1	4.00	5.19	6.04	1.62	0.74	1.00
Transport	19.7	17.9	17.4	20.4	19.9	16.15	18.04	12.27	14.30	14.40	11.00
Communication	1.6	2.8	3.1	2.8	6.1	3.63	2.23	2.93	2.82	2.72	2.00
Physical Planning & Housing	5.1	5.4	7.0	7.5	6.6	5.61	5.91	6.03	7.56	6.86	7.00
Education & Religion	12.9	13.5	12.8	13.3	14.2	13.88	12.28	13.70	13.83	15.48	16.00
Health & Population	9.1	8.2	8.0	7.3	7.9	6.72	8.27	8.17	9.59	9.97	11.00
Others	14.1	12.8	9.0	7.8	7.4	17.00	6.24	7.38	8.19	9.43	12.00
Total ADP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: IMED, Ministry of Planning.

Public Borrowing

Besides foreign loans and grants, the government also borrows money from internal sources. Government borrows money from Bangladesh Bank, Commercial Banks and by issuing bonds and saving certificates.

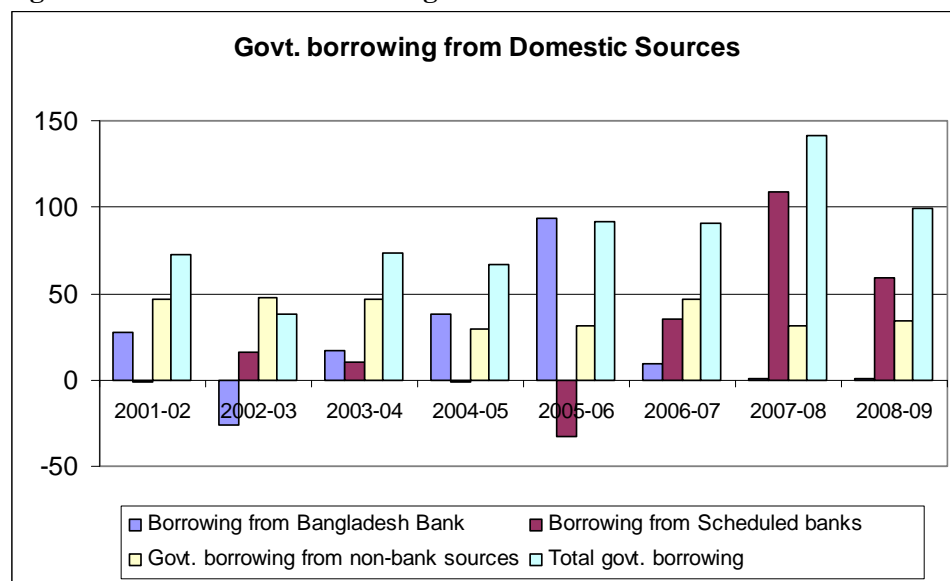
Table 33: Net Government Borrowing from Domestic Sources

(Billion Taka)						
FY	Borrowing from Bangladesh Bank	Borrowing from Scheduled banks	Total	Borrowing from non-bank sources	Total Govt. Borrowing	Percentage of GDP
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
2007-08	.66	108.93	109.59	31.45	141.05	2.6
2008-09 (March'09)	.54	59.21	65.19	34.17	99.36	1.6

Source: Bangladesh Economic Review, 2009

In fiscal year 2007-08, government borrowed 141.05 billion taka from the internal sources which is 2 percent of the GDP. Here borrowings from scheduled banks are much higher than borrowing from the Bangladesh Bank. Internal borrowing was decreased from 2.2 percent in 2005-06 to 2.0 percent in 2006-07 in terms of GDP. But in FY 2007-08 it increased to 2.6 percent of GDP. Sector wise government borrowing from domestic sources from FY 2001 has been presented in Table 33 and Figure 18.

Figure 18: Government borrowing from Domestic Sources



Source: Bangladesh Economic Review 2009 & Budget 2009-10

Tax Revenue

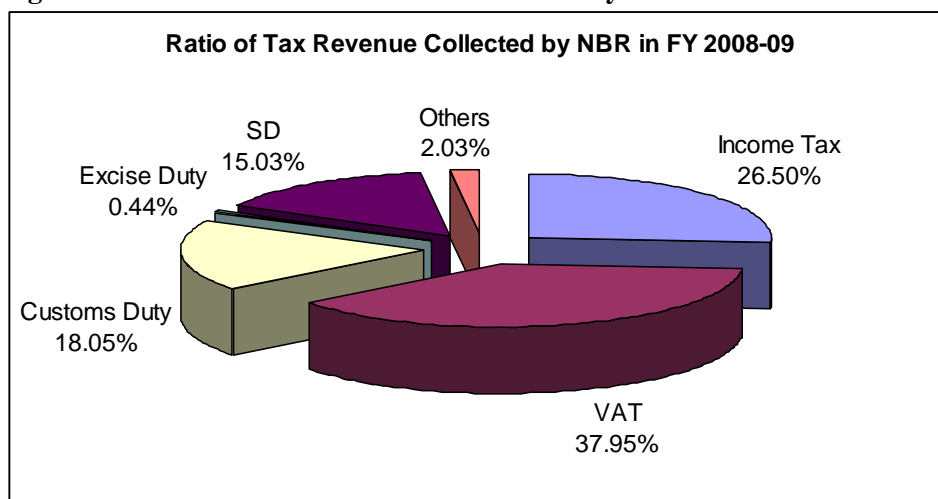
Tax revenue is the main source of the Government revenue all over the world. It is the major source of mobilizing domestic resources. The government's main visions for resource mobilization are- 1. Establish social justice and equity; 2. Provide reasonable protection to domestic industries; 3. Support growth of

agriculture and rural economy and patronize small and medium enterprises; 4. Attract more investment and increase employment opportunities.

National Board of Revenue, known as NBR, is the highest authority of collecting tax revenue in Bangladesh. So determination of tax policy and its implementation are reposed on the National Board of Revenue. It works under the Ministry of Finance (MOF).

NBR collects direct and indirect taxes through Income Tax, Customs and Value Added Tax wings. As a developing nation the country is still heavily dependent on indirect taxes. Analysis of revenue collection activities for FY 2008-09 by categories shows that the bulk of revenue collection comes from the value added tax in spite of huge exemptions and distortions. Income tax occupies the second place and next positions are held by import duties, supplementary duty and other taxes and duties. In may be mention here, in FY 2007-08 income tax occupied second position over import duties (Table-34). It is very difficult to increase income tax amount as people are not interested to pay direct tax. The ratio of different taxes collected by NBR in FY 2008-09 are shown in Figure-19.

Figure 19: Share of Duties and Taxes collected by NBR in FY 2008-09



Source: National Board of Revenue

The amount of revenue collecting by NBR is increasing every year. In FY 2006-07, total revenue collection by NBR was Tk. 374.79 billion, which was 9.46 percent higher than that of the previous year. In FY 2007-08, total revenue collection stood at Tk. 459.70 billion, which was 27.06 percent higher than the collection of the previous year and recently in FY 2008-09, the total revenue collection under NBR amounted Tk. 530.00 billion, which is 15.21 percent higher than that of the previous year. The collection trend of tax and non-tax revenue is given in Table 34.

Table 34: Revenue Receipt/ Revenue Budget

	(In billion Taka)					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
(A) Revenue under NBR						
1. Income Tax	52.70	58.50	69.60	89.24	110.05	135.38
2. Value Added Tax	85.75	106.05	123.98	136.83	170.13	201.16
3. Custom Duty	73.00	80.00	82.35	82.79	93.00	95.70
4. Excise Duty	1.70	1.50	1.63	1.85	2.13	2.37
5. Supplementary Duty	54.30	56.00	63.94	60.95	79.70	91.21
6. Other Taxes and duties	3.05	2.95	3.06	3.13	4.69	4.18
Total (A)	270.50	305.00	344.56	374.79	459.70	530.00
(B) Receipts from non-NBR						
7. Narcotics duty	.40	.45	.45	.50	.50	.52
8. Motor vehicles tax	2.41	2.67	3.31	3.67	4.95	5.50
9. Land tax	2.59	3.26	3.84	4.02	3.63	4.09
10. Stamp (non-judicial)	7.10	8.12	9.59	9.49	11.33	15.15
Total (B)	12.50	14.50	17.19	17.68	20.41	25.26
(C) Non-tax receipts	71.00	72.50	86.93	102.25	125.26	136.54
Grand Total (A+B+C)	354.00	392.00	448.68	494.72	605.37	691.80

Source: Bangladesh Economic Review 2009 & Budget 2009-10

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.

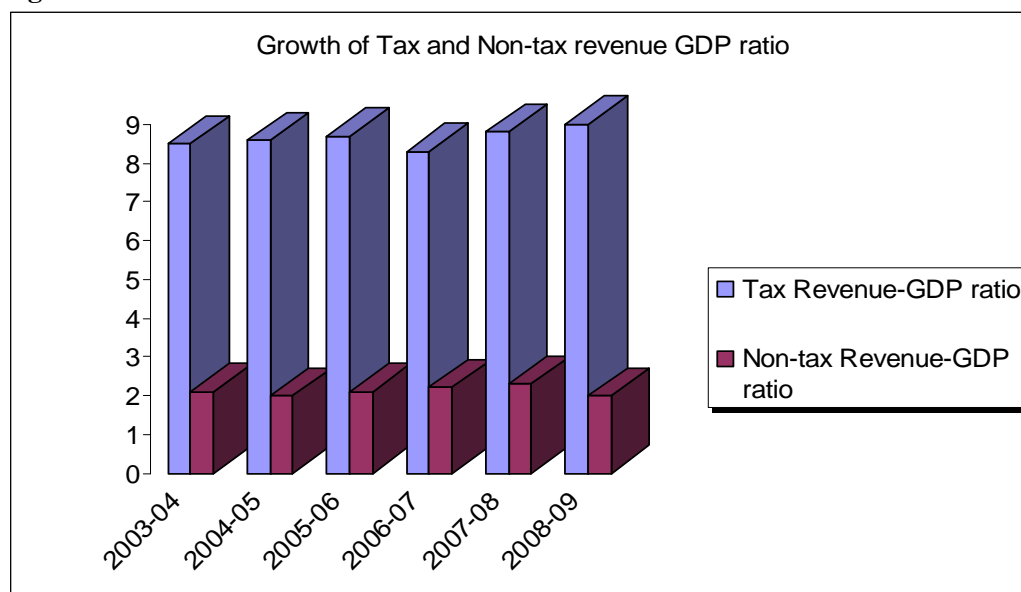
Table 35: Revenue as Percent of GDP

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Tax Revenue	8.5	8.6	8.7	8.3	8.8	9.0
Non-tax Revenue	2.1	2.0	2.1	2.2	2.3	2.0
Total Revenue	10.6	10.6	10.8	10.5	11.1	11.2

Source: National Board of Revenue, Bangladesh.

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 was 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 35, it is shown that tax revenue to GDP ratio is 9.0 in fiscal year 2008-09. In previous fiscal year it was 8.8. Situation is same in case of non-tax revenue GDP ratio. It has been around 2 for the last many fiscal years.

Figure 20: 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: 21 Trend of Four Major Taxes in NBR

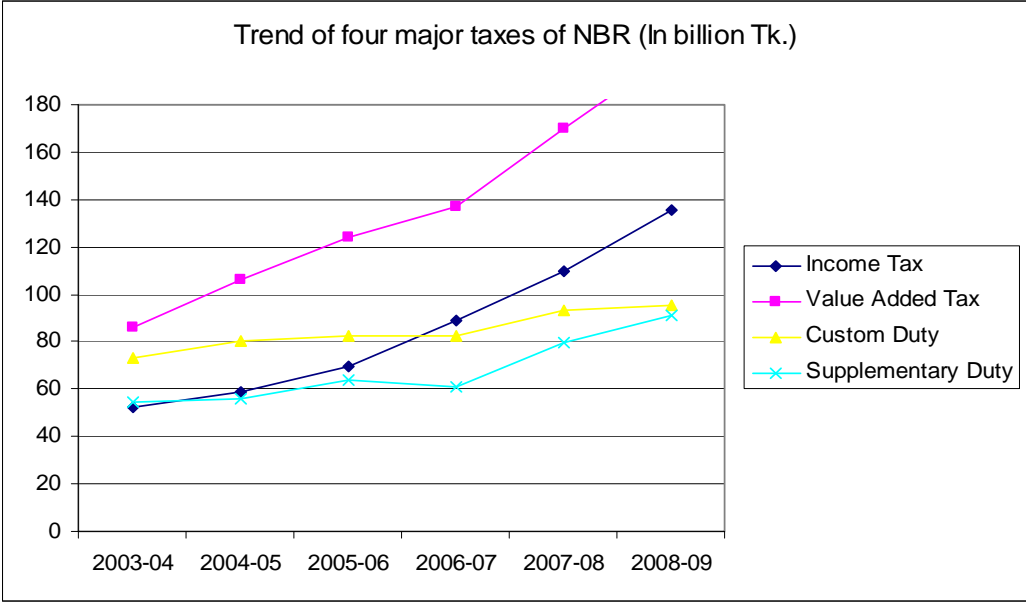
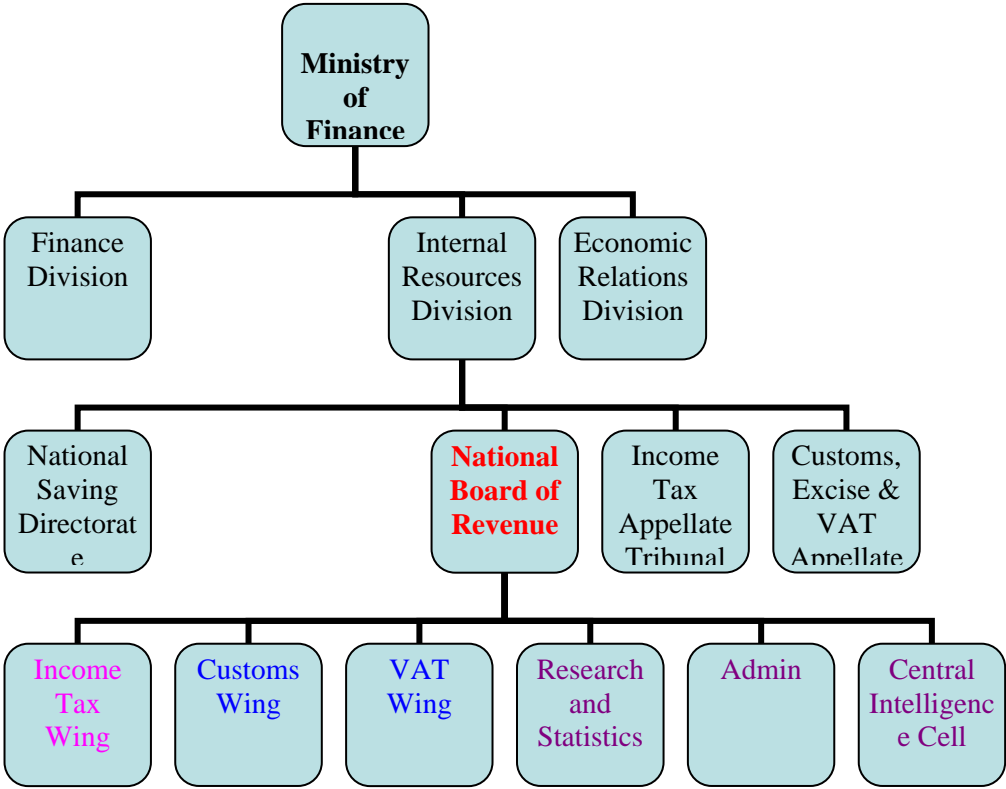


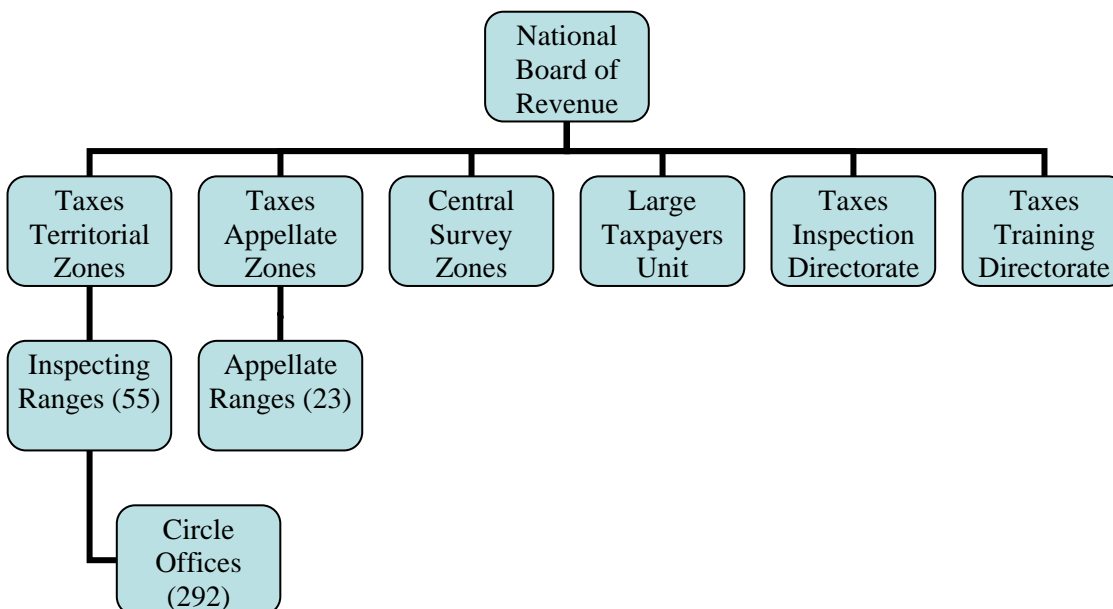
Figure: 22 Organization Chart of MOF and NBR



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: 23 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 or she 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: 36 Employee Scenario of Income Tax department

Class of Employees	Total approved post	Present Workforce	Vacant post
First Class	513	370	143
Second Class	142	122	20
Third Class	2901	2474	427
Fourth Class	1695	1383	312
Total	5251	4349	902

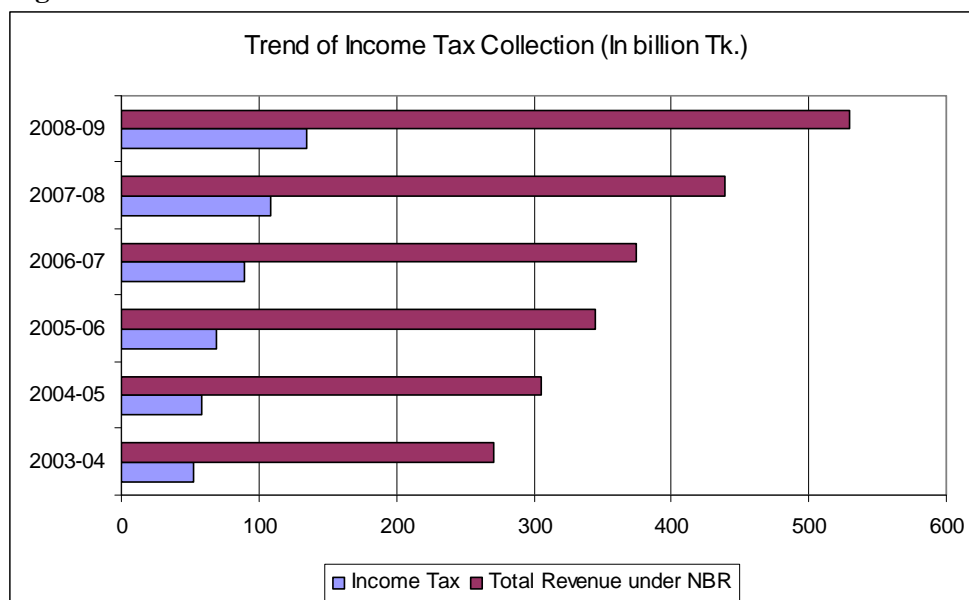
Source: National Board of Revenue

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 or she 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 37: Trend of IT Revenue

	(In billion taka)					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Income Tax	52.70	58.50	69.60	89.24	108.34	135.38
Total Revenue under NBR	270.50	305.00	344.56	374.79	438.50	530.00

Source: National Board of Revenue

Figure: 24 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 Taxpayer Identification Number (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 2.3 million. For a country with a population around 150 million, this number seems very poor. It is to be noted that many of these TIN holders are not active taxpayers.

Who should submit Income Tax Return?

- a) If total income of any individual other than female taxpayers, senior taxpayers of 65 years and above during the income year exceeds Tk 1,65,000/-. If total income of any female taxpayer, senior taxpayer of 65 years and above during the income year exceeds Tk 1,80,000/-.
- b) If any person was assessed for tax during any of the 3 years immediately preceding the income year.
- c) A person who lives in any city corporation/paurashava/divisional HQ/district HQ and owns a building of more than one storey and having plinth area exceeding 1,600 sq. feet/owns motor car/owns membership of a club registered under VAT Law.
- d) If any person runs a business or profession having trade license.
- e) Any professional registered as doctor, lawyer, income tax practitioner, Chartered Accountant, Cost & Management Accountant, Engineer, Architect and Surveyor etc.
- f) Member of a Chamber of Commerce and Industries or a trade Association.
- g) Any person who participates in a tender.
- h) A person who has a Taxpayer's Identification Number (TIN).
- i) Candidate for Union Parishad, Paurashava, City Corporation or Parliament election.

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 65 years old and above (from FY09-10, the age limit for senior taxpayer become 65 instead of 70). Female and old taxpayers will be required to pay tax if their initial income exceeds TK.180, 000. The overall tax rates for assessment year 2009-10 has been presented in the following tables.

Table: 38 Tax Rate for General Individual (Assessment Year- 2009-10)

For individuals other than female taxpayers, senior taxpayers of 65 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: 39 Tax rates for female and senior taxpayers (Assessment Year- 2009-10)

For female taxpayers, senior taxpayers of age 65 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: 40 Tax rates for Companies (Assessment Year- 2009-10)

For Companies:	
Publicly Traded Companies	27.5%
Non-publicly Traded Companies	37.5%
Banks, Insurance & other Financial Institutions	42.5%
Mobile Phone Operator's Company's	45%
Dividend of companies	15%

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 2.4 million is exempt from tax.

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

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

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

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

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

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

Tax Rebate for investment:**Rate of Rebate:**

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

Types of investment qualified for the tax rebate

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

Tax withholding functions:

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

Appeal

If a taxpayer is aggrieved with the assessment or not satisfied with the adjudication of tax officials can go for appeal against that adjudication order. The law of the land has given the taxpayers a lot of options so that they can get the real justice.

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

Double Taxation Avoidance

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

- a) To obtain a more effective relief from double taxation compared to relief gained under unilateral measures;
- b) To determine the income to be attributable to any person resident in Bangladesh having any special relationship with a non-resident;
- c) To create a favorable climate for the inflow of foreign investment into the country;

- d) To make special tax incentives provided by Bangladesh fully effective for taxpayers of capital exporting countries; and
- e) To prevent evasion and avoidance of tax.

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

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

Large Taxpayers Unit (LTU) Income Tax

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

LTU is responsible for collecting more than 30% of the total income tax revenue. LTU arranged around 4 core factions of a typical tax administration

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

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

1. Taxpayers service wing:

- a. Providing taxpayers' education
- b. Receiving returns and payments
- c. Apprising taxpayers

2. Revenue accounting wing:

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

3. Collection, enforcement/appeal wing:

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

4. Audit wing:

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

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: 41 Staff Scenario of Customs, Excise & VAT department

Class of Employees	Total approved post	Present workforce	Vacant workforce
First Class	689	575	114
Second Class	2162	1446	716
Third Class	4345	2577	1768
Fourth Class	389	311	78
Total	7585	4909	2676

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.

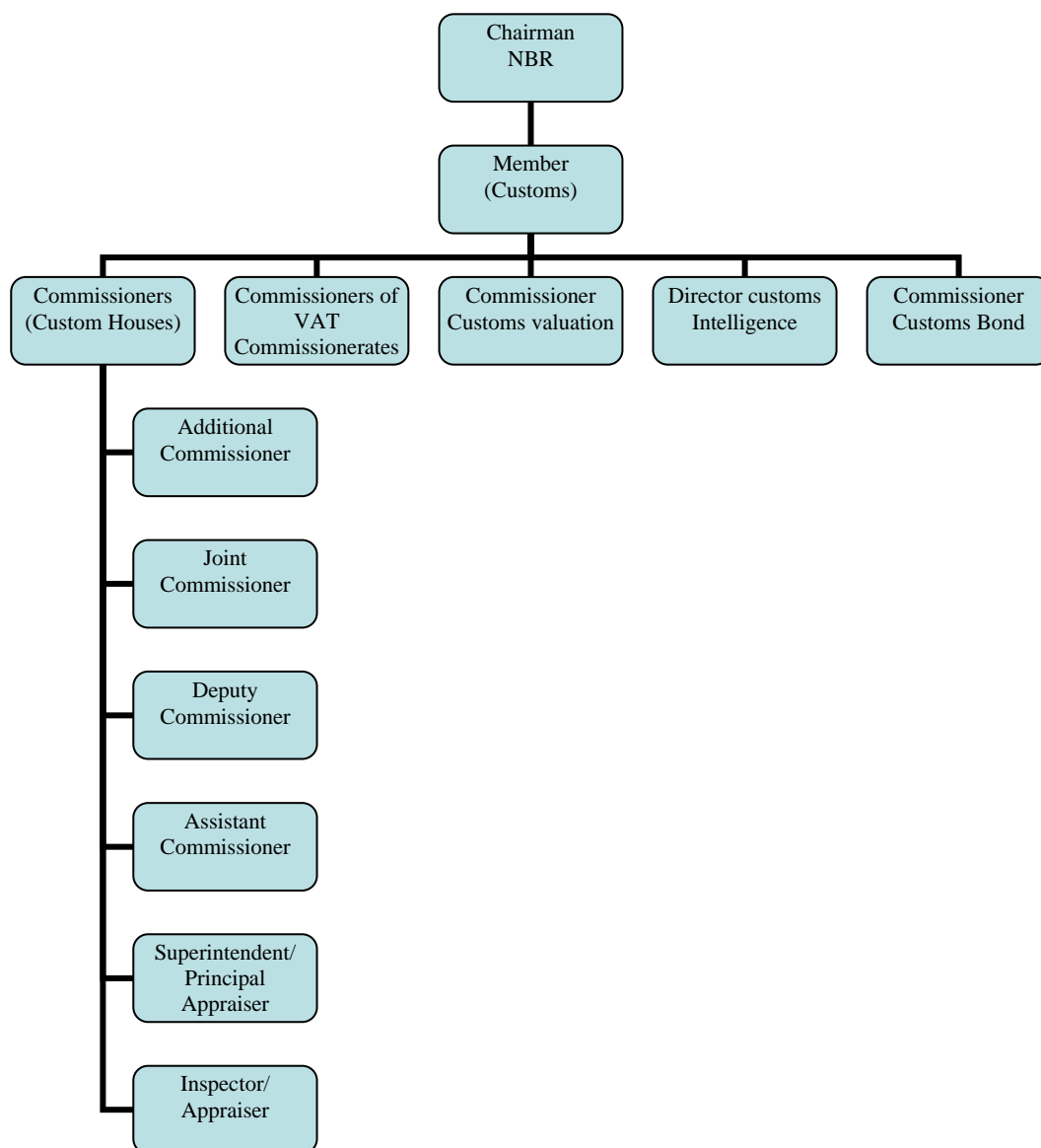
Customs wing

Customs wing 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.

There are five main customs houses in Bangladesh at present. 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.

Figure: 25 Organization Chart and Hierarchical Position of Bangladesh Customs



Simplification of Tariff Structure:

The number of effective tariff slabs in FY1991-92 was 18 and the highest tariff rate was 350 percent. But 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 number of tariff slabs was reduced to 7 in FY 1998-1999. Besides, the highest tariff also slashed to 40 percent. Both **operative** and **statutory** tariff rates were effective up to FY1999-00. To simplify the tariff structure, operative and statutory tariff rates have been made equal since Fy2000-01. Currently, the number of tariff slabs is five including zero. The maximum import duty has been reduced gradually and stands at 25 percent. The tariff structure of last few years has given below:

Table: 42 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) and Dhaka Customs House.

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

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

Table 43: Customs Revenue Collection

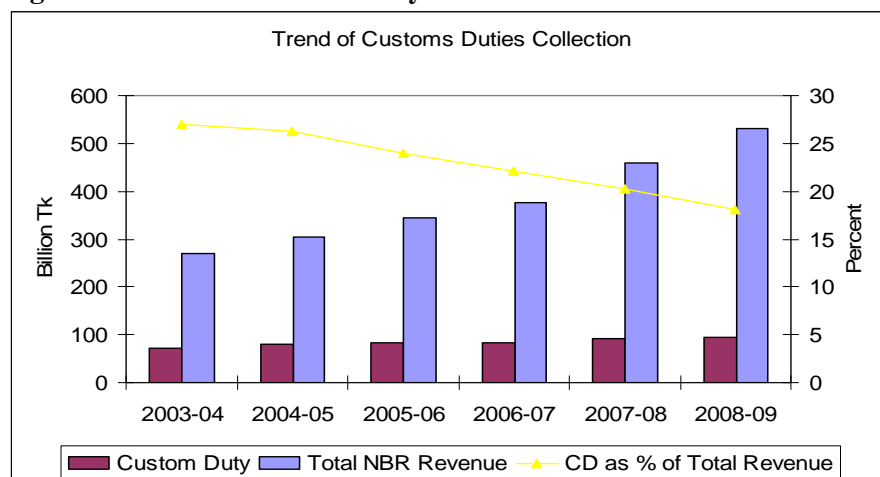
	(In billion taka)						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	
Custom Duty	73.00	80.00	82.35	82.79	93.00	95.52	
Total NBR Revenue	270.50	305.00	344.56	374.79	459.70	530.00	
CD as percent of Total Revenue	26.98	26.22	23.90	22.08	20.23	18.02	

Source: National Board of Revenue (NBR)

Revenue collection

Due to the simplification of tariff and trade liberalization, customs revenue has been reducing gradually. In fiscal year 2008-09, customs revenue was 95.52 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 26, we would notice that customs revenue collection is almost static in respect of total revenue collection.

Figure: 26 Trend in customs duty collection



Value Added Tax (VAT)

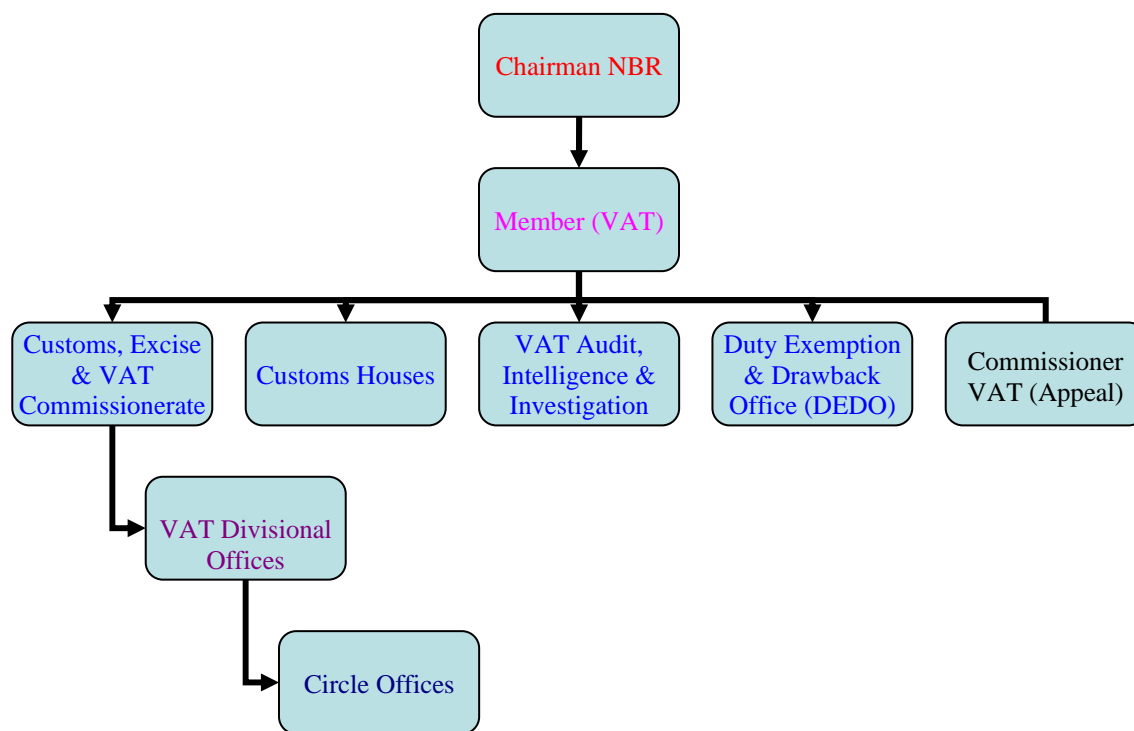
Value Added Tax (VAT) was introduced in Bangladesh on 1 July in 1991 replacing Excise duties partially and Sales Tax completely. The single rate of VAT is 15%. This uniform rate is applicable on both service and product at import stage as well as domestic level. Besides, in some cases VAT is calculated 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: 27 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 27, 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 commissioner rate 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 2.4 million and above. But by the national annual budget in FY 2009-10, the limit of turnover for cottage industry has increased to Tk. 4 million from existing Tk. 2.4 million. If yearly turnover is less than taka 2.4 million (except cottage industries), 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 shows 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%. Advanced Trade VAT (ATV) is collected by Customs Houses at import stage and the rate is 2.25% from the FY 2009-2010. Previously the rate was 1.50%.

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.

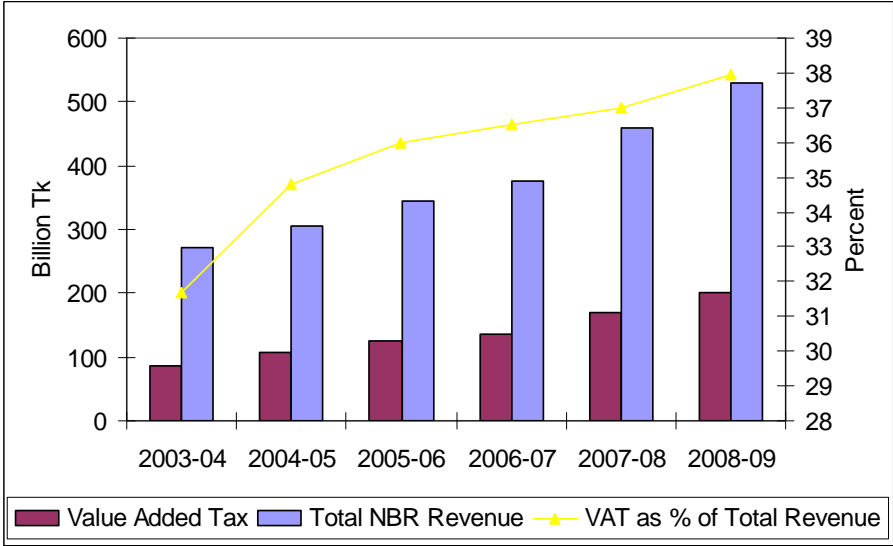
Table 44: Trend of VAT Collection

	(In billion taka)					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Value Added Tax	85.75	106.05	123.98	136.83	170.13	201.16
Total NBR Revenue	270.50	305.00	344.56	374.79	459.70	530.00
VAT as % of Total Revenue	31.70	34.77	35.98	36.50	37.00	37.95

Sources: National Board of Revenue

VAT has been quite instrumental in gradually mobilizing more domestic resources in line with the growth trend of economic developmental. In spite of many exemptions, VAT is the leading revenue in NBR. Its contribution is the highest in the total revenue of NBR. In the fiscal year 2008-09, total VAT was collected 201.16 billion taka. It is 37.95 percent of the total collected revenue of NBR. In fiscal year 2007-08, the total VAT was 170.13 billion taka which was 4.6 percent of GDP. VAT authority has achieved the target due to the transparency, hard working and effective implementation of VAT laws.

Figure: 28 VAT Collection Scenarios and Trend



IV. Country Specific Fiscal Issues

Domestic Resource Mobilization

In order to mobilize internal resources, a strong and efficient tax system is necessary. The most significant feature of the Bangladesh tax scenario is its heavy dependence on indirect taxes. In FY 2008-09, 73.5 percent of all NBR revenue comes from the indirect taxes while the balance is from income tax. The main issues of the tax system in Bangladesh can be categorized by-

- a) Narrow tax base
- b) Tax evasion and
- c) Reforms in revenue administration.

a) Narrow tax base

The tax base in Bangladesh is one of the lowest in the world. Out of population 150 million, only about 2.344 million or about 1.56 percent of the population are registered tax payers. Of them, 25 percent taxpayers file a tax return and pay tax regularly. Our tax system is highly exemption-ridden and a considerable part of our economy remains outside the tax net. For example, agriculture sector is out of the tax net. The sector provides employment for around 48 percent of the population and contributes 21.37 percent of GDP (in FY 2008-09), but virtually pays very little in the form of income tax. There is always a controversy whether this sector is extra protected or not and if yes- to continue for how long. There are many affluent people lying in the category of agricultural income and more such people avoiding taxes showing their entire income as a means of agriculture. In addition to this sector, many taxable areas are enjoying various exemptions. For example, tax holiday in income tax, zero rate and other special exemptions for imports, truncated base for VAT etc. Urgent steps are needed to expand the tax base. These steps should include- the broadening of the concept of income, the reduction of rebates and exemptions, extensive survey work to increase the number of taxpayers and expansion of tax payer education and assistance.

b) Tax Evasion

Tax evasion in Bangladesh has reached alarming proportions and the immediate victim is the government revenue. It also leads to a parallel informal economy and the existence of a large informal economy also squeezes the opportunity to revert the stagnating revenue effort. The causes of tax evasion are numerous and include complex tax laws, lack of social security, co-ordination deficits among different government agencies and financial institutions, inefficiency and corruption. On the other hand, in Bangladesh, income taxes of government employees are paid by the employer that is by the government, considering the fact that they are underpaid. However, in case of private sector, such payments are considered as income, which creates additional tax burden for the employee of the private firms. This is discriminatory and obviously encourages employees of private firms to avoid or evade taxes. In order to curb tax evasion, it is necessary to simplify tax laws and procedures, increase tax payers education and motivation, review banking and accounting practices and increase penal provisions for tax evaders.

c) Reforms in Revenue Administration

To raise Tax-GDP ratio to a desirable level, transparency, accountability and efficiency in the revenue administration is a must. But the most unfortunate chapter for Bangladesh is modernization of revenue administration. The country has hired bureaucracy from British colonial regime. Many times it has been reformed but still it is not up to the mark as the reform proposals are made by foreign consultants. Reforms may be fruitful if the proposals of local experts are valued highly. As the real need is not considered before reforms that is why no reforms were effective in revenue administration. Only customs wing is partially automated, the rest two, VAT and income tax are still running without computerization. Without internal modernization and computerization of these two departments, some expert advocates to merge direct and indirect tax wings, which will create a mess in revenue administration. To coup with the age of information technology, there is no alternative for revenue administration to be computerized.

Trade Deficit and Export Diversification

Trade deficit is one of the big challenges for Bangladesh. Gap between import and export has been increasing day by day. Overall current account balance 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 take necessary actions to reduce trade deficit by increasing the volume of exports. But Bangladesh's export is confined both in terms of product diversification and destination. With over two million jobs and 76 percent of export earnings from the RMG sector, there is little doubt that too much of the nation's fortune is riding on this one sector. Export concentration in readymade garments makes the economy, jobs and income extremely vulnerable. It is not the fact; Bangladesh has no other products in which it has a comparative advantage. There are numerous exportable products lurking in the background. For instance, the world market for agro-processing industry is significantly larger than that of apparel. Bangladesh should give more attention to enter into this market and to diversify its export in terms of products and new export destination. Government should assist private entrepreneurs to diversify their export products.

Environment for FDI

Foreign direct investment is dramatically increasing in the age of globalization. It has played important role for economic growth in the global process. But the distribution of FDI is uneven in all over the world. Some countries are ahead and some are lag behind to attract FDI. A suitable investment environment is the most important thing to attract FDI. Bangladesh was historically a reputed investment area where British companies dominated for two hundred years. But recent data shows that, in spite of availability of cheap and skilled labor, FDI is not remarkable. Political unrest, red tapism, weak infrastructure and the law and order situation in Bangladesh have slowed down the rate of foreign investment. The country is effluent with natural resources. Government has no alternative without creating the suitable environment for investment. To enhance GDP growth and to reduce unemployment, there is no alternative without welcoming FDI.

Private Sector Participation

The Government has a vision to achieve 8 percent GDP growth by the year 2013 and at 10 percent by the year 2017. As a vehicle to attain this higher growth, investment in infrastructure development, especially, power and energy, ports, communication, supply of drinking water and waste management, education and health will be given highest priority. A huge investment is required to achieve this target. In addition to the existing public and private investment programs an addition of US\$ 28 billion will be required by FY 2013-14 to achieve the projected growth. The government alone cannot provide such huge amount of resources. It would be difficult to maintain macroeconomic stability if the government has to finance such huge investment by borrowing from domestic sources. Again it will not be possible to obtain such funds as concessionary loans from the development partners. The involvement of private sector is necessary to meet the probable investment gap in infrastructure development and maintenance, alongside the government's investment. The successful application of Public Private Partnership will open up the door for increased flow of investment from both local and foreign investors.

Climate change and Bangladesh economy

Climate change is a problem for unequal economic growth, over consumption, production and environmental injustice for developing and low income countries. Bangladesh is already facing many of the harmful impacts of climate change due to its geophysical location, hydrological influence by monsoon rainfall and changes in regional water flow patterns. According to the IPCC report, Bangladesh will experience 1.0 to 1.4°C rise in average temperature in 2030-2050. Experts say that sea level rises due to climate change will inundate vast area of coastal Bangladesh. It is predicted that for about 45 cm rise of sea level along Bangladesh coast may inundate 10 to 15 percent of the land by the year 2050 and may dislocate over 35 million people from coastal districts. The country faces too much water in monsoon

causing floods and too little water in the dry season. Frequent crop failure due to floods and drought in central and northwest part of the country increased hunger, poverty and create extra pressures to the ongoing development activities. Regular natural disaster is also responsible for lower FDI in Bangladesh. Her economy especially sectoral development, poverty alleviation and achieving of MDG (Millennium Development Goals) will be affected by the climate impacts in the long run.

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

Bangladesh, a least developed country, has been suffering budget deficit, trade deficit, lower Tax-GDP ratio, poor infrastructure facility, rapid population growth and finally political stability. With the presence of all these problems, Bangladesh has made impressive economic and social progress in the past decade. Despite repeated natural disasters and external shocks, poverty fell from 57 percent of the total population in 1990 to 40 percent in 2005. The country has made great strides towards achieving most of the Millennium Development Goals. It has made the MDGs for gender parity in education and universal primary enrollment well ahead of time.

The global economic crisis came at a time when Bangladesh was witnessed a period of relative economic prosperity. Bangladesh averaged a healthy growth rate of 6 percent over the last 6 years mainly from the industrial and service sector. Industrial growth averaged 8 percent per annum in the last 6 years despite inadequate infrastructure- particularly electricity and natural gas. Services, which grew at over 6 percent per annum in recent years, have remained robust, benefiting from continuous flow of remittances. Agriculture grew at nearly 4 percent per annum in recent years and output has varied largely because of weather-related shocks. More recently, in FY 2009, agricultural crops, especially paddy, have bumper production which will decrease import of food grains and ensure food security. The external current account has been in surplus since FY 2006. Continued robust growth of remittances and strong export growth helped to maintain the surplus. The foreign exchange reserve position has continued to improve, reaching to US\$ 10 billion by November 15th, 2009. The Bangladesh Bank has maintained the dollar exchange rate stable to guard against imported inflation pressures.

While Bangladesh economy has largely escaped from the first round effects of global financial crisis, weak consumer spending in developed economies and the collapse in global trade are likely to have increasingly adverse impact of Bangladesh. Policy preparedness and timely action will be required to deal with the impending impact of the global crisis. In the absence of such precautionary measures, there is a danger that the domestic economy could descend into a downward spiral of reduced export and remittances growth, leading to lower GDP growth and higher unemployment.

Aggregate fiscal discipline is an important pillar of Bangladesh's macroeconomic management and increase in tax revenue is the most important precondition for fiscal discipline. But government efforts to increase internal revenue are not satisfactory. The country failed to create a tax culture. The politicians allowed huge exemptions for their own interest and cheap popularity. In addition, going to donor agencies to borrow money has become a habit of all ruling parties. The dependency on foreign loan instead of internal revenue creates a real problem for the economy. 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 tough for the country to come out from the vicious cycle of external loans. So, government's main vision should be, to augment revenue collection through broadening the tax base, establishing transparency and accountability in the tax management and increasing efficiency in the tax administration.

There are some administrative problems and issues in the revenue department. These are- shortage of sufficient trained officers/inspectors/staffs, inadequate information technology, such as lacking of automation and computerization of the VAT and Income Tax wing, lack of transport and other necessary supports impairing strict enforcement and monitoring on tax evaders etc. If the authority modernizes the revenue administration with automation, the scenery of revenue collection will be changed dramatically. In the year of 2004, Central Intelligence Cell (CIC) was established under the direct control of NBR to retard the evil activities of the tax evaders. The use of Electronic Cash Register (ECR) in the medium and large traders and service providers of all city corporations areas in the district headquarters were made mandatory from the July 01, 2008. Recently, the government has taken decision to set up NBR wings at the upazilla level and greater use of universal tax assessment system for widening the tax base. These all are good news for revenue department. But, the prescription of donor agencies about merging the direct and indirect tax wing is creating chaos to the revenue administration. Income tax department is totally

manual and they are struggling to extend the tax network. Still huge numbers of potential people are out of the tax network. If two departments are amalgamated, there will be a golden scope for tax evaders to evade taxes. 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. Government should give more emphasis of modernization of revenue department with information technology rather than merging of two wings. Another important thing, our revenue administration should try to raise the compliance level to increase the revenue. To raise the compliance level it is imperative to simplify the existing tax laws for making the tax collection process transparent and accountable.

Corruption is a problem for the development of the country. According to the Transparency International Report, 2009 Bangladesh's position about corruption is 139 out of 180 countries in the world. As the salary structure is very poor for the government servants and politicians have no commitment to the country, corruption is not decreasing. Government set up independent Anti Corruption Commission to tackle corruption but the organization itself also controversial. Without the proper implementation of policies and rules 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 to boost up.

Finally, Bangladesh's economy is agro-based. The contribution of this sector to the economy is 22 percent of GDP and 48 percent of total labor force is engaged here. Highest priority should be given to overall agriculture and rural development sector as there is a belief in Bangladesh that, our farmers will survive if agriculture thrives; again if farmers survive the country will prosper.

The country has many problems but still there have hopes and expectations. The proper utilization of huge manpower and natural resources as well as strengthening the government institutions can make a developed and prosperous Bangladesh.

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