Independent Review of Bangladesh's Development (IRBD)

State of the Bangladesh Economy in FY2016-17

Second Reading

CPD's Budget Recommendations

Dhaka: 16 April 2017

CENTRE FOR POLICY DIALOGUE

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CPD IRBD 2017 Team

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- *The CPD IRBD 2017 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.*

Introduction

Introduction

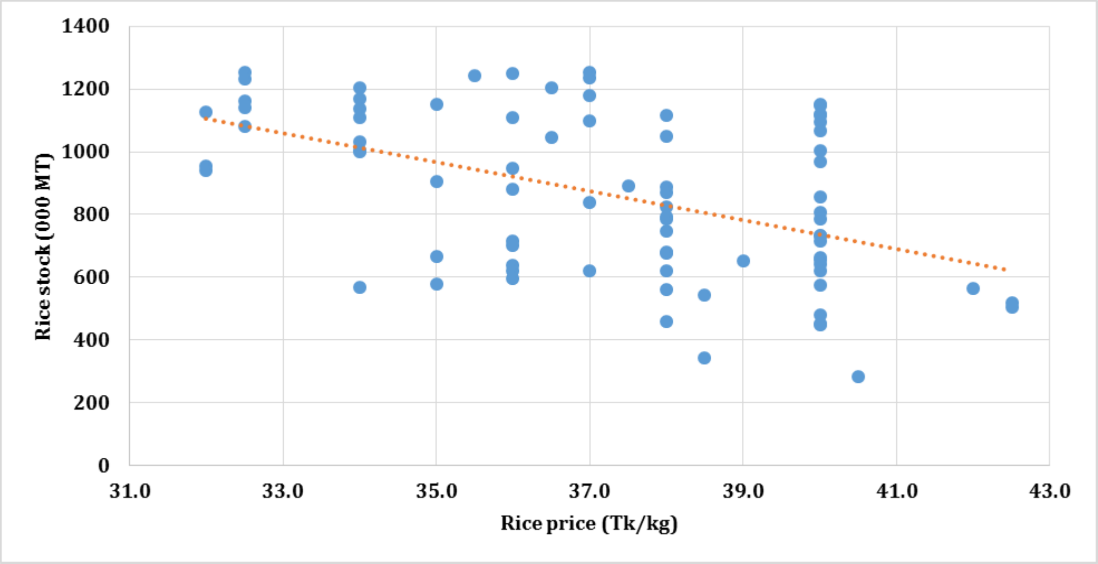
- The CPD budget proposals for FY2018 is being prepared by taking the current dynamics of macroeconomic performance as the reference points.
- The focus of this report is on four areas:
  I. Taking cognisance of the macroeconomic stances in terms of sustainable growth acceleration and enhanced employment generation
  II. enhancing resources for the budget
  III. supporting the private investment
  IV. strengthening social security and provision of human development resources for the marginalised and the vulnerable groups.

Macroeconomic Backdrop in the Run-up to the National Budget for FY2018

Macroeconomic correlates in positive trend

- **Headline inflation continued to decline in the first eight months to 5.41%** (MPS target 5.3%-5.6%)
- Primarily driven by decreasing non-food inflation (6.11%) which is still higher than food inflation (4.95%)
  - Within non-food inflation: medical care and transport expenses have slowed down, while inflation of rent, fuel and lighting are showing an upward trend
    - Further increase of gas and electricity price may exacerbate the situation
  - Rising trend in food inflation
    - Coarse rice price is about 24 % higher than 2016; Lowest level of rice stock in March since FY12

Relationship between Public Stock of Rice and Retail Price of Rice



- Policymakers should take a closer look at the stock situation and calibrate the targets for Boro season procurement accordingly

Section II. Macroeconomic Backdrop in the Run-up to the National Budget for FY18

- **Interest rate continued to fall with sticky spread**
  - Both lending and deposit rates continued to decline throughout the FY17
  - Spread has been hovering around 4.7 per cent
- Spread might not be coming down due to weak state of banking sector

- **Proxy indicators for private investment show promising signs**
  - During July-Feb of FY17:
    - Capital machinery import grew by 24 % (concentrated on power sector)
    - Private sector credit growth of 15.9 %
    - Net FDI growth of 17.4 %
    - Agriculture credit disbursement growth of 21.8 %
    - Non-farm rural credit rose by 28.6 %
  - During July-Dec of FY17:
    - SME loan increased by 21.7 %
    - Industrial term loan disbursement growth only 6.9 %
- Timely delivery of infrastructure and policy support is crucial to realise full potential
  - Ensuring gas and electricity supply and raising port efficiency should be prioritised

Section II. Macroeconomic Backdrop in the Run-up to the National Budget for FY18

Balance of payment situation is still at a comfortable zone

- BoP was favourable during Jul-Feb of FY17 with USD 3.1 billion
  - However a decline of 22.2% from the corresponding period of Jul-Feb of FY16
  - Current account balance fell into the deficit terrain (-) USD 1.1 billion
    - Higher trade deficit alongside the falling remittance inflow may have contributed to current account deficit
  - Appreciation of Taka against Euro, Chinese Yuan and GBP
  - Depreciation of Taka against USD and Indian Rupee

Foreign exchange reserve continued to rise

- Foreign exchange reserve increased to USD 32.3 billion as of 13 April 2017 (nearly a USD 2.2 billion increase from July 2016)
- GoB is considering to utilise the growing forex reserve
  - Infrastructure development through a sovereign wealth fund
  - CPD argued that appropriate monitoring and governance should be the key concerns
- Growing debt servicing and other obligations in terms of foreign exchange payments should inform any policy decision in this context.

NBR revenue collection target was ambitious

- NBR revenue growth target of 38.9% compared to actual collection in FY16
  - 20.6% growth upto Jul-Oct FY17 from corresponding periods of FY16
  - Periods for FY15 (8%) & FY16 (10.9%) registered a much lower growth
- However, required growth for remaining 3 months is unlikely to be achieved
  - Still require a further 45.8% growth for Nov-Jun FY17

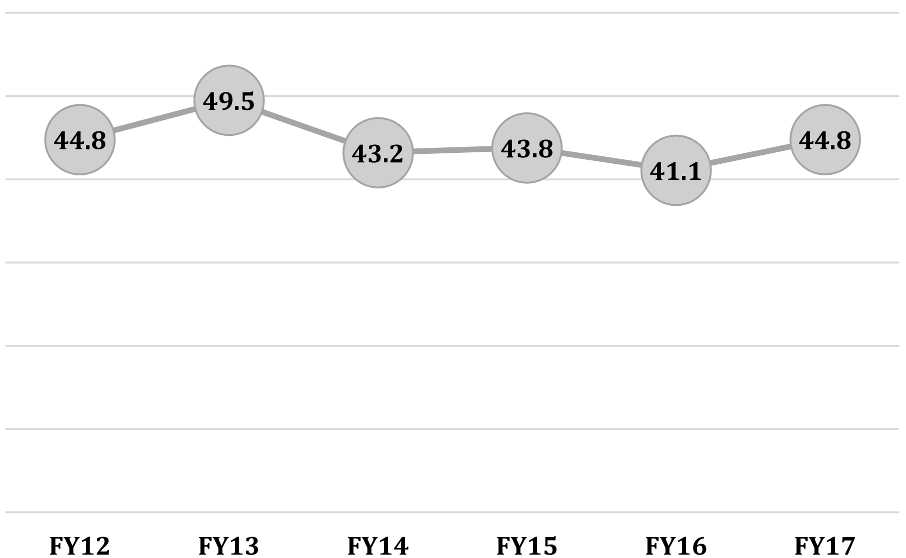
- **Likely that a significant revision of revenue mobilisation target will be made while preparing for the budget for FY18**

Revenue Growth Target and Achievement (%)

Source of Revenue	Actual FY15 (Up to Oct)	Actual FY16 (Up to Oct)	Budget FY17	Actual FY17 (Up to Oct)	Required Nov-Jun FY17
Tax Revenue (a+b)	7.9	11.5	38.5	19.7	45.6
a. NBR	8.0	10.9	38.9	20.6	45.8
b. Non-NBR	5.9	28.1	28.4	-0.4	41.9
c. Non-tax Revenue	-36.5	6.9	65.7	3.2	107.2
Total Revenue (a+b+c)	**-3.2**	**10.8**	**41.6**	**17.1**	**51.5**

ADP implementation pace recovered somewhat

- 44.8 % implementation during Jul-Mar FY17
  - Second highest since FY13
  - Recovery is anchored on rising expenditure of local resources
  - Foreign fund utilisation lowest in 5 years
- Implementation level of fast track projects have been unsatisfactory
  - As of Jul-MarFY17, completion rate of Padma Multipurpose Bridge & Padma Bridge Rail Link was 30% & 14%
- Slow pace of implementation may translate to higher project cost
  - Possible uncertainty amongst investors as regards timely delivery



Section II. Macroeconomic Backdrop in the Run-up to the National Budget for FY18

Weak banking sector performance persisted

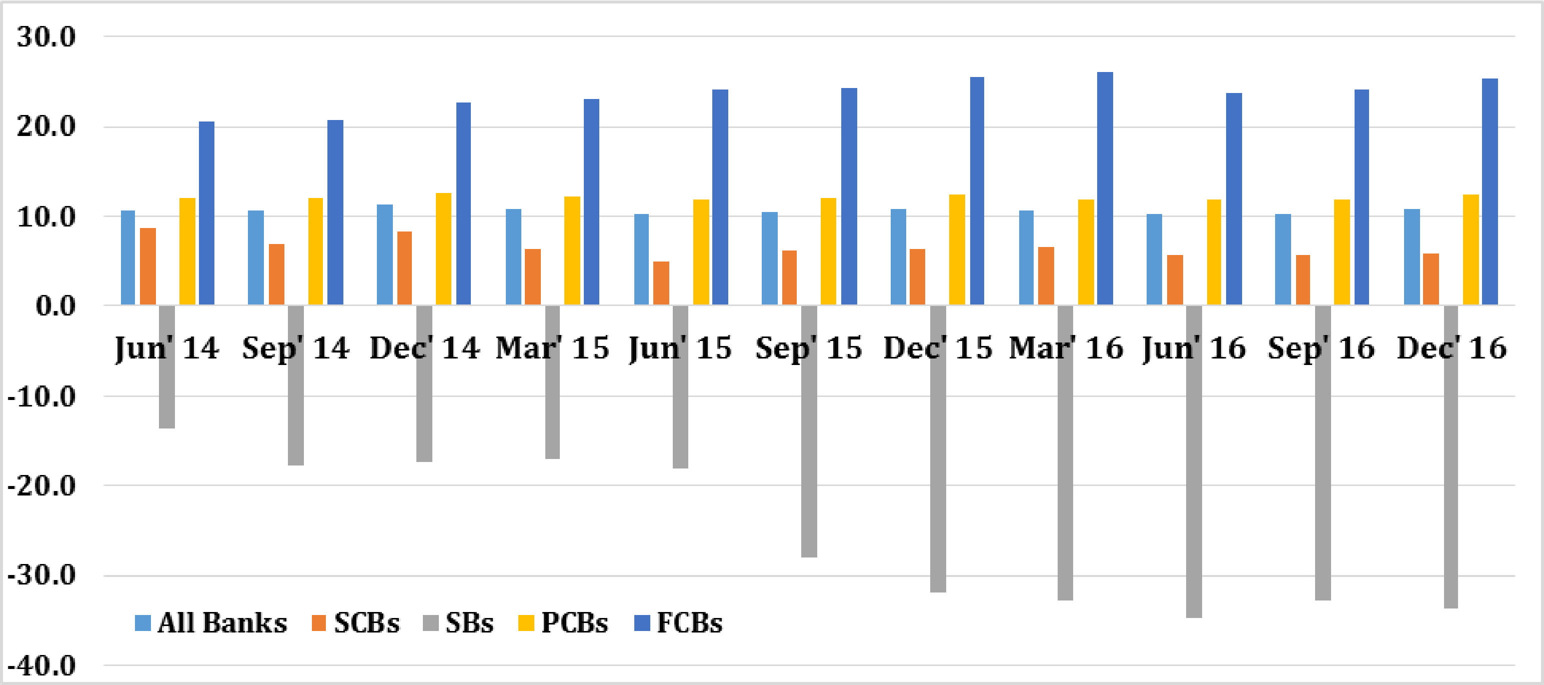
- NPL in the banking sector continued its usual cyclical pattern
  - ➢ NPL (as a share of total outstanding loan) tends to come down in December but rises in later months
    - ➢ Maybe due to restructuring and rescheduling of loans at the end of December every year
- GoB injected Tk. 9,655 crore over FY12 to FY16 for recapitalisation
  - ➢ At this same time, commercial banks have significant amount of excess liquidity
    - ➢ lack of domestic demand and in view of the tendency of large investors to borrow from abroad.

NPL (Gross) As Percentage of Total Outstanding Loan

Month	SCBs	SBs	PCBs	FCBs	Total
Dec, 2013	**19.76**	**26.78**	**4.54**	**5.46**	**8.93**
Jun, 2014	23.23	33.12	5.70	6.19	10.75
Dec, 2014	**22.23**	**32.81**	**4.98**	**7.30**	**9.69**
Jun, 2015	21.89	25.47	5.67	8.25	9.67
Dec, 2015	**21.46**	**23.24**	**4.85**	**7.77**	**8.79**
Jun,2016	25.74	26.14	5.44	8.33	10.06
Dec,2016	**25.05**	**26.02**	**4.58**	**9.56**	**9.23**

Profitability indicators for banks have deteriorated

- Return on Asset (ROA) and Return on Equity (ROE) have decreased to 0.71% and 9.92%
  - ➢ Previous levels were 0.77% and 10.51% respectively



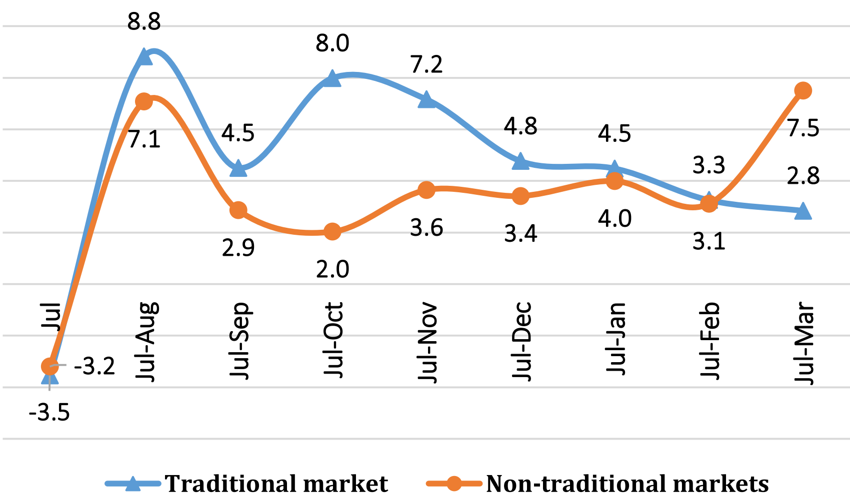
Macroeconomic indicators with disquieting trends

- **Overreliance on NSD sale for deficit financing continued**
  - GoB has been **overreliant** on the sales of NSD certificates to finance deficit
    - Target for FY17 was set at Tk. 19,610 crore
    - Actual Jul-Jan FY17 the figure reached Tk. 28,894.15 crore
- Sales for Jul-Jan was already an astounding **47% higher** than target!
  - 74% higher than that of the corresponding period of FY16
- NSD entails higher payment of interest rates; consequently, higher amount of resources are required for financing the debt
  - May jeopardise Bangladesh's relatively comfortable debt sustainability track record and credentials
- Downward revision of NSD rates and maximum ceiling on purchase, may be considered as:
  - Falling trend of deposit interest rates in commercial banks
  - Medium to long term implications of accumulating such debt servicing liabilities for GoB

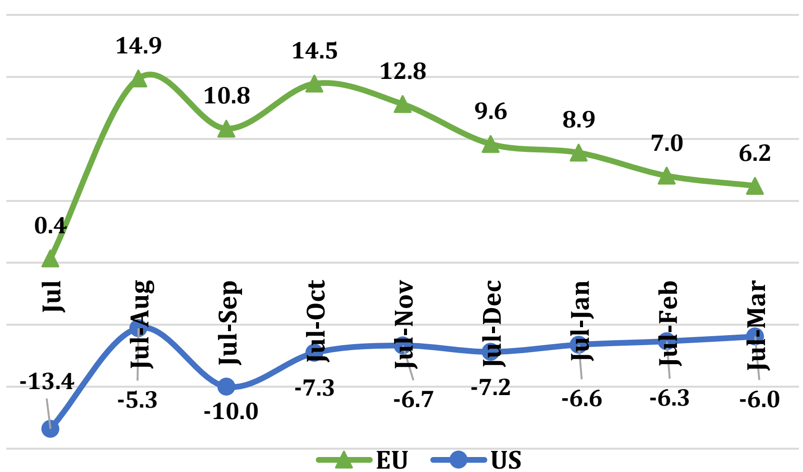
Lower growth in export earnings has emerged as a concern

- Export growth for first nine months have remained below the targeted growth of 8.0 %
- Export diversification was evident as growth in the non-traditional markets (7.5 %) outstripped growth in the traditional markets (2.8%)
    - ➢ Boost in non-traditional markets was mostly attained via impressive performance of non-RMG products
- Export performance in US market was rather subdued in FY2017.
    - ➢ Both knit & woven RMG exports have posted low growth.
    - ➢ Performance in the EU is has experienced a gradually declining trend.
- Sluggish performance of Bangladesh's export originate from depressed global demand, relative strengthening of BDT compared to some of the competitors, and relatively high cost of doing business in Bangladesh

Traditional vs Non-traditional market

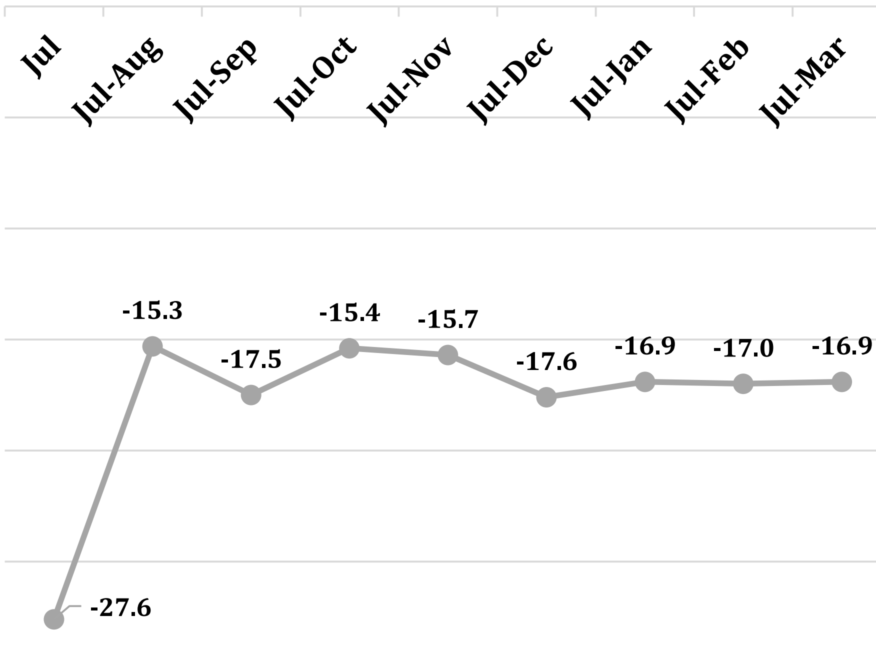


US vs EU



Remittance inflow continued to experience decline

- All months noted negative growth than corresponding periods of FY16
- However, monthly outward migrant has been on the increase.
  - Remittance declined by -16.9%, whilst migration grew by 30.9% (Jul-Mar)
- Depressed economic situation in petro-dollar earning Middle-East countries
  - Constant downward pressure on salaries and wages as a result
  - Greater flow of remittance through informal channels
  - Higher flow through money transfer agencies of various types and higher cost of sending
- A more indepth study of the possible reasons is called for to identify appropriate policy interventions



Recommendations for the national budget

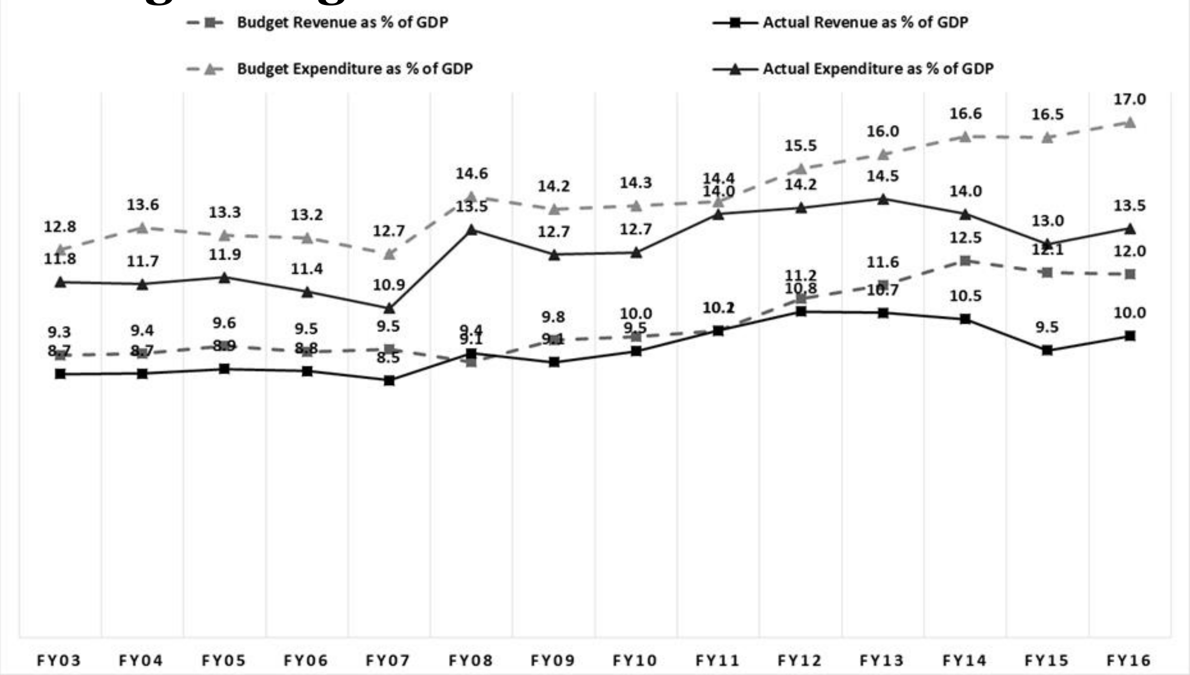
- Recent trends in major macroeconomic correlates demonstrate a number of strengths
  - Restrained budget deficit, sliding inflation, declining interest rate, positive BOP and stable exchange rate
- GoB may like to opt for an expansionary fiscal policy in the context of the upcoming national budget
  - Serve its development aspirations
  - Support private investment uptake
  - Accelerate the economic growth momentum
- Bangladesh economy is well-positioned for such a policy push also thanks to the comfortable debt situation of the country

Section II. Macroeconomic Backdrop in the Run-up to the National Budget for FY18

GoB has formulated national budget in a way that raises public expenditure to GDP ratio.

- Planned Public Expenditure was 17.0% of GDP in FY16 compared to 14.3 in FY10.

Revenue and total expenditure as % of GDP: Budget Target vs Actual



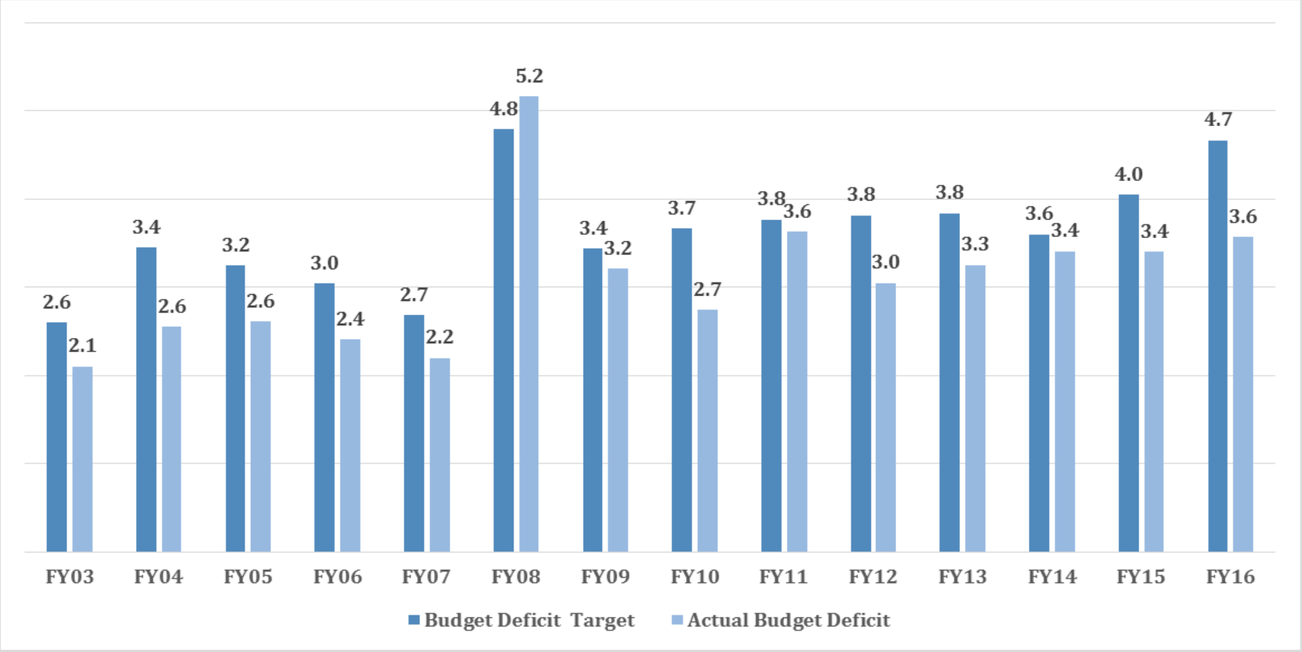
- Regrettably, actual public expenditure declined to 13.5 % in FY16 from 14.0 % in FY10.
- Delays in realising the VAT and SD Act, 2012 and other revenue mobilisation reform agendas (including new Acts on Direct Tax and Customs) which constrained the revenue mobilisation efforts

Section II. Macroeconomic Backdrop in the Run-up to the National Budget for FY18

Public spending is affected by government's willingness to pursue a policy of 'fiscal discipline'

- No national budget aimed for a budget deficit that is higher than the threshold of '5 % of GDP'
- Actual budget deficit never surpassed the corresponding target levels

Budget Deficit as % of GDP: Budget Target vs Actual



Budget implementation capacity has become a major concern

- Compared to other developing countries, budget implementation rate in Bangladesh is quite low (Table)

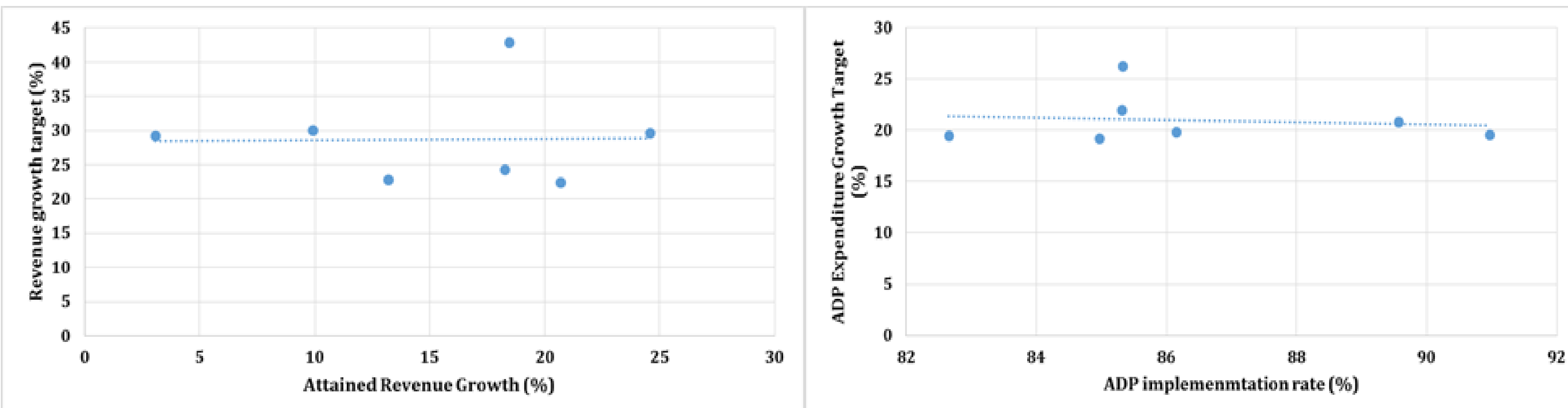
Budget Implementation Rate (% of Planned) in Various Countries

Budget implementation (%)	2015				2016			
	India	Vietnam	Uganda	Bangladesh	India	Vietnam	Uganda	Bangladesh
Revenue	92.6	101.8	99.7	**78.7**	104.7	102.4	98.1	**83.0**
Development expenditure	80.5	104.2	87.2	**73.0**	155.8	102.4	83.0	**74.7**
Total expenditure	92.7	101.1	89.3	**78.8**	100.7	101.8	90.3	**79.4**

Ambitious target may not also raise higher realisation rate

- However, such relationships are very weak for both revenue and the ADP
- Critical to ensure discipline in formulating budgetary targets

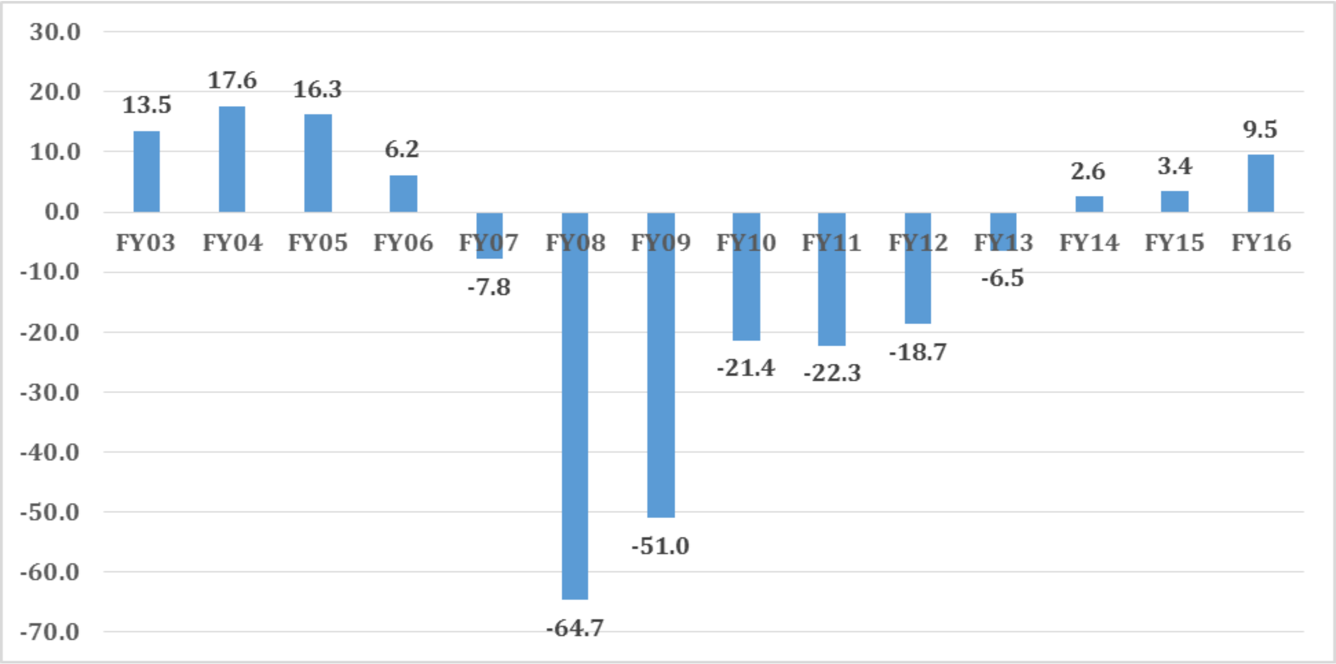
Relationship between Budget Target vs Realisation Rate (FY10-FY16)



Section II. Macroeconomic Backdrop in the Run-up to the National Budget for FY18

- Positive developments in the area of national budget implementation, over the last three years (FY14-16) at least some part of the ADP financing could be serviced by the revenue surplus (total revenue minus all other public expenditures including amortisation payment for foreign aid)

Contribution of Revenue Surplus to ADP Financing (%)

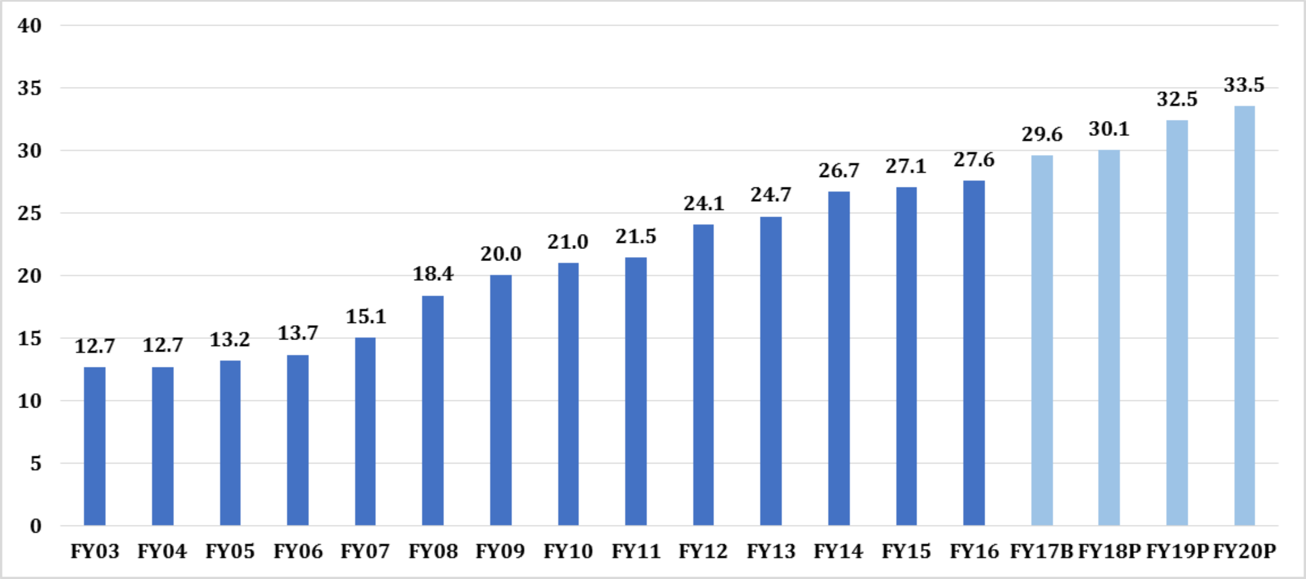


- Lower global petroleum prices, required public money for 'loans and advances' in favour of SoEs was rather low which provided the additional fiscal space.

Significant improvements in revenue mobilisation efforts are required

- FYP envisages a revenue-GDP ratio to 16.1 and income tax-revenue ration to 33.5% by FY20 (currently at 10% & 27.6% FY16 respectively)
  - In remaining 3 years on average, 31% & 43% growth is required
  - Revenue mobilisation for FY18 will largely rely on a successful implementation of the VAT and SD Act 2012

Share of Income Tax in Total Revenue (%)



Need to address the structural weaknesses in budget implementation by undertaking the required reforms

- GoB should continue with devaluation of the BDT over the short term as regards remittance and export earnings
- Reduction of the administered prices of kerosene and diesel
- Need to adjust both the interest rates and purchasing ceiling with respect to NSD certificates
- In view of rising rice price in the domestic market, the government will need to exercise caution and vigilance
- GoB needs to be prudent in allocating taxpayers' money to SCBs for recapitilisation and may set up an Independent Financial Sector Reform Commission (IFSRC)

Enhancing Resources for the National Budget

Fiscal measures that call for immediate actions

- Reduce the first slab of PIT rate from 10% to 7.5%
- Introduce e-TIN provisions for the foreign nationals working in Bangladesh
- Consider raising the corporate tax rate for non-listed cigarette manufacturers
- Take initiative to enlist all TDS collecting entities with the NBR; tax certificate should be issued by NBR for each e-TIN against all TDS collection
- Introduce e-TDS as an alternative effective income tax collection source

Fiscal measures that call for immediate actions *(cont.)*

- Adjust VAT rate on utility services in a staggered manner (e.g. electricity and gas). All adjustments, including price adjustment, should be made in a way that the combined effect does not create serious burden for the consumers
- Design and disclose (before 1 July 2017) the VAT enforcement plan
- Gradually reduce the uniform 15% VAT rate to 12% to safeguard the interest of consumers

Global and regional VAT rate (%) in 2013

Countries/ regions	Simple average rate	Median rate
South Asia (India, Pakistan and Sri Lanka)	10.7	12.0
East Asian LMICs (11 countries)	10.7	12.0
South and East Asian LMICs (14 countries)	10.7	12.0
All available LMICs (55 countries)	14.0	15.0
World (190 countries)	13.8	15.0

Fiscal measures that call for immediate actions *(cont.)*

- Assess tax incentive and exemption packages based on economic returns. Budget speech should clearly mention the fiscal policy changes (i.e. tax incentives, exemptions, rebates, surcharges etc.) being proposed and their impacts on different sectors/segments of the economy from the point of attaining fiscal targets
- Take immediate steps to recover the large amount of taxes that are due to SoEs including BPC and Petrobangla

Institutional reforms

- Automate VAT collection process by ensuring increased use of ECR/POS and take prudent monitoring and enforcement strategy to reduce leakages
- Conduct mass awareness raising campaigns to make businesses (collection agents) comply with the registration requirements (or enlistment) into the IVAS and e-filing
- Implement customs modernisation projects in accordance with the timelines mentioned in the Customs Strategic Action Plan (2014-2017)
- Establish the long overdue data integration process (e.g. NBR data centre) towards better policy analysis and policy directions. For instance, analysis of quality and disaggregated trade data will help to reduce trade mispricing and revenue leakages
- Equip the transfer pricing cell for its effective opearationalisation

Section III: Enhancing Resources for the National Budget

Legal reforms

- Finalise the draft Income Tax Act, made it public to seek opinion and enforce the Act by 1 July 2018
- Rationalise and modernise Customs Act on an urgent basis. This should correspond with the current industrial and export policies (including export diversification strategies)
- Constitute the long awaited Financial Council to operationalise Financial Reporting Act 2015 (FRA) without delay
- Establish an independent fiscal policy authority and separate the existing unit from revenue collection authority

Promoting Private Investment: How to Strengthen Policy Instruments?

Section IV: Promoting Private Investment: How to Strengthen Policy Instruments?

Background

- Over the last several years, private investment has been struggling to maintain momentum.
    - Operating cost in the manufacturing sector is likely to increase
    - Incentivizing private investment is highly critical but is a daunting task
- The fiscal-budgetary measures are often found to be less 'effective'.
    - A number of surveys reveal that efficacy of the influence of such measures tended to vary between 6% to 33%.
- It is important to examine the efficacy of policy instruments in the context of Bangladesh's private investment

Results of Various Surveys on Incentives Offered for Promoting Private Investment

Focus of Survey	Redundancy ratio for incentives (Would have invested even if Incentives were not provided)	Did incentives influence Investment level? (% saying yes)
Malaysia (2014)	81%	33%
Guinea (2012)	92%	6%
Jordan (2009)	70%	28%
Kenya (2012)	61%	11%
El Salvador (2013)	37%	13%
Nicaragua (2009)	15%	17%
Serbia (2009)	71%	6%
Tanzania (2011)	91%	8%
Tunisia (2012)	58%	25%
Thailand (1999)	81%	-
Mozambique (2009)	78%	13%

Source: J. Weiss

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Section IV: Promoting Private Investment: How to Strengthen Policy Instruments?

Trends of Private Investment in Bangladesh: A Brief Overview

- A large part of private investment is overwhelmingly dominated by 'LSIs' (over 75% of total disbursed term loan in FY16)
  - Went to a small number of large enterprises (0.07% of total establishments).
- Thanks to a number of targeted measures, share of 'SSIs' has experienced some increase but at the cost of decline in the share of 'MSIs'
  - Tendency to emerge 'missing middle' in the composition of private investment
- Realized rate of FDI is still at a low level.
  - Bangladesh's FDI-GDP ratio is lower than that of LMIC
- There is a need for better targeting and better deployment of policy tools

Disbursement of Term Loan (% of total)

	LSI	MSI	SSCI
FY09	73.43	22.67	3.90
FY10	73.42	21.27	5.31
FY14	68.65	22.66	8.70
FY15	76.06	16.21	7.74
FY16	75.15	14.27	10.58
FY17 (Jul-Dec., '16)	73.89	15.47	10.64

Source: Bangladesh Bank

FDI-GDP Ratio

Country	2005	2010	2015
Bangladesh	1.1	1.07	1.73
India	0.87	1.65	2.1
China	4.55	3.99	2.27
Vietnam	3.39	6.9	6.1
Thailand	4.34	4.33	2.28
LMIC	2.36	2.14	2.26
UMIC	3.34	3.29	2.52

Section IV: Promoting Private Investment: How to Strengthen Policy Instruments?

Policy intervention through fiscal measures and their likely implications for selected industries

- CPD has carried out an exercise which covers five selected sectors which received benefits through successive national budgets, between FY2010 and FY2015,
- CPD exercise found that imposition/changes in the SDs did not necessarily generate the expected results. (see next slide)
- Out of 13 product categories (at HS Code 4 digit level), 7 experienced slowdown or decline in import during the post-change period
  - Rest 6 experienced rise in import during the same period.
- The pattern of correlations should be interpreted with due care, since there are many other factors that tend to influence the import behavior
  - Relative (domestic/imported) prices, level and pattern of demand, change in consumer choices etc.
- What continues to remain true is that, if fiscal policies are not appropriately designed and are not supported by other reinforcing policies and measures
  - There is a high possibility that these will fail to attain the declared objectives.

Changes/ Withdrawal/ In Alliance Factories

Industry	Product H.S. code	Type of SD applied	Yearly Growth (period considered)		Likely Effect
Plastic	3917	newly imposed	26.82 (2010-12)	22.22 (2013-15)	import slowed down
	3926	rate increased and decreased	116.47 (2010-13)	20.52 (2014-15)	import slowed down
Leather foot wear	6406	newly imposed	26.84 (2010-11)	28.98 (2012-15)	import increased
Tiles and Ceramics	6908	rate increased	115.03 (2010-12)	(-)3.7 (2013-15)	import decreased
	6911	rate increased	0.92 (2010-12)	204.82 (2013-15)	import increased
	6912	rate increased	(-)25.71 (2010-12)	591.81 (2013-15)	import increased
Electrical Appliances	8415	newly imposed	13.11 (2010-12)	9.76 (2013-15)	import slowed down
Automobiles	8704	newly imposed	3.37 (2010-11)	9.77 (2012-15)	import increased
	8711	rate increased	16.45 (2010-11)	11.85 (2012-15)	import slowed down

Source: Author's estimates based on various published data

Section IV: Promoting Private Investment: How to Strengthen Policy Instruments?

- The logic of fixing the rates for the SDs for different products belonging to different industries remains unclear, if not arbitrary.
- Four tiers (of rates) of SD are in existence for the 34 plastic products:10% on 5 products, 20% on 11 products, 30% on 8 products and 45% on 10 products.
  - One fails to discern any logic in the pattern of the SDs that are imposed.

- It will be interesting to investigate how business bodies/business groups/ individuals tend to influence the budgetary process
  - In fixation of SDs

- There is a need to demand greater transparency from the NBR in this context.

Share of Import vis-à-vis Rates of SDs

Various SD Rates	Share of total import in 2015 (import data available at 4 digit HS code)				
SD rates	**39**	**64**	**69**	**84**	**87**
Single rates (at 8 digit level)					
15				46.6	
20	38.5		7.28		33.4
30	5.3	45.2			3.15
45		54.8		34.0	
60	10.9		92.7		
Multiple rates (at 8 digit level)	45.4	0	0	19.4	63.5
Total	100	100	100	100	100

Source: Authors' estimate based on Trade Map database

Section IV: Promoting Private Investment: How to Strengthen Policy Instruments?

- An examination of growth and performance of the selected manufacturing industries when juxtaposed to different public policy instrument is thus, an exercise that is worth undertaking.
    - A preliminary investigation carried out as part of this analysis could not establish any correlation in this connection
- It is somewhat clear that growth of industries is not overwhelmingly influenced by the fiscal measures offered through the national budget.

Changes in the Composition of Selected Manufacturing Industries: 2006 and 2012

Sectors	% change in establishments	% change in no of workers per unit	% change in amount of assets per unit
Plastic	38.74	44.65	116.2
Footwear	37.66	39.45	121.58
Electrical Appliance	311.55	-19.35	-77.62
Motor Vehicles	87.67	-48.08	27.24

Source: Survey of Manufacturing Industries, 2006 and 2012

Section IV: Promoting Private Investment: How to Strengthen Policy Instruments?

Strengthening the policy instruments

- In view of the apparent weaknesses of fiscal and other instruments to attain the target of incentivising private investment
  - There is a need to explore alternative approaches to stimulate private investment in the desired direction

a) There should have proper assessment of fiscal incentives

  - At present fiscal incentives for industrial activities are largely sector-specific and partly location specific.
    - A proper assessment of those measures is highly important with a view to appreciate their contribution in terms of enhancing investment, production and employment generation in targeted activities.

b) Fiscal incentives should be time bound and terminated after a pre-specific period

  - The current structure of fiscal incentives are mostly 'open-ended' in nature.
    - There is often no time line after which those benefit will be terminated
    - This lack of predictability affects both businesses and government
    - Thus, all kinds of fiscal benefits should be made 'time-bound'.

Section IV: Promoting Private Investment: How to Strengthen Policy Instruments?

c) Fiscal Incentives should be 'well-targeted' and performance-oriented

- The policy support should not be specific to sectors only but also to activities
- There should be 'performance requirement' criteria with a view to ensure proper use of the facility by the entrepreneurs.
- In order to carry out those exercises, the existing databases available with NBR and Tariff Commission need to be strengthened
- Use of SD in the name of promoting domestic industries needs to be streamlined
  - There should have a prior assessment in case of implementing any kind of change (imposition/change/withdrawal) in SD.

Section IV: Promoting Private Investment: How to Strengthen Policy Instruments?

d) A well-functioning institutional set-up for assessment and monitoring of policy instruments

- There should have a proper institutional mechanism for assessment and monitoring of policy instruments
- NBR should play the key role by taking support from other relevant public offices such as Customs and Tariff Commission.
    - Based on the ex-ante assessment, the national budget should disclose amount of 'revenue forgone' for undertaking those tax expenditures.
    - Under the institutional arrangement, the performance of the beneficiaries should be monitored a regular basis.
    - At the end of the specified period, an ex-post assessment has to be made with a view to appreciate how much the targeted goals have been achieved through undertaking those measures.

Moving beyond a Status Quo Budget for the Social Sector

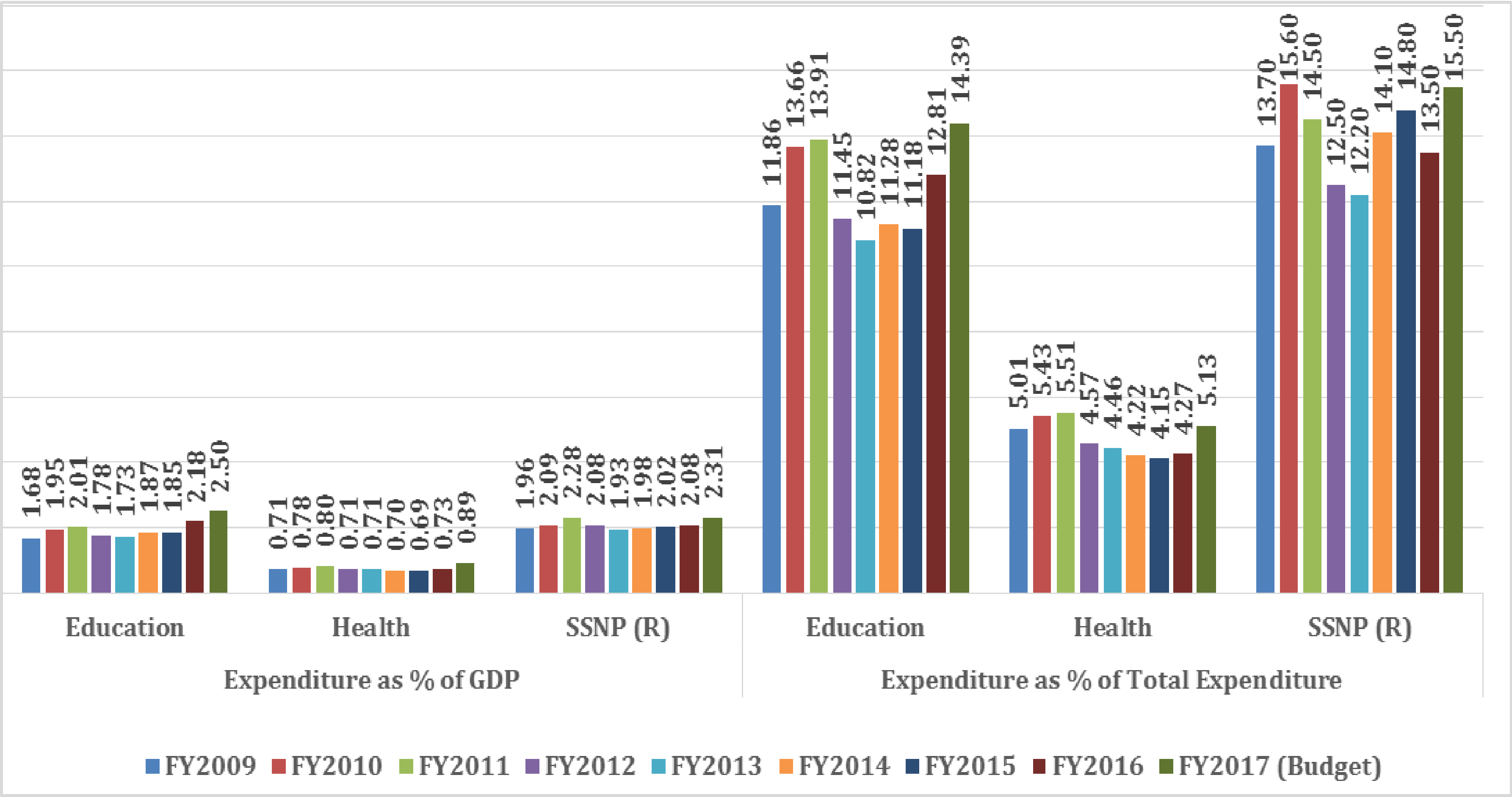
Section V: Moving beyond a Status Quo Budget for the Social Sector

Allocation for health, education and safety net

- Expenditure on education and health as percentage of GDP and budget has increased to some extent in recent years. However, the pace of increase in case of allocation and expenditure is not the same as planned.
  - For example, allocation for health was 0.74% of actual GDP both in FY15 and FY2016 while expenditure for the sector was 0.69% and 0.73% respectively.
  - Resources for Social Safety Net Programmes (SSNP) is hovering around 2% of GDP (for example, 2.08% in FY16).

Section V: Moving beyond a Status Quo Budget for the Social Sector

Education, Health and SSNP expenditure/allocation as % of GDP and total budget



Source: Calculated by authors from Monthly Fiscal Report (various issues), MoF; Budget documents (various years, statement 2) MoF; Gross Domestic Product (GDP), BBS (2015-16).

Progress in health, education and social security

- An assessment of Key Performance Indicators (KPIs) during the largest programme on primary education *PEDPIII* period reveals not so encouraging outcome.
  - Overall, Bangladesh has been performing well in enrolment and reducing differences between households and between genders in primary education.
  - However, drop of school and out of school still continue to be high. Quality of primary education, is another major concern.
- 'Learning outcomes' measured as 'mean score in Bangla and Mathematics' for both grade III and grade V have declined in 2016 than that of 2011.
- Largest programme on health *HPNSDP 2011-16* has 40 priority indicators along with a number of targets to be achieved by 2016.
- The Annual Programme Implementation Report (APIR) of the programme 2016 shows that only 11 targets out of 40 (27.5%) have been achieved by 2014. If it progresses at the same pace, other things remaining unchanged, it will take additional 5 years after June 2017 to implement the remaining 72.5% targets of the programme.

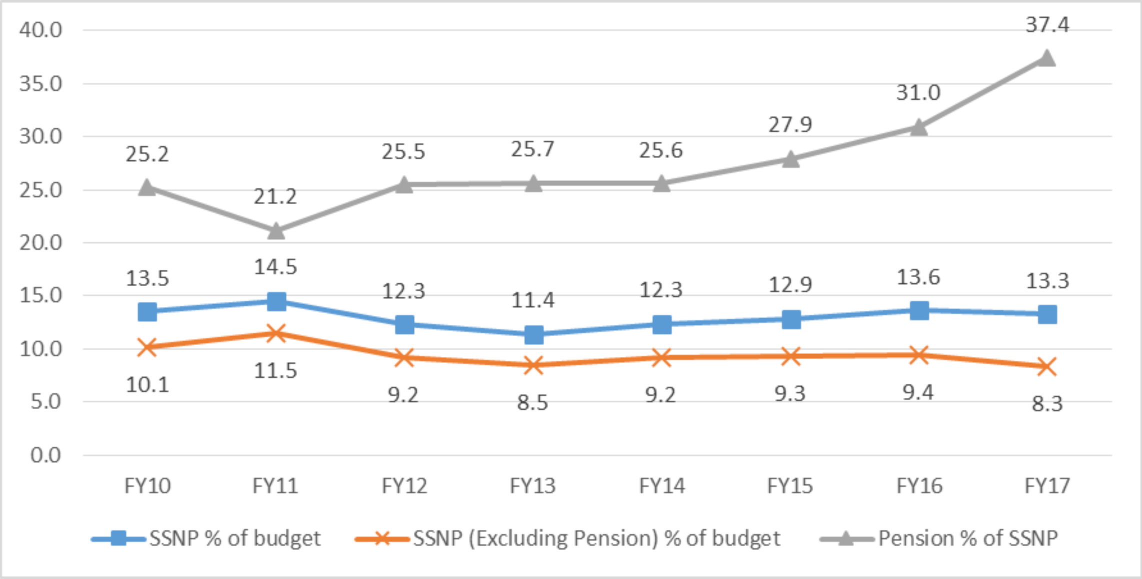
Section V: Moving beyond a Status Quo Budget for the Social Sector

- It is appreciable that the fourth HPNSDP 2017-21 involving Tk 1.15 lakh crore got ECNEC's approval in March 2017.
- The government has developed a National Social Security Strategy (NSSS) to be implemented gradually during the 7FYP starting from FY16.
- NSSS revisits social security system by combining tax-funded SSNPs with contributory social insurance and employment regulations. This is a promising initiative which has broadened the scope of social security from the narrow safety net concept and included employment policies and social insurance.
- This mechanism would not work if the majority of the employed people is in the informal sector.
- However, initiatives to formulate the provident fund for informal labour is a laudable beginning towards achieving the objectives of broader social security.

Section V: Moving beyond a Status Quo Budget for the Social Sector

- Implementation of this strategy will be a major task of the 7FYP. This comprehensive NSSS and the way programmes under NSSS are designed, directed and implemented will largely influence the success of achieving social inclusion.
- Implementation of NSSS will require adequate resources and policy coordination among various ministries and departments of the government.
- Overall, the proposed financing source of broader social security seems rather vague.
- Since the inception of the NSSS in FY16, only the allocation for government pension has drastically increased.

Total SSNP expenditure over the time



Note: Except FY17, revised budgets for all other years are used for calculation

Section V: Moving beyond a Status Quo Budget for the Social Sector

Recommendations for the national budget

- Increase budget for education and health sectors substantially to reach at least the national expenditure targets during the 7FYP; make yearly resource requirement estimation for fulfilling the SDG targets.
- Budget for the education sector will have to be at least 2.7% of GDP in FY18 to achieve the target of increasing the allocation for education to 3% of GDP as set in 7FYP.
- Health sector needs utmost priority as allocation has been measurably low. Improved public health facilities and reduction of out pocket expenditure will require substantive allocation. Budget for the health sector has to be equivalent to at least 1% of GDP in FY18 to achieve the target of reaching 1.2% of GDP as set in 7FYP.
- Separate government pension for retired government employees and their families from SSN budget; allocate the full amount (i.e. 2.3% of GDP) for the SSN excluding pension for the poor during the 7FYP. Government pension should be part of the broader social security plan that will include people beyond government employees.

Concluding Remarks

Independent Review of IRBD Bangladesh's Development

Section VI: Concluding Remarks

- Overarching macroeconomic objective of the national budget for FY2018 should be sustainable acceleration of economic growth momentum with enhanced employment opportunities
- Apparent macroeconomic stability provides the government additional space to formulate an expansionary fiscal policy
- Will also test the delivery capacity of the government

Seven core recommendations

- Planned size of the total budget (as % of GDP) increased over time, but actual implementation did not improve by any discernible margin
    - ***It is high time to turn this so called 'big budget' myth into reality***

Section VI: Concluding Remarks

- Budgetary framework has been weakening over time – part of which is manifested in the budget accounting (i.e. target setting)
- ***Harmonise budget data from various sources***
- ***Allocative priorities need to be guided by the assessment of implementation capacity of the concerned ministry or agency***
- ***Transparency is key for raising the quality of budgetary planning***

- Budget implementation capacity needs to be enhanced – particularly in delivering ADP in a time-efficient and cost-effective manner
- ***IMED should rush to constitute a performance-based project evaluation system to provide figures on value for taxpayers' money***

Section VI: Concluding Remarks

- Cost of production in almost all sectors may experience upward trend
  - implementation of new VAT and SD Act
  - possible depreciation of exchange rate
  - rise of rice price
  - another round of upward adjustment of the tariffs for electricity and gas
- Consumers will also have lower disposable income due to declining remittance inflow and planned increase of indirect tax coverage
- ***Adjust kerosene and diesel prices downward***
- ***Reduce in income tax rate for the lowest level of threshold***
- ***Promote domestic-market-oriented industries by providing strategic protection***
- ***Delivery of quality infrastructure to manufacturing sector***

Section VI: Concluding Remarks

- Decline in external earnings from exports and remittances
- ***Depreciate BDT to provide exporters some relief***
- ***Continue to provide cash subsidies to export of non-traditional products and for non-traditional markets***

- Budgetary allocations for education and health sectors need to be coherent with the overall development needs of the economy as targets of the 7FYP are very conservative
- ***Opt for an early attainment of 7FYP allocation targets for education and health sectors***
- ***Develop a delivery mechanism (e.g. ADP projects) and ensuring an efficient implementation while fiscal constraint should not restrain***
- ***Forthcoming large projects for education and health sectors should be designed to achieve the aspired targets of 7FYP and SDGs***
- ***Make a sincere effort to implement the NSSS; financial resource constraint should not be an excuse***

Section VI: Concluding Remarks

- Budget should come with a set of associated reform agenda which would require high policy attention
- ***Independent Financial Sector Reform Commission (IFSRC)***
- ***Agriculture Price Commission***
- ***Public Expenditure Review Commission (PERC) with the mandate to provide medium term policy guidelines to the government and formulate a concrete set of strategies in order to improve the current level of efficiency in budget delivery***

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Thank You