Independent Review of
iRBD
Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

An Analysis of the National Budget for FY2017-18

Dhaka: 2 June 2017

CENTRE FOR POLICY DIALOGUE

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CPD IRBD 2017 Team

Dr Debapriya Bhattacharya and *Professor Mustafizur Rahman*, Distinguished Fellows, CPD were in overall charge of preparing this analysis as the Team Leaders.

Lead contributions were provided by *Dr Fahmida Khatun*, Executive Director; *Dr Khondaker Golam Moazzem*, Research Director; and *Mr Towfiqul Islam Khan*, Research Fellow, CPD.

Valuable research support was received from *Mr Md. Zafar Sadique, Senior Research Associate; Ms Umme Shefa Rezbana,* Senior Research Associate; *Mr Estiaque Bari,* Research Associate; *Ms Sherajum Monira Farin,* Research Associate; *Mr Masudur Rahman,* Research Associate; *Ms Sarah Sabin Khan,* Research Associate; *Mr Adib Jawad Rahman,* Research Associate; *Ms Shusmita Islam,* Dialogue Associate (Development Communication); *Ms Nawshiba Arnob,* Research Associate; *Ms Silvia Zaman,* Research Associate; *Mr Mohammed Ameer Moosa Sobhan,* Research Associate; *Mr Zareer Jowad Kazi,* Programme Associate; *Ms Mastura Safayet,* Programme Associate; *Mr Sk. Faijan Bin Halim,* Programme Associate (Project); *Ms Marzuka Ahmad Radia,* Programme Associate (Project); *Mr Shahjahan Ali,* Programme Associate (Project); *Mr Mahir Musleh,* Programme Associate; *Mr Muhammad Al-Amin,* Intern; *Mr Syed Muhtasim Fuad,* Intern; *Ms Sonia Khatun,* Intern; and *Mr Suman Biswas,* Intern, CPD.

Inputs were also received from *Mr M Shafiqul Islam,* Director, Administration & Finance; *Mr Uttam Kumar Paul,* Deputy Director, Accounts; *Mr Md. Shamimur Rohman,* Senior Accounts Associate; and *Mr Muhammad Zillur Rahman,* Accounts Associate, CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2017 Team.

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The CPD IRBD 2017 Team alone remains responsible for the analyses, interpretations and conclusions of this presentation.

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❑ Review of Assumptions

Assumption	Observation	Review
• GDP growth rate 7.4% • Inflation to come down to 5.5%	• Declining non-food inflation drove inflation down to **5.39%** as of March '17. • Government decision to increase gas and electricity price and keep administered fuel price may affect the situation. • Food inflation on an increasing trend (**5.2%** in March). Coarse price traded at BDT 45-46 per kg which is a **42.2%** rise from last year.	**Partly Tenuous**
• Interest rate will fall gradually • Nominal exchange rate stable	• Interest rate to fall but spread remains **sticky**. • Nominal Exchange Rate stable over July-Dec FY17. • But exchange rate **volatility** experienced in recent months – e.g. average USD/BDT rate for import payments rose from BDT 80.3 to BDT 84.8 on 25 April '17, and from BDT 80.3 to 84.95 on 26 April '17 for different banks.	**Tenuous**
• Increased consumption and investment expenditure • Current account deficit • Positive balance of payment	• Contribution of domestic demand was **5.2 percentage points** in **7.11 percent** real GDP growth of FY16. • Increase in total investment as a percentage of GDP by **0.62 points** from FY17 driven by increase in public investment • Current account **negative USD 1.38 billion** upto March 2017 due to negative trade balance and fall in remittances. Balance of payment positive **USD 2.6 billion** but lower than FY16 of **USD 3.5 billion.**	**Reasonable**

I. INTRODUCTION

Assumption	Observations	Review
• Supportive monetary and credit policy by Central Bank	• Broad money (M2) and private sector credit growth targets for FY 17 were **15.5%** and **16.5%** respectively • M2 growth **13.1%** till March '17 compared to **13.5%** in March '16. Growth of credit to private sector **16.1%** in March '17 compared to **15.2%** in March '16.	**Reasonable**
• Tax revenue increase by 1.7% of GDP • Tax net expanded • New VAT Law implemented	• Total revenue as a percentage of GDP increased by **1.2 points** in revised budget FY17 from FY16. • Total tax revenue (NBR taxes + non-NBR taxes) as a percentage of GDP increased by **0.9** points in FY17 from revised FY16. Income tax collection growth has almost doubled from **9.7%** in July-February FY16 to **18.1 %** in FY17. • Estimated total tax revenue as a percentage of GDP increased by 1.8 points in budget FY18 than revised budget FY17.	**Reasonable**
Foreign aid disbursement will increase	• Total foreign aid received by Bangladesh during July-February FY17 was **USD 1.38** billion which **was 2.9 %** lower than that of the corresponding period of the last fiscal year. • ODA disbursement as a percentage of GDP had a decreasing trend from 2007 to 2012, increased in 2013 and 2014, and remained volatile since.	**Impossible target to achieve for FY18**

I. INTRODUCTION

Assumption	Observations	Review
Global output recovery Meet export and remittance targets	• Global output growth is estimated at about **3 %** (at an annualised rate) for the third quarter of 2016—broadly unchanged relative to the first two quarters of the year (WEO, 2017). • To achieve the growth rates projected for FY17 in MTMF ➢ Exports have to grow by **19.8%** during May-June, 2017 to attain **7%** growth ➢ Remittance has to grow by **45.4%** during May-June, 2017 to attain **(-) 5%** growth	Unlikely
People's perseverance and peasants' and workers' passion for work will help sustain political stability		To be seen

- Discrepancy in Numbers Between **Medium Term Macroeconomic Policy Statement (MTMPS)** and **Budget Speech (BS)**

Indicator	FY	MTPS	BS
ADP (% of GDP)	FY16 (A)	4.58	4.00
Total Revenue (% of GDP)	FY17 (B)	14.00	12.40
Non-NBR Tax (In crore Tk)	FY17 (R)	6,500	7,261

A= Actual Budget, B=Budget, R=Revised

Supplementary Budget

- A total of 340,604 crore BDT was allocated to 59 ministries/divisions
- 3 additional divisions (Technical and Madrasha Education Division, Security Services Division and Medical Education and Family Welfare Division) were added later
    - 7,005 crore BDT was allocated to two of the divisions in the revised budget
- The revised allocation decreased by 23,430 crore BDT and stood at 317,174 crore BDT.
- Allocation increased for 27 ministries/divisions; decreased for 35 ministries/divisions

Top 5 Ministry/Division by increase in amount	Top 5 Ministry/Division by increase in % allocated	Top 5 Ministry/Division by decrease in amount	Top 5 Ministry/Division by decrease in % allocated
Technical and Madrasha Education Division (newly created)	Ministry of Science and Technology	Finance Division	Ministry of Industries
Security Services Division (newly created)	Ministry of Environment and Forest	Secondary and Higher Education Division	Energy and Mineral Resources Division
Ministry of Science and Technology	Ministry of Housing and Public Works	Interest (Domestic)	Election Commission
Ministry of Housing and Public Works	Implementation Monitoring & Evaluation Division	Ministry of Primary and Mass Education	Finance Division
Road Transport and Highways Division	Ministry of Textiles and Jute	Ministry of Agriculture	Bridges Division

Source: Supplementary Budget, 2016-17

MACROECONOMIC AND PUBLIC FINANCE FRAMEWORK

II. MACROECONOMIC AND PUBLIC FINANCE FRAMEWORK

- The GDP growth target for FY18 has been set at 7.4% (7.24% in FY17, provisional)
- Moderate improvement in GDP growth and drastic improvement in public investment forecasted
  - Private investment as a share of GDP is expected to rise by 0.2 percentage points only
  - An additional (approx.) Tk. 66,000 crore private investment will be required in FY18
  - Also additional (approx.) Tk. 50,000 crore will be invested by public sector in FY18
- ICOR is expected to rise marginally (decline in capital productivity) in FY18
- Inflation is expected to remain stable at 5.5% – questionable

Growth, Investment and Inflation

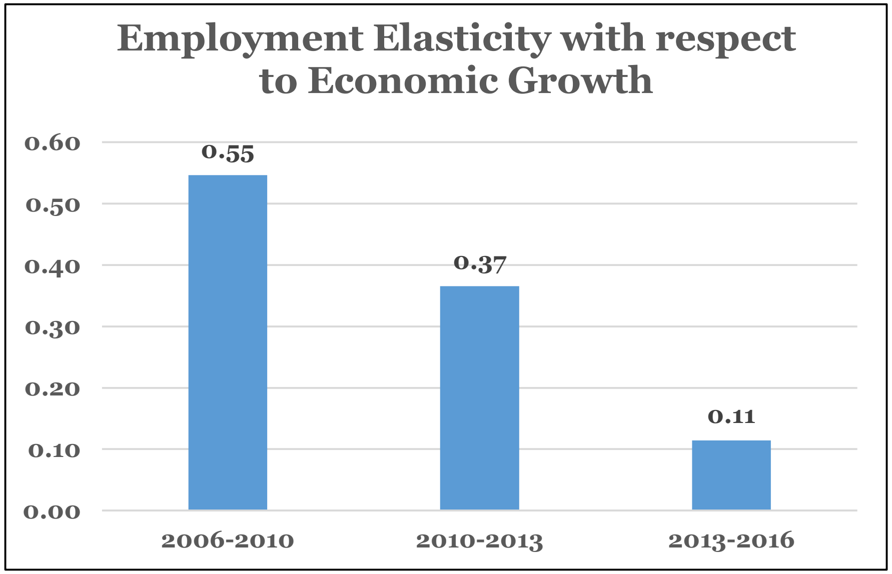
Indicators	FY16 (A)	FY17 (B)	FY17 (R)	FY18 (B)	FY19 (T)	FY20 (T)
GDP growth (%)	**7.1**	**7.2**	**7.24**	**7.4**	**7.6**	**8.0**
Investment (as % of GDP)	**29.6**	**31.0**	**30.3**	**31.9**	**32.8**	**34.5**
Private (as % of GDP)	23.0	23.3	23.0	23.2	23.9	25.4
Public (as % of GDP)	6.7	7.7	7.3	8.7	8.9	9.0
ICOR	4.2	4.3	4.2	4.3	4.3	4.3
CPI inflation (%)	**5.9**	**5.8**	**5.5**	**5.5**	**5.5**	**5.4**

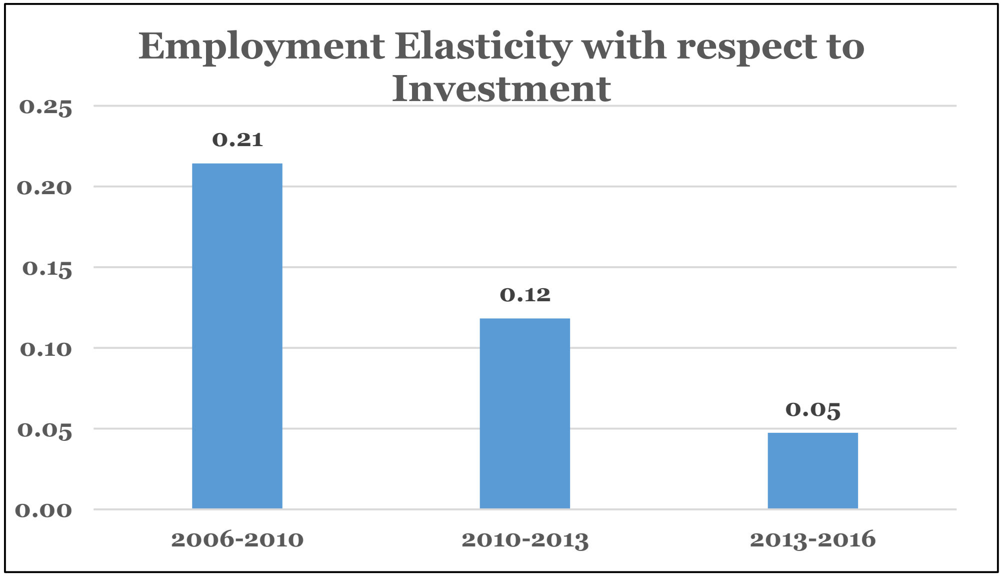
CPD (2017): An Analysis of the National Budget for FY2017-18

- CPD in its last week's report on the state of the economy observed that while achieving the growth figures has dominated attention, it has not been able to create more jobs in the economy
- The budget speech mentions that "around 20 lakh workers enter our labor market each year"
- The recent Labour Force Survey (2015-16) report shows that this is far from true
- Between 2013-2016, labour force in Bangladesh increased by only about 4.7 lakh each year
- Job creation has also slowed down – about 4.7 lakh each year. Same as labour force!
- Unemployment rate remained almost unchanged (4.2% in FY2016)

Indicator (in Lakh)	2006-2010 (annual average)	2010-2013 (annual average)	2013-2016 (annual average)
Labour Force	18.0	13.3	4.7
Employment	16.8	13.3	4.7
Overseas Employment	5.8	5.2	5.2
Total Employment	22.6	18.6	9.9

II. MACROECONOMIC AND PUBLIC FINANCE FRAMEWORK





- ❑ In recent years, both GDP growth and investment have lower impact in terms of employment generation
- ❑ Net employment in manufacturing sector declined by 9 lakh (2013-16)
  - ➢ For female labour force the corresponding decline in 11 lakh – back to agriculture?
- ❑ Curiously, the manufacturing sector posted about 11.0% annual growth on an average over 2013-2016 period

- Both revenue and total expenditure (as % of GDP) to grow in FY18 by about 1.8 percentage points
- A drastic increase in off-take of foreign assistance to finance budget deficit in FY18
  - This is programmed to decline in FY19 and FY20

Fiscal Framework (as % of GDP)

Indicator	FY16 (A)	FY17 (B)	FY17 (R)	FY18 (B)	FY19 (T)	FY20 (T)
Revenue	**9.98**	**12.4**	**11.2**	**13.0**	**13.5**	**14.1**
NBR Revenue	8.44	10.4	9.5	11.2	11.7	12.1
Non-NBR Revenue	0.33	0.4	0.4	0.4	0.5	0.7
Non-Tax Revenue	1.22	1.6	1.3	1.4	1.3	1.3
Expenditure	**13.76**	**17.4**	**16.2**	**18.0**	**18.4**	**19.1**
of which, ADP	4.58	5.6	5.7	6.9	7.0	7.1
Budget Deficit	**3.78**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Domestic Financing	2.9	3.1	3.6	2.7	3.4	3.4
of which, Banking	0.6	2.0	1.2	1.3	2.3	2.6
Foreign Financing	0.9	1.9	1.5	2.3	1.5	1.6

- Public debt as % of GDP is at a reasonable state for Bangladesh – may increase to some extent in FY18 largely due to rise in external debt
  - Currently about 63% of the public debt is attributable to domestic source
  - The composition is expected to change further – by FY20 about 64.7% of the total debt will be incurred from domestic sources
- Government needs to use low-cost borrowings – this is not the case in recent years
- Interest payments for domestic debt has already risen substantially
- Debt servicing for borrowing for large infrastructure projects may put further pressure in future in case of both domestic and foreign sources

Public Debt (as % of GDP)

Indicators	Actual			Budget	Revised	Projection		
	FY14	FY15	FY16	FY17	FY17	FY18	FY19	FY20
Total Debt	35.9	31.9	31.5	34.6	33.7	34.5	35.1	35.7
Domestic	20.3	18.2	18.6	20.1	21.1	21.3	22.2	23.1
External	15.6	13.6	12.9	14.5	12.6	13.2	12.9	12.6

- A stable monetary and external outlook is expected over the next three years
- Growth of credit to private sector is moderate (16.5%) for FY18
- Export growth is projected to bounce back in FY18 (11.0%)!
- Remittance inflow is expected to recover and grow at 5% in FY18 – some recovery from stagnant performance may be expected

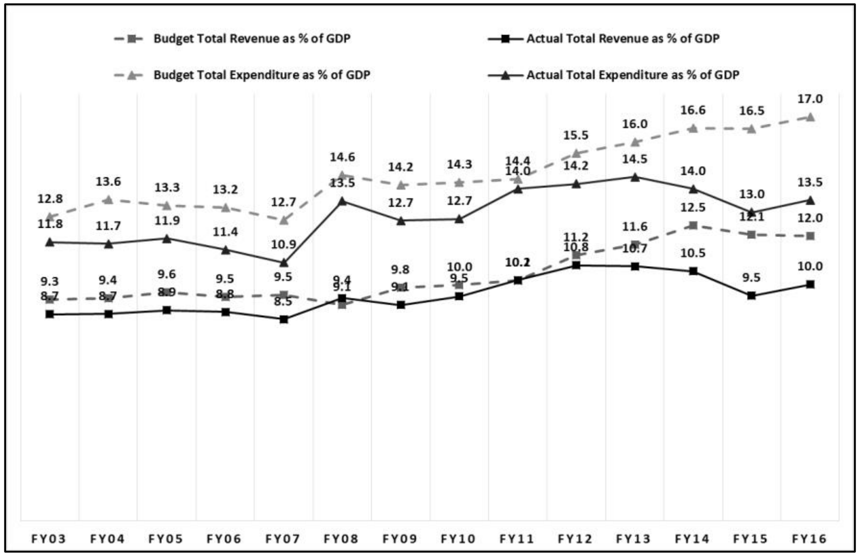
Monetary and External Sector (% growth)

Indicator	FY16 (A)	FY17 (B)	FY17 (R)	FY18 (B)	FY19 (T)	FY20 (T)
Money Supply (M2)	16.3	15.6	15.5	15.6	15.8	16.1
Domestic Credit	14.2	15.0	16.4	16.8	17.1	17.3
Private Sector Credit	16.8	15.0	16.5	16.5	16.8	17.0
Export (growth in %)	9.8	10.0	7.0	11.0	12.0	12.0
Import (growth in %)	5.8	11.0	10.6	12.0	12.0	12.0
Remittances (growth in %)	-2.5	10.0	-5.0	5.0	11.0	11.0

Stylised weakness

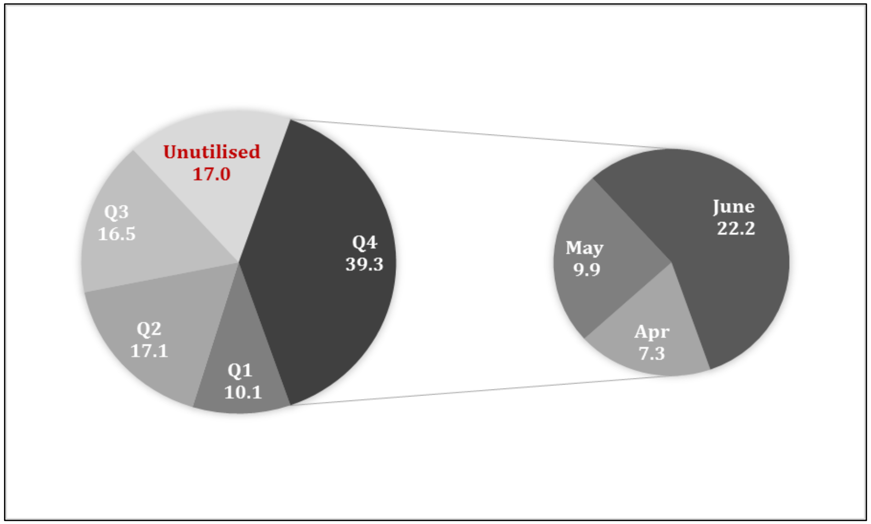
- ❑ Widening gap between planned and realised budget

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



- ❑ Last quarter syndrome in ADP hurts quality of public investment

Quarterly pattern of ADP implementation (10 years average) as against original allocation

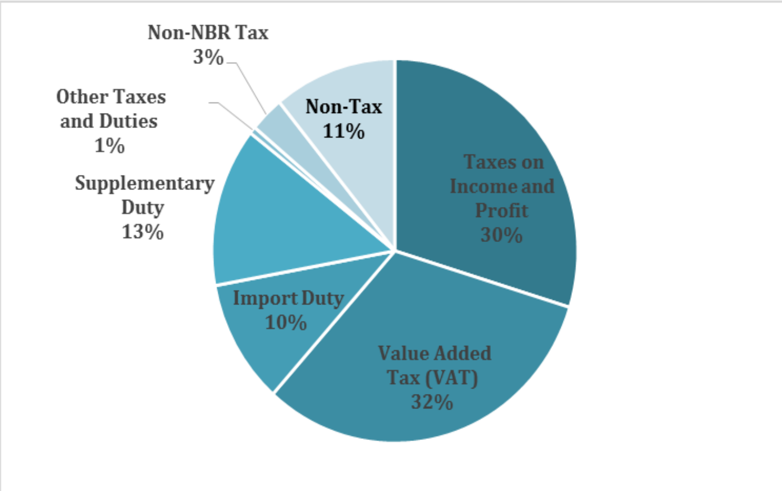


- ❑ Leakage in taxes
- ❑ Participation of local government in budget implementation limited
- ❑ Failure to incentivise private investment

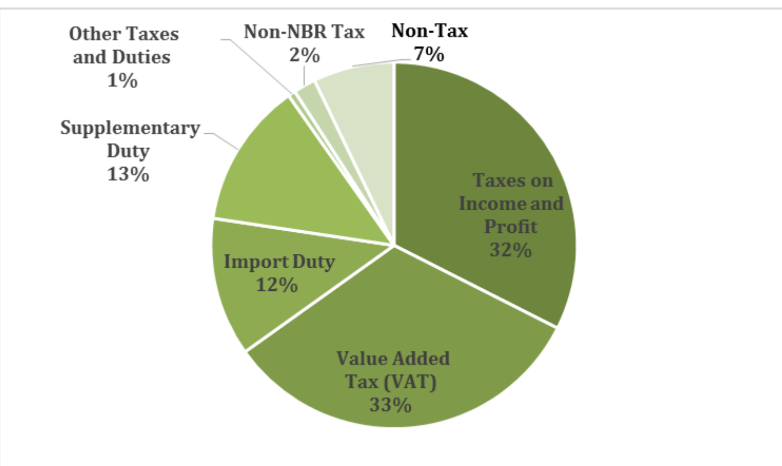
Broad fiscal framework

- **Revenue** (31.8% against trend growth rate of 15.3%) projected to grow **faster** (to collect additional Tk. 69,494 crore) than **public expenditure** (26.2% against trend growth rate of 14.7%) which will spend additional Tk. 83,092 crore
  - Total budget expenditure is set at 18.0% of GDP (16.2% in RBFY17)
  - Revenue income will be 13.0% of GDP (11.2% in RBFY17)
- **Development expenditure** (37.1%) also programmed to **grow faster** than non-development revenue expenditure (2.1.3%)
- **ADP**: 38.3% of total public expenditure (34.9% in the RBFY17)
- **Budget deficit** has been projected at **5.0%** of GDP (same in RBFY17, actual may be about 4.0% of GDP)
- Targets a turn around in financing budget deficit–
  - **High foreign financing** target (80.5% growth over the RBFY17) has been set with anticipated **gross foreign aid flow** of **USD 7.6 billion (highest in history – USD 2.7 billion in FY16)**
- **Implementation plan remains absent!**

Share of Revenue FY18



Incremental Share of Revenue FY18



Revenue Mobilisation

- FY18 budget targets an additional Tk. 69,494 crore revenue with a 31.8% growth over RBFY15
  - CPD Projection: approx. Tk. 83,000 crore
- NBR to take the lead role (accounting for 90.9% of incremental revenue) with 34.2% growth
- 32.3% of incremental revenue from income tax; while 32.5% from VAT
  - 67.9% of total income tax will be collected from companies
- More reliance on indirect tax at domestic level
  - VAT on import to grow by 32.5%, while on domestic by 33.1%
  - SD on import to grow by 21.5%, while on domestic by 32.9%
- Import duty collection growth target is 39.2%

Revenue Mobilisation

- Non-NBR revenue (non-tax plus non-NBR tax) growth for FY8 is at a very modest level (18.8%)
  - However, it is expected that actual mobilisation in FY17 may face a large shortfall
  - Hence, actual required growth could be as high as 90.0%
  - Much will depend on mobile spectrum fee
- Overall revenue growth will still need to be double than the trend growth rate (FY09-FY17)

Total Public Expenditure

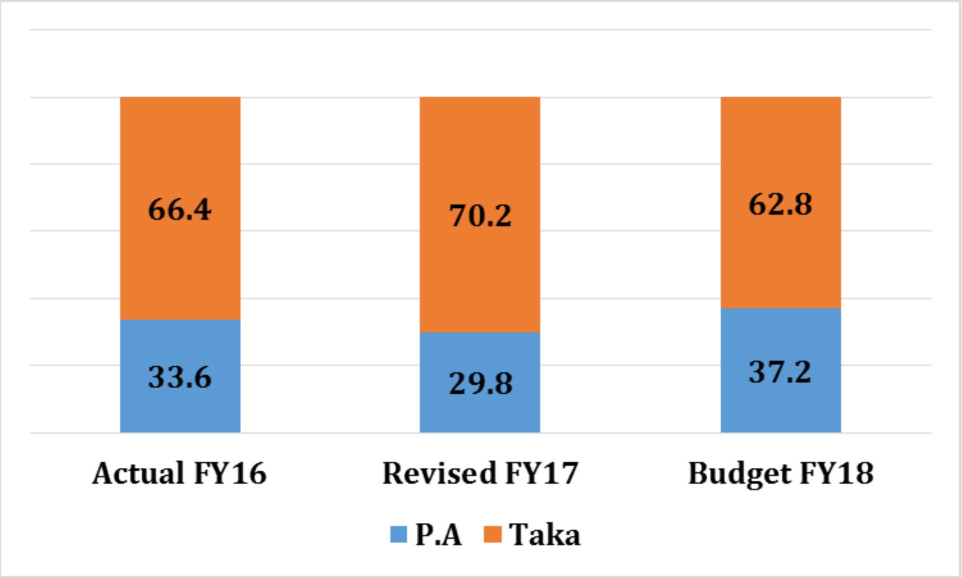
Sector	Share in BFY18	Share in RBFY17	Change in FY18B over FY17R		
	%		Crore Tk	%	Rank (Growth)
Education and Technology	16.4	15.9	15152.0	30.1	7
Public Service	13.6	10.7	20633.0	61.0	1
Transport and Communication	12.5	11.4	13815.0	38.1	5
Interest	10.4	11.1	6099.0	17.2	10
LGRD	6.9	7.0	5451.0	24.5	8
Defence Services	6.4	7.3	2544.0	11.0	12
Agriculture	6.1	6.3	4397.0	21.9	9
Social Security and Welfare	6.0	6.7	2944.0	13.9	11
Public Order and Safety	5.7	6.5	2124.0	10.2	13
Fuel and Energy	5.3	4.6	6557.0	45.0	2
Health	5.2	4.7	5823.0	39.3	4
Others (Memorandum Item)	2.7	4.4	-3082.0	-22.3	14
Industrial and Economic Services	1.0	0.9	1232.0	43.3	3
Housing	0.9	1.6	-1441.0	-27.9	6
Recreation, Culture and Religious Affairs	0.9	0.9	844.0	30.5	15
Total Expenditure	100.0	100.0	83092.0	26.2	

- More emphasis to physical infrastructure – 'Transport and Communication' and 'Fuel and Energy'
- Planning Division receives lump allocation to the tune of Tk.1,065.83 crore as development assistance to different ministries/divisions on *special ground*
- Tk. 6,500 crore has been allocated for funding PPP and export incentives
- Tk. 10,145 crore allocation for Investments in Shares
- Tk. 2,000 crore has been for Investment for Recapitalisation (for state-owned banks!)
- For fertiliser & other agricultural incentives Tk. 9,000 crore has been allocated
- Share of Defence Services in total public expenditure (6.4%) crosses that of Agriculture (6.1%)

Annual Development Programme

- ❑ ADP of Tk. 1,53,331 crore has been proposed for FY18
- ❑ 38.5% higher than both ADP and RADP for FY17 (RADP was unchanged for FY17)
  - ➢ *In reality it is likely to be around 70% higher (CPD projection)*
  - ➢ Project Aid component is 37.2% of total ADP FY18 (29.8% in RADP of FY17)
  - ✓ Project Aid for FY18 increased drastically by 42.5% from original ADP

ADP Financing Structure (% of total)



- ❑ Tk. 3,346 crore was provided to Development Assistance (12.4% higher than ADP FY17)

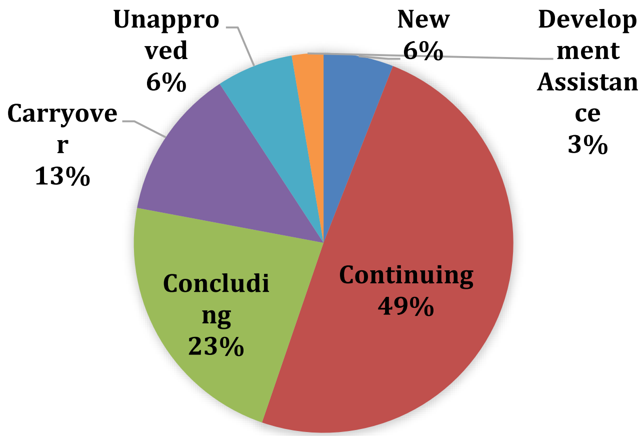
Top Five Sectors in ADP FY18

Sector	No of Projects ADP FY18	Share (%) ADP FY18	Share (%) RADP FY17	Share (%) ADP FY17	Growth (%) ADP FY18 over RADP FY17
Total Five Sectors	**601**	**69.1**	**66.4**	**71.0**	**44.2**
Transport	171	26.8	24.7	25.8	50.0
Power	82	12.3	12.1	13.1	40.2
Education and Religios Affairs	112	10.9	11.6	12.1	29.8
Physical Planning, Water Supply & Housing	205	9.7	13.0	11.8	3.9
Science, Information & Communication Technology	31	9.4	4.9	8.2	164.1
Other 12 Sectors	**594**	**28.7**	**29.9**	**29.0**	**33.0**
Development Assistance	**NA**	**2.2**	**3.7**	**2.7**	**-18.2**
Total	**1,195**	**100.0**	**100.0**	**100.0**	**40.7**

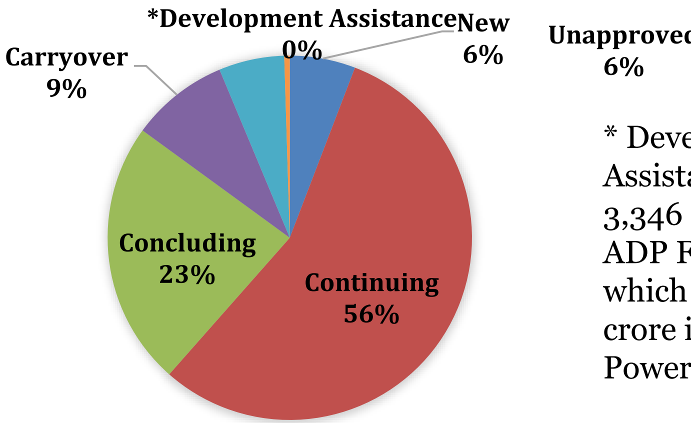
- The **top 5 sectors** have received **69.1%** of total ADP allocation – concentration ratio to increase further
- Transport Sector once again has received the highest amount of allocation (26.8% of total allocation) for the second highest number of projects – 50.0% growth over RADP FY17
- For FY18, ICT Sector has received a substantial amount in ADP allocation (almost 2.6 times compared to RADP FY17)
- An impact of Rooppur Nuclear Power Project which receives 75.5% of the incremental allocation
- Allocation for all other top 5 sectors received higher allocations compared to RADP FY17

II. MACROECONOMIC AND PUBLIC FINANCE FRAMEWORK

- The ADP for FY18 contains **1,195 projects** (1,123 for ADP of FY17)



FY17 Number of Projects: 1,123



* Development Assistance is Tk. 3,346 crore in ADP FY18 of which Tk. 2,600 crore is in the Power sector

FY18 Number of Projects: 1,195

- Almost similar trend in the structure of ADP continues, apart from more allocation for continuing projects and less allocation for concluding projects for FY17 compared to FY16 – **inadequate allocation for concluding projects!**
- **90 new projects** are included (in FY17: 75) – 5.7% of total ADP allocation;
  - ✓ 272 new projects were included in the RADP for FY17

Project Status and Share of ADP Allocation for FY18 and FY17

Project Status	Total Allocation for FY18	% of ADP Allocation FY18	Total Allocation for FY17	% of ADP Allocation FY17
New	8690	5.7	6596	6.0
Continuing	85625	55.8	54576	49.3
Concluding	36056	23.5	25114	22.7
Carryover	13301	8.7	14209	12.8
Unapproved	8913	5.8	7229	6.5

- The share of total allocation for FY18 compared to FY17:
  - 90 new projects saw a decline to 5.7% in FY18 from FY17 (75 new)
  - Continuing projects and concluding projects increased to 55.8% and 23.5% respectively
  - Carryover projects resulted in a decline to 8.7% in FY18
- Share of unapproved allocations declined to 5.8% in FY18 from 6.5% in FY17
  - Major increase was noticed in the Education sector (29.6% in FY18 from 7.2% in FY 17) and Transportation sector (18% in FY18 from 13.3% in FY17)
  - Major decline was observed in Rural Development (1.3% in FY18 from 10.3% in FY17), Physical Planning (5.2% in FY18 from 14.2% in FY17) and Public Administration (3.7% in FY18 from 12.4% in FY17)

II. MACROECONOMIC AND PUBLIC FINANCE FRAMEWORK

- 55.6% of allocation is provided to 469 projects which are suppose to continue to the next ADP (for FY19)
- However, a total of 415 projects are scheduled to be concluded in FY18, according to project completion timeline
- **221 carryover projects** consist of **8.67%** of the total allocation
  - Physical Planning, Water Supply & Housing sector has 46 of these projects, followed by Transport (40), Education (28), and Rural Development (15)
  - Thus total number of projects which should be concluded: **690**
- Planning Commission identified **411** projects which may be **completed in FY18**
  - Many of these are unlikely to be completed by FY18
- **36 projects were included in the PPP list- no visible progress!**
- Too many projects are listed without allocation

Project Status	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Unapproved projects without Allocation	800	702	720	662	624	857	1,172	1,315
Projects listed to seek Foreign Funds	292	259	327	346	338	382	349	360
Total Number of Projects in the ADP	**916**	**1,039**	**1,037**	**1,046**	**1,034**	**999**	**1,141**	**1,195**
PPP	23	16	13	44	40	40	32	36
Possible Completion	287	305	330	305	324	324	354	411

- Practice of **providing symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive and increasing**
- **26 projects under ADP received only Tk. 1 lakh** for FY18; 18 projects received such allocation in FY17
    - Projects under Tk. 1 lakh have been increasing for subsequent years (14 projects in FY16)
    - All of those projects are investment projects (15 in FY17)
    - 22 of those are carryover from ADP FY17
    - 8 of the 26 projects are from Education sector (0 projects were in Education sector in FY17)
- **48 'investment' projects under ADP received only Tk. 1 crore or less** for FY18; 31 'investment' projects received such allocation in FY17
    - FY16 had 32 such 'investment' projects
    - 48 of the projects are carryover (15 of those were carryover in FY17)
    - As a whole these 48 projects received only Tk. 4.9 crore allocation in ADP FY18 (averaged Tk. 10.31 lakh per project)
    - Projects from 11 different sectors shared this allocation

- **Out of 1,079 investment projects, 515 (47.7%) are at least 2 years old**
  - Average age of these 515 projects are 5.6 years
  - 39.42% of such projects have already been revised between 1-3 times
  - Number of revisions of projects: 1st (124), 2nd (63), 3rd (16)
  - Revised unapproved projects: 51
  - Project aid available for 119 of these projects

- **360 projects has been listed which are to be financed with foreign aid**
  - The estimated cost for all of the projects were considered as USD 97.2 billion
  - Estimated project aid to be obtained from different sources are USD 35.0 billion
  - Highest share of project aid obtained is in power (46.10% for 101 projects) and transportation (39.40% for 72 projects)
  - Some large projects are in Education sector:
    - Upgradation of primary education into eight grade
    - Development of primary education programmes

- **Self-financed development budget is reported for the fourth time (since FY14)**
- Allocation for autonomous bodies and corporations has been increased to 10,754 crore (15% decline over FY17) in FY18
  - Lowest number of projects (116) since FY14
  - Among the 116 projects, 'Physical Planning, Water Supply & Housing' has the highest number of projects (46), followed by 'Oil, Gas and Natural Resources' (26), Transport (20) and Power (16)

Self-financed projects of autonomous organisations

	FY14	FY15	FY16	FY17	FY18
Number of projects	130	153	125	155	116
Allocation	8,114	5,685	3,997	12,645	10,754
Utilisation	34.9	45.9	67.0	47.7 (Jul-Apr)	
Overall ADP implementation	86.4	85.3	86.1	54.7 (Jul-Apr)	

Budget Deficit and Financing

Description	BFY18	RBFY17	Growth	AFY16
	% of GDP	% of GDP	BFY18 over RB FY17	% of GDP
Revenue Collection	**13.0**	**11.2**	**31.8**	**10.0**
Total Expenditure	**18.0**	**16.2**	**26.2**	**13.8**
ADP	6.9	5.7	38.5	4.6
Non-ADP	11.1	10.6	19.6	9.2
Overall Deficit (Excl Grants):	**5.0**	**5.0**	**13.8**	**3.8**
Financing				
Foreign Grants	**0.2**	**0.2**	**17.3**	**0.1**
Foreign Loan-Net	**2.1**	**1.2**	**92.8**	**0.7**
Foreign Loan	2.5	1.6	75.1	1.1
Amortisation	0.4	0.4	18.4	0.4
Domestic Borrowing	**2.7**	**3.6**	**(13.7)**	**2.9**
Bank Borrowing (Net)	1.3	1.2	18.0	0.6
Non-Bank Borrowing (Net)	1.4	2.4	(30.1)	2.3

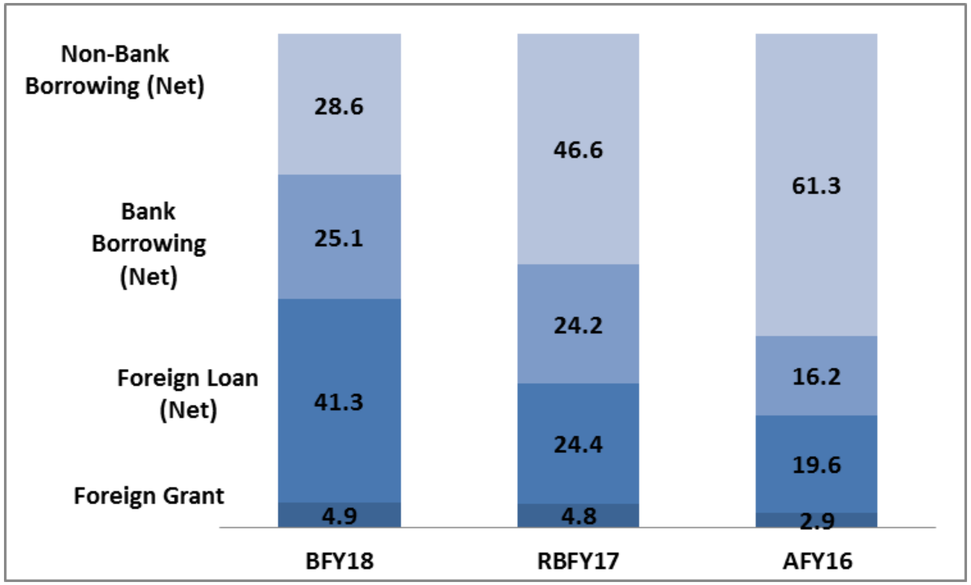
- About 170% of incremental deficit is programmed to be financed by foreign sources

II. MACROECONOMIC AND PUBLIC FINANCE FRAMEWORK

- Share of foreign financing will be drastically higher - 46.2% in FY18 (29.2% in RB of FY17)
- Share of domestic financing 53.8% (70.8% in RBFY17)
- Tk 28,203 crore (25.1%) will come from the bank borrowing (24.2% in RBFY17)
- Tk 22,610 crore (23.1%) will come from non-bank sources (24.2% in RBFY17)

- **Gross foreign aid** requirement will be around **USD 7.6 bln (USD 4.5 bln in RBFY17)** – an almost impossible target in view of **only USD 2.0 bln** being received during **Jul-Feb FY17**
- **Much will depend on project aid utilisation of ADP – 94.0% of total foreign resources are for ADP projects**

Sources of Deficit Financing



Independent Review of iRBD Bangladesh's Development

ALLOCATIONS AND PRIORITIES

III. ALLOCATIONS AND PRIORITIES

Revenue Expenditure

- Revenue expenditure has been changing in terms of composition and share over the years.
    - Two major areas of revenue expenditure are: pay and allowances and subsidies and incentives which comprise over 50 per cent of total revenue budget
    - Payment of interest is another important area for revenue expenditure although its share has declined
    - Revenue expenditure for pensions and gratuities has increased after the new pay scale has been implemented
    - Block allocation and share capital are important revenue expenditure in few years
- Justification of some of the revenue expenditure is not out of question

III. ALLOCATIONS AND PRIORITIES

Revenue Expenditure: Changing Composition

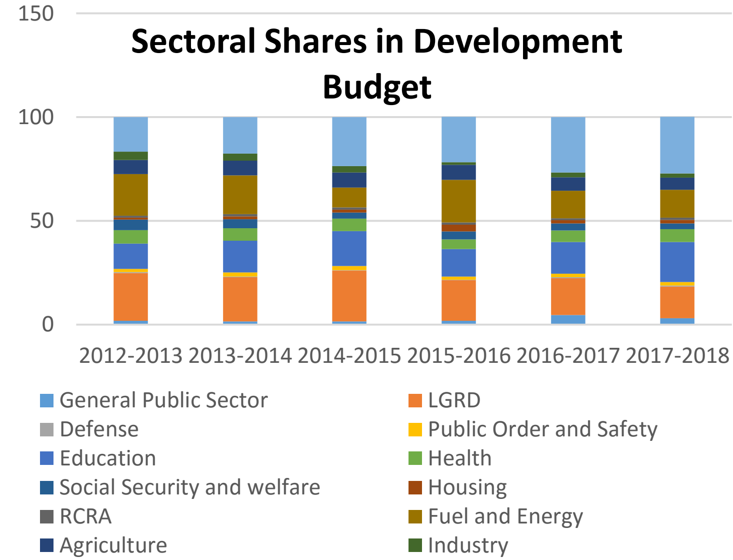
Description	Share of revenue budget (in AFY16)	Share of revenue budget (in RFY17)	Share of revenue budget (in BFY18)
Non-Development Revenue Expenditure			
Pay and Allowances	25.1	24.3	22.0
Pay of Officers	3.5	3.3	3.0
Pay of Establishment	11.2	9.8	8.9
Allowances	10.4	11.2	10.1
Goods and Services	11.5	11.2	10.1
Supplies and Services	8.3	8.4	7.5
Repairs, Maintenance and Rehabilitation	3.2	2.8	2.6
Interest Payments	20.7	17.3	16.9
Domestic	19.7	16.4	16.1
Foreign	1.0	0.9	0.8
Subsidies, Incentives and Current Transfers	33.2	34.1	34.2
Subsidies and Incentives	7.5	7.5	7.9
Grants in Aid	19.0	20.4	16.9
Contributions to International Organisation	0.0	0.0	0.0
Write-off of Loans and Advances	0.0	0.0	0.0
Pensions and Gratuities	6.7	6.2	9.4
Others	0.0	0.0	0.0
Block Allocations	0.1	0.1	1.3
Unexpected	0.0	0.0	0.8
Others	0.1	0.1	0.5

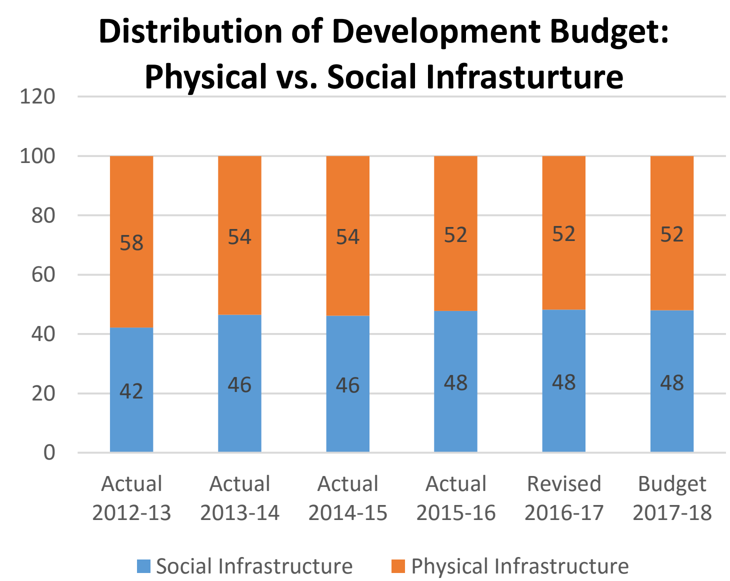
Description	Share of revenue budget (in AFY16)	Share of revenue budget (in RFY17)	Share of revenue budget (in BFY18)
Non-Development Capital Expenditure			
Acquisition of Assets and Works	5.5	5.7	5.2
Acquisition of Assets	3.7	3.9	3.9
Acquisition of Land	0.4	0.4	0.3
Construction and Works	1.4	1.4	1.0
Investments in Shares and Equities	1.3	1.5	5.6
Share Capital	0.1	0.3	4.1
Equity Investment	0.1	0.2	0.7
Investment for Recapitalisation	1.1	1.0	0.8
Others	0.0	0.0	0.0
Transaction with IMF	0.9	0.0	0.0
Cash in Foreign Currency	0.9	0.0	0.0
Programmes Financed from Non-Development Budget	0.3	0.1	0.1
Detail Estimates	0.3	0.1	0.0
Block Allocation	0.0	0.0	0.1
Memorandum Item	1.3	5.6	4.3
Net Outlay for Food Account Operation /2 (E):	0.5	0.3	0.1
Loans & Advances -Net/1 (F):	0.7	3.8	2.8
Non-ADP Programmes/1 (G):	0.1	1.5	1.4
Total - Non-Development Expenditure (Excl. domestic & foreign debt repayment)	100	100	100

III. ALLOCATIONS AND PRIORITIES

Intersectoral Distribution of Development Budget

- Composition of development expenditure has changed over time
    - LGRD still dominates (though its share decreased from 29.5% in FY13 to 19.3% inFY18)
    - Rise in share of road transport and highways (from 10% to 15%)
    - Moderate rise of primary, secondary and mass education as well as health and family welfare
- Disproportionate high allocation raised the expenditure share of physical infrastructure
    - No change in the distribution between physical and social infrastructure in last three years





III. ALLOCATIONS AND PRIORITIES

Intersectoral Distribution of Development Budget

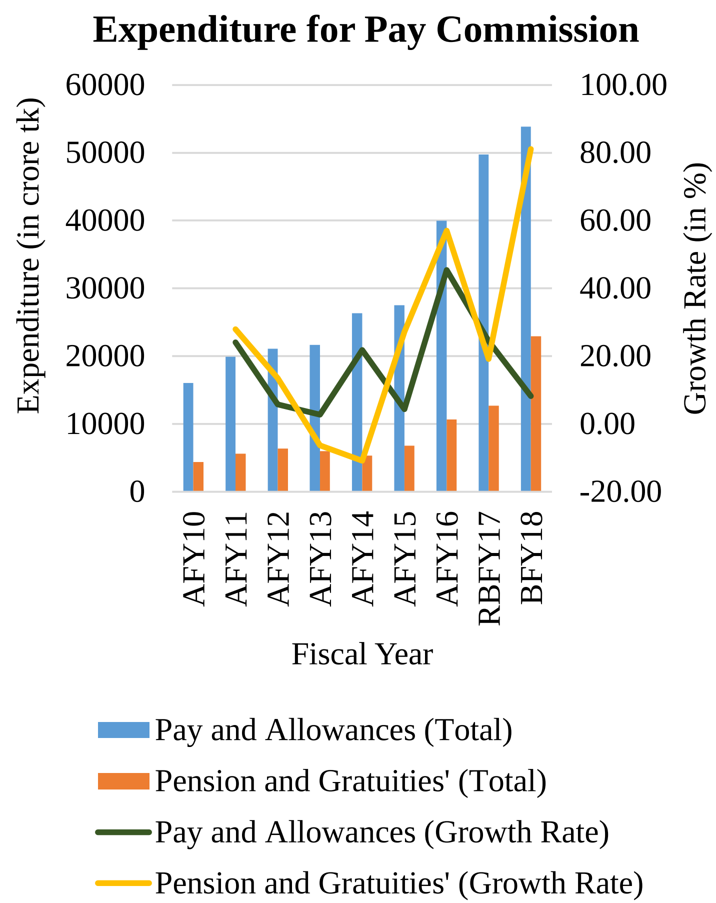
- Lack of balanced distribution of budget caused multiple problems
  - Time and cost overrun of large-scale physical infrastructure projects create pressure to allocate more resources of incremental development budget to those unfinished projects
  - Lack of utilisation capacity of allocated resources in large-scale physical infrastructure projects create barrier towards better distribution of resources in other important low-cost social infrastructure projects (Table below)
  - Inadequate allocation for social infrastructure may cause scarcity of support services to maintain the physical infrastructure.

Resource Unspent in Mega Projects (Tk. In crore)

Project Name	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
Rooppur Nuclear Power Plant Project (First Phase)			-1477	434	399
Materbari 2* 600 megawatts ultra super critical coal fired power project				-96	1875
Padma Bridge Rail Link					-711
Padma Multipurpose Bridge Construction	103	4809	235	3808	1352
Dhaka Mass Rapid Transit Development Project		101		45	1044
Dohazari-Cox's Bazar Rail line Project	1			-279	-400
Total	104	4911	-1242	3911	3560
% of total budget allocated for mega projects	1.45	68.9	-11.37	40.52	22.24

Pays, Allowances and Pension Benefits

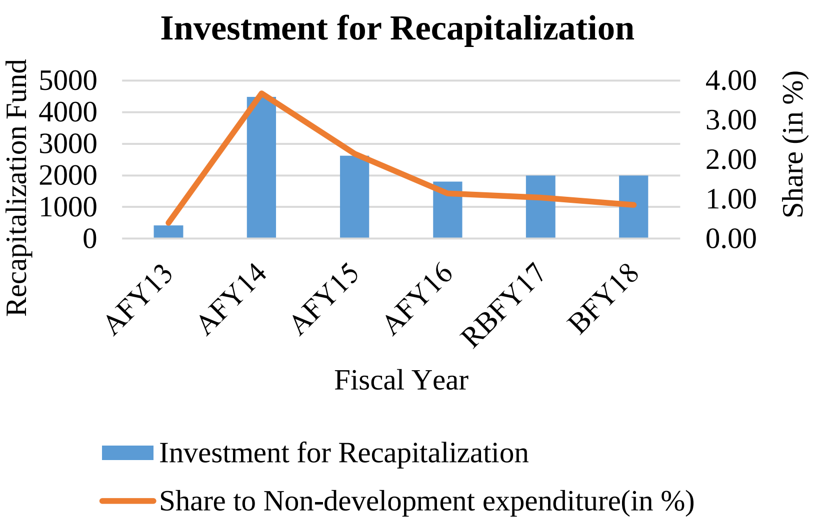
- Implementation of new pay scale for government employees has accelerated non-development expenditure
  - Its share has increased from 20.6% in 2013 (pre-implementation period) to 25.7% in 2017
- Consequently significant rise in payment of Pension and Gratuities has been observed since FY16.
  - Huge allocation for Pension and Gratuities in FY18: Tk. 22,940 crore (9.8% of non-development expenditure in FY18)
- Overall share of pay, allowance, pension and gratuities is one-third of the non-development expenditure
- Reforming pension system will be a welcome initiative to be effective from July 1, 2017
  - This new system will abolish the system of encashment of 100% pension

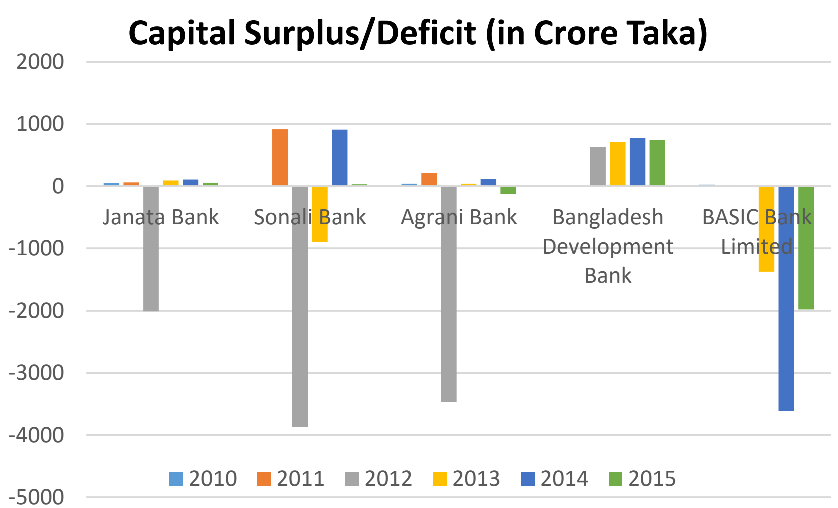


III. ALLOCATIONS AND PRIORITIES

Recapitalisation

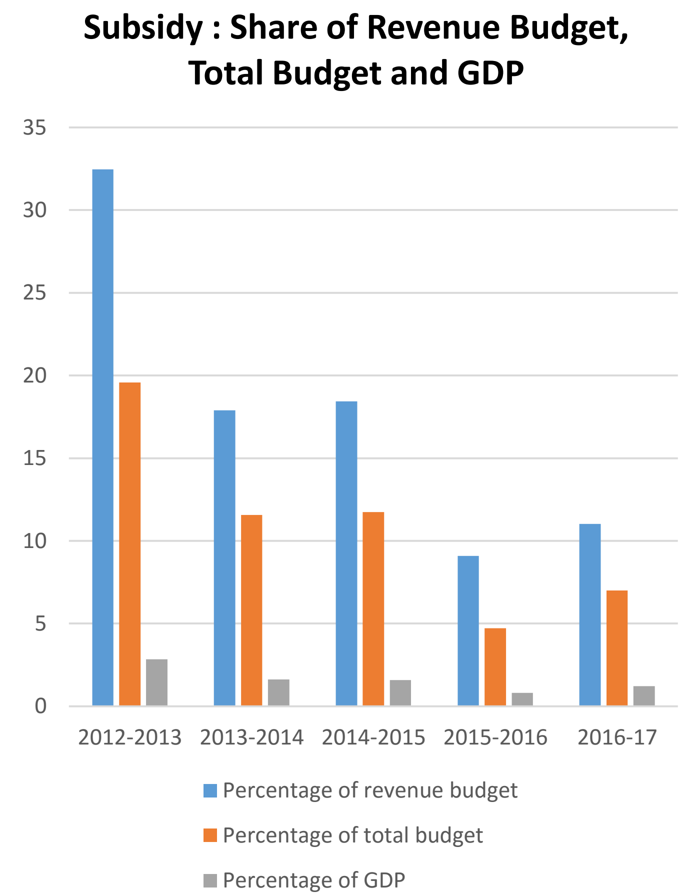
- Recapitalisation of state-owned banks will continue in the next fiscal as Tk.2,000 crore will be kept aside for FY2018 (Tk.2,000 crore in RBFY2017)
    - Over the years, its share has been declined (0.85% of rev. exp. In FY18).
- Despite injection of capital, performance of most of beneficiary banks did not improve.
    - Deficiency of capital did not improve for most of the SoCBs





Subsidy and Incentives

- Allocation for subsidy has experienced a number of changes
  - Total allocation for FY18: Tk.19,454 crore
  - Allocation has declined by 40% since its peak in FY13 (Tk.340.59 billion) mainly because of low demand for subsidy on petroleum imported at lower price from international market
- Compositional changes in sectoral subsidy allocation - from fuel in earlier years (from 40% to 0% of total subsidy) to electricity (13.2% to 23%) and agriculture in recent years
  - Agriculture remains a major targeted sector for subsidy (from 35% in FY13 to 25% in FY17)
  - Gradually subsidy is concentrated to limited number of sectors



III. ALLOCATIONS AND PRIORITIES

Social Safety Net (SSN)

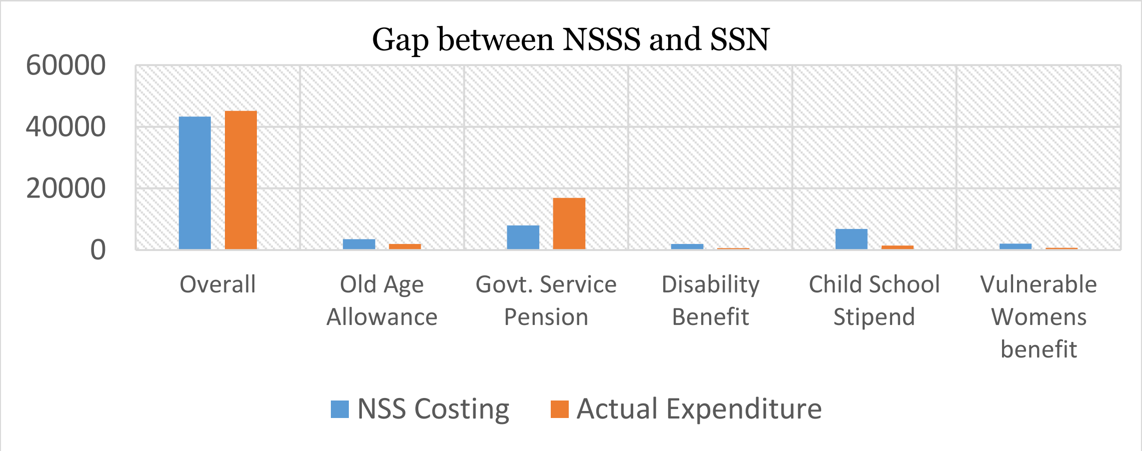
- Government is likely to increase allocation for SSN from that of Tk.45,230 crore allocated in FY17.
  - Both coverage and per person allocation will be increased
  - Special social protection scheme for Haor areas
- Most of the SSNs provided higher amount of financial benefit to the beneficiaries.
  - However, allocation is still low to achieve the targeted amount of NSSS

Social Security Program (FY17 vs FY18)				
	FY 17		FY 18	
Programme	Coverage (Lakh)	Allocation (Crore)	Coverage (Lakh)	Allocation (Crore)
Old Age Allowance	31.5	1890	35	
Widow and Oppressed Woman	10	690	12.65	
Financially Insolvent Person	7.5	540	8.25	
Educational Stipend Allowance	0.6	47.88	0.7	
Allowance for Transgender People	0.04	9		11.35
Old Age Allowance for Bede		20.68		27
Financial Assistance for Patient	0.06	20		50
Improving Livelihood of Tea Labour	0.3	15		15
Maternal Allowance	5	300	6	
Maternity Allowance for Lactating Mother	1.8	108.18	2	
Employment Generation Program	8.27	1650		82.07

III. ALLOCATIONS AND PRIORITIES

Social Safety Net (SSN)

Per Capita SSP SSP Coverage after Inflation Adjustment						
Name of the Program	**Inf. Adj. FY 12**	**Inf. Adj. FY 13**	**Inf. Adj. FY 14**	**Inf. Adj. FY 15**	**Inf. Adj. FY 16**	**Inf. Adj. FY 17**
Old Age Allowance	282.8	279.1	280.3	399.9	379.1	474.4
Honorarium for Freedom Fighters	1883.2	1860.5	2803.7	4708.1	8425.5	9646.1
Open Market Sales (OMS)	62.5	61.8	58.3	58.4	41.1	41.8
Vulnerable Group Development	69.4	73.7	71.4	76.2	85.6	77.0
Vulnerable Group Feeding (VGF)	120.9	109.5	164.0	171	178.3	181.3
Food For Work (FFW)	251.8	231.4	475.3	530.4	645.2	644.4
Employment Generation Program			1412.4	1423.2	1432.7	1577.5
Block Allocation for Various Prog.	320.5	6210.1	1.0	7841.8	28880.3	27988.6
Primary School Stipend Progr	88.3	91.7	84.9	95.5	85.1	85.1
One House One Farm	436.4	431.3	390.2	3053.3	1895.8	1246.3



CPD (2017): An Analysis of the National Budget for FY2017-18

III. ALLOCATIONS AND PRIORITIES

Fast Track Projects

- Tk.30,614 crore is allocated for FY18 which is 19.9% of total ADP of FY2018. (Tk.18,727 crore and 16.9% in FY17)
- Most of the projects did not make considerable progress except that of Padma Bridge.
    - Unable to utilise allocated budget (unutilised resources in FY17 was Tk.3,560 crore)
- Given the progress of work of Padma bridge, it would be difficult to complete the remaining works of main bridge, river training and rail links by December 2018.

Progress of Fast Track Projects

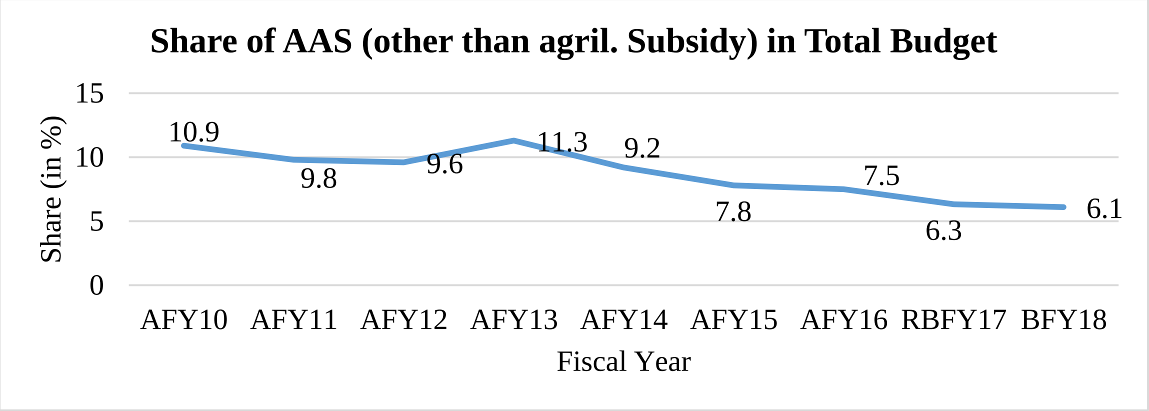
Project Name	Project Period	Project Cost (Tk.cr.)	Projected Progress till June, 2017 (in %)	Possible Progress till June, 2018 (in %)
Materbari 2* 600 megawatts Ultra super critical coal fired power project	01/07/2014-30/06/2023	35984	2.99%	9.66%
Padma Bridge Rail Link	01/01/2016-30/06/2020	34989	13.75%	35.50%
Padma Multipurpose Bridge Construction	01/01/2009-31/12/2018	28793	52.61%	71.80%
Dhaka Mass Rapid Transit Development Project	01/07/2012-30/06/2024	21985	7.83%	23.41%
Dohazari-Cox's Bazar Rail line Project	01/07/2010-30/06/2022	18034	12.72%	21.38%
Rooppur Nuclear Power Plant Project (First Phase)	01/03/2013-30/06/2018	5087	95.07%	96.80%
Planning the preservation and construction of boundary wall and land development of Rampal Electricity Centre 2nd Block	01/01/2015-30/06/2017	463	56.26%	56.38%
Payra Sea Port Infrastructure Development	01/07/2015-30/06/2018	1128	23.23%	58.69%

III. ALLOCATIONS AND PRIORITIES

Agriculture

- Allocation for Agriculture and Allied Sectors (AAS) (Tk 24,430 crore) has increased by 22% compared to that in RBFY17.
  - However, its share in total budget has been decreasing over time

- A number of measures announced to promote mechanisation of agriculture
- Continuation of the current duty tax concessional facility for the existing raw materials and components of agricultural machineries along with some more equipment in the agricultural sector.

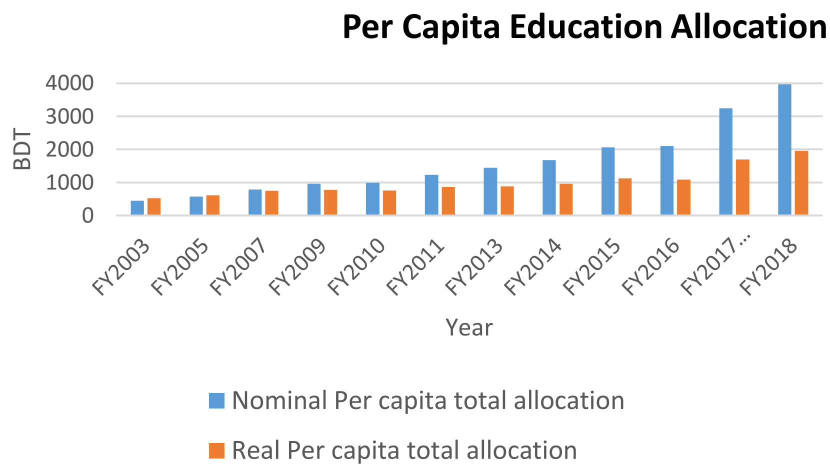


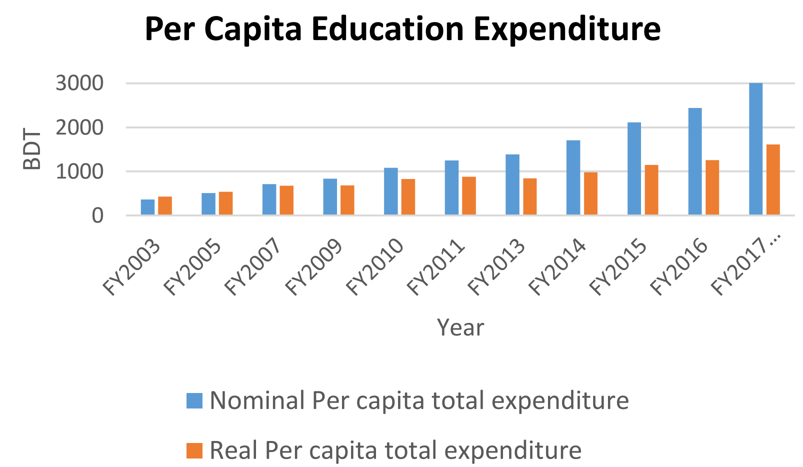
H.S.Code	Description of Goods
7318.21.00	Spring washers and lock washers
7320.20.00	Helical springs
8408.90.90	Diesel engine for use in agriculture
8409.99.10	Spare parts of diesel engine for use in agriculture
8432.90.00	Spindle
8433.11.00	Cutting device
8484.10.00	Gasket
8487.90.00	Machinery parts
9026.80.00	Temperature gauge
9031.80.00	Moisture meter

III. ALLOCATIONS AND PRIORITIES

Education

- ❑ Allocation for 'Education and technology' sub-sector (Tk.65,444 crore) has jumped up by 30% during FY18. This is a welcome development.
  - ➢ This will be partly contributed by development expenditure under the Ministry of Science and Technology (177% rise over RBFY17)
- ❑ This higher allocation has contributed to rise in per capita allocation in the education sector (from Tk.1,084 in FY16, Tk.1,698 in FY17 and Tk.1,955 in FY18)
  - ➢ Although overall allocation in terms of GDP is still very low (2.94% in FY18 vis-a-vis 2.7% in RBFY17)





III. ALLOCATIONS AND PRIORITIES

Education

- Of the top 10 top-allocated projects: a number of projects are behind schedule including primary education development and secondary education quality improvement, skill enhancement, SEAQEP and SEIP.
- A number of initiatives have been announced in the budget speech
  - Nationalisation of 26,193 primary school, establishment of 3,550 computer lab and 23,331 multimedia classrooms in educational institution Skill development has got special attention in this budget: setting up national Skills Development Committee (NSDA), National Human Resource Development Fund (NHRDF), Executive Development Programme (EDP) are some of the forward-looking initiatives which are announced in the budget.
  - Establishment of one technical school in each of the two hundred upazilas

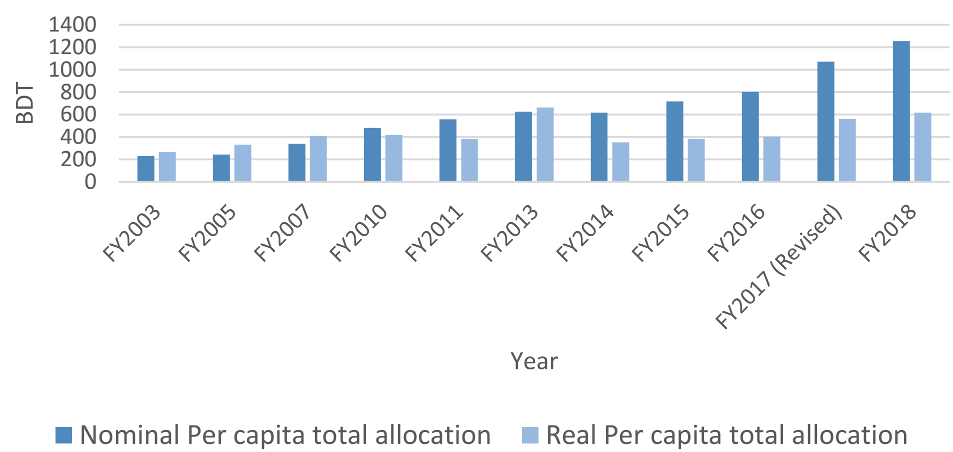
Health

- Allocation for the health sector (Tk. 20,652 crore) has increased by 39.3% over that of RBFY17.
  - 6.2% of total ADP which is higher than that of RBFY17 (4.4%)
- Per capita allocation for the health sector has slightly increased (from Tk. 400 in FY16, Tk. 561 in RBFY17 and Tk. 617 in FY18.
  - Allocation in terms of GDP is still much lower though it has marginally improved (0.92% in FY18 vis-à-vis 0.75% in RBFY17)
- Two of the top ten projects are behind the time schedule.

Budget Allocation to Health Sector

Sector	Allocation2016-2017	Revised 2016-17	Allocation 2017-18
Health Services Division			
Non development	11252	9911	8340
Development	6234	4918	7842
Total	17486	14829	16182
Medical Education and Family Welfare Division			
Non development	-	-	2800
Development	-	-	1670
Total	-	-	4470
Total-Health	17486	14829	20652

Per Capita Allocation for Health



Defence

- The budget allocation for Defence for FY18 is Tk. 25,756 crore, which is 10.9 higher than the allocation for the previous year.
  - Overall share of defence in the budget has decreased (from 7.3% in FY17 to 6.4% in FY18).

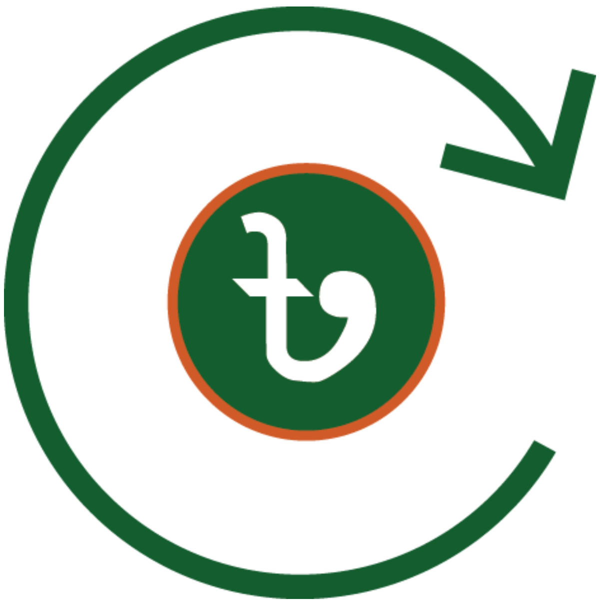
❑ Seven projects under of the Ministry of Defence are currently ongoing
  - Some of the projects are behind schedule

Defence Expenditure and Allocation in recent years

	Actual 2014-15	Actual 2015-16	Revised 2016-17	Budget 2017-18
Ministry of Defence-Defence Services				
Non-Development	17,099	19,647	22,133	23,611
Development	107	282	655	680
Total	17,206	19,929	22,788	24,291
Ministry of Defence-Other Services				
Non-Development	259	359	393	1,435
Total	259	359	393	1,435
Armed Forces Division				
Non-Development	25	25	31	30
Total	25	25	31	30
Total-Defence Services	17,490	20,313	23,212	25,756
Growth		16.14	14.27	10.96
% of Total Budget Allocation	8.56	8.52	7.32	6.43

Progress of Different Projects

Project Name	Project Period	Project Progress
99 Composite Brigade Establishment	01/07/2015-30/06/2019	47.43
BNA Bangabandhu Complex Establishment	01/08/2013-31/12/2017	70.75
Bangabandhu Military Museum Complex Establishment	01/07/2015-31/12/2019	16.30
BFA Bangabandhu Complex Establishment	01/07/2013-31/12/2018	73.58
Officers Mess Complex and Housing Building	01/07/2016-30*06/2019	51.76
CMH Dhaka Extension and Modernization	01/01/2013-31/12/2017	83.59
Housing Establishment of Junior Officers' and Others	01/07/2016-30*06/2019	68.11



FISCAL MEASURES

Overall Observation

- In case of Direct Taxes (Income, Corporate, Wealth Surcharge) no notable change has been proposed in Budget FY18

Personal Income Tax

- Tax exemption threshold for personal income remains the same at Tk. 250 thousand
    - Tax-free income of India is Rs. 2,50,000 (about Tk. 313 thousand)
    - Considering *inflation* since FY16, the inflation-adjusted value of the threshold amount is about Tk. 280 thousand
    - Considering *per capita income* of FY17, the ratio of threshold amount to per capita income is **2.07:1**– lower compared to that of India (**2.43:1**)
    - *Tax exempted threshold is relatively lower in Bangladesh. There is scope to raise this*
    - Threshold income tax of persons with disability has been increased from Tk. 375 thousand to Tk. 400 thousand - *welcome move from the perspective of better social equity*
    - *CPD had proposed additional slab with lower tax rate in the first slab (The income tax on first slab is 5% in India, 4% in Sri Lanka)*
- No change has been brought in the tax rate or slab structure
- No change mentioned about the minimum amount of tax or the structure of tax credit on investment

Wealth Surcharge

- Rates and slabs of net wealth surcharge for individual taxpayers will remain same
  - Minimum surcharge is to stay at Tk. 3,000
- Minimum net wealth exemption limit remains the same at Tk. 2.25 crore
  - *The process of wealth surcharge assessment needs to be upgraded with valuation of properties using the market prices instead of current method of using purchase prices*
  - In FY17 the wealth surcharge collection was about Tk. 360 crores, paid by 11,670 taxpayers – collection is increasing significantly over the years
    - *Government should take necessary measures to tap on the prospects of higher collection from this source which is equity-friendly*
- **Producers** of cigarette, bidi, zarda, gul and other tobacco items have to pay a **surcharge of 2.5% on their income** from business - *welcome move considering health concerns*.

Corporate Tax

- **No significant change** in the corporate tax structure for FY18
- Tax rate is to be **reduced to 15%** from 20% for knitwear and woven garments' export earnings
  - It will be reduced to 14% for RMG companies which has factories with internationally recognised green building certification – *encouraging and time-appropriate initiative, considering environmental welfare*
  - *However, the foregone revenue should have been mentioned*
  - *This reduction is discriminatory for other sectors*
- Budget FY18 proposed to bring down the corporate rates for non-listed banks, non-listed mobile operators and cigarette manufacturing companies ***gradually***. Rates for these are higher than 40% (42.5%, 45% and 45% respectively)
  - *However, reduction of the corporate taxes on cigarette manufacturing companies will be against pro-health tax policy being pursued by the government and need to be maintained at current levels*

- **Tax Deduction at Source**
  - Change in **[53E]:** Companies making payment in relation to its promotion must deduct 1.5% of the payment as tax
- **Conditional tax exemption** is to be introduced for infrastructure sector – *may prove to be a good move to attract investment in infrastructure depending on the conditions*
  - *Clarification of the conditionality is required*
- **Tax exemption** introduced for government allowances (freedom fighter allowances, destitute allowance, and welfare allowances), and incomes from national award, honorary received from Freedom Fighter Welfare Trust, and incomes of Elderly Care Home
  - ✓ *These are good initiatives in terms of promoting social responsibility*
- Coverage of tax exemption has been **extended** for the income derived from the business of information and communication technology (ICT) sectors
  - 8 more sectors added to the existing list containing 14 sectors, now total is 22
    – *this will promote development of ICT sector which has significant potentials*
- Income of Alternative Investment Fund will be waived of tax, but tax will be imposed if profit is distributed instead of re-investment

Undisclosed Money

- There has been no change or deletion of provisions about the facilities given to invest or disclose black money
- Once again the Finance Minister did not mention anything about black money in the budget speech FY18
- The **existing provisions** allowing investment of undisclosed money are:
  - [19BBBBB] which allows investing undisclosed money in residential buildings and apartments under Special tax treatment
  - [19C] which allows purchase of bond under Bangladesh Infrastructure Finance Fund by paying only 10% tax
  - [19E] which allows Voluntary disclosure of income through payment of 10% penalty alongside the regular tax
- ***The inclusion of such provision in the Ordinance is morally unethical for honest taxpayers and might encourage people to evade tax***
- ***The need for a predictable legal framework including a new law on undisclosed money and benami property is exigent now***

Administrative Improvements of NBR

- ❑ Finance Bill 2017 is highly focused on administrative improvements
    - The provisions have been upgraded to allow the submission of accounts, statements, documents and data by a taxpayer via electronic media [Section 79]
    - The existing procedure of Universal Self-Assessment has been revised and updated [82BB]
    - The provisions for inclusion of taxable income escaping assessment has been updated in a more specified manner [93]
    - New provision has been introduced for imposing penalty for being unable to verify Tax Identification Number (TIN) [124AA]
    - The provisions for system-generated order [178A] and online submission of petitions [178B] have been modernised
    - The provision on requirement of 12-digit TIN now includes 31 cases in which TIN is required [184A]
    - ➢ *These developments and modernisations are promising and will enhance the efficiency of NBR's operations*
- ❑ e-TDS system has been introduced under central Withholding Tax Unit – *CPD has flagged this reform for quite a long time*

VAT and SD Act 2012

- VAT and SD Act 2012 will come into force from 1 July 2017
- Uniform and single VAT rate has been proposed to continue **at 15% for next 3 years**
  - *FM did not clearly mention whether rate will be changed/brought down after 3 years*
- VAT-free annual turnover threshold has been raised to **Tk. 36 lakh from Tk. 30 lakh**
  - Earlier business has to pay package VAT for annual turnover of Tk. 30 lakh
  - *The measure will benefit small businesses*
- Threshold for turnover tax has been raised to between **Tk. 36 lakh and 1.5 crore** from existing Tk. 30 lakh-80 lakh with imposition of 4% turnover tax
  - Raising the ceiling will keep higher number of SMEs out of VAT net
  - *However, they have to pay turnover tax at a higher rate of **4% which was 3%** in FY17*
- To avail VAT credit, businesses have to procure inputs from VAT registered entities
  - Many small businesses remained outside the VAT net and were informal in nature
  - SRO has been issued to promote procurement from various VAT registered manufacturing industries (SRO no 135-ain/2017/21 Customs)

IV. FISCAL MEASURES

- Businesses have to take **new 9-digit VAT registration**; according to VAT administration promotion – existing BIN will become obsolete from 1 July 2017
  - FM did not mention the number of VAT registration so far
- 8.5 lakh entities are reported to be VAT registered while only 32 thousand pay taxes
  - Plan to increase the number to 60 thousand – *should have been more ambitious*
- No clear implementation plan for enforcing the Act has been mentioned
  - No assessment of additional revenue generation from implementation of the Act has been made public
  - *Effective implementation of the Act will remain uncertain and challenging*

Changes in VAT rates

- FM has proposed to exempt VAT (both at import and supply stage) on 1,043 HS items including existing 536 HS primary food items
  - VAT will remain exempted on **404 agriculture, livestock and fisheries products**
  - Interestingly, supply of non-stemmed tobacco (all 24.01 HS codes) enjoys VAT exemption according to FA 2017 [pg.63]
  - The additional list includes 93 life-saving drugs and various services such as public transport, medical services, education, training and charity services
  - Export will remain zero rated according to the Act
- Supply of refined palm oil and soybean oil will remain VAT exempted until 30 June 2019. Supply of LPG cylinder also enjoys the same benefit – *welcome news for consumers*
- Local manufacturing of air conditioner and import of its machinery parts will remain VAT exempted till 30 June 2019 – *move will help growth of the industry*
- Natural gas (at gaseous state) to be zero rated from exploration to distribution stage

IV. FISCAL MEASURES

- VAT will be imposed at uniform rate on supply of gas and electricity services. However, supply of the same services will be 80% exempted for industries investing in the SEZs
- VAT at import stage has been imposed on semi-finished steel products (12 out of 22 items were semi-finished iron and steel products)
- VAT at import stage has been waived for rice products (4 out of 8 products were rice items) – *will facilitate import of rice*
- Many of products and services both at import and supply stage have remained out of VAT net

Major changes in SD rates

- According to VAT and SD Act 2012, SD was to be levied only **on 256 items at import stage**
  - However, according to OTS 2017-18, SD is imposed **on 1,674 tariff lines** at import stage
  - It was argued that, it was done to ensure protection of the domestic industries
  - *CPD observed that, SD has been increased for a number of items where Bangladesh Tariff Commission had proposed to reduce the rate (i.e.* Fuel oil nes, Motorcycles (incl. mopeds) capacity not >50 cc etc., dried mangoes*)*
- SD has been increased to 25% from 20% for major industries such as shrimp and live fish, plastic and plastic products, jute yarn
- SD has been increased to 50% from 45% for RMG and glass and glass ware industry. The increased SD rate may provide protection to relevant domestic industries
- *It is expected to generate additional revenue. At the same time, the measure may increase tax burden for importers and a number of sectors will suffer from higher cost of doing business*
- **Product-specific tax incidence could not be estimated because NBR data uploaded on its website do not reflect the changes observed in the Finance Act and Customs SROs**

Changes in the Duty Rates at Import Stage in FY18

Types of Duty	Increased	Decreased	Newly Imposed	Waived	Total number of changed items
VAT at Import Stage	22	8	22	8	30
Customs Duty	111	79	14	26	190
SD at Import Stage	1243	170	26	54	1413
Regulatory Duty	72	2992	58	38	3064
Advance Trade VAT	0	9	0	9	9
Advance Income Tax	1	8	1	6	9
Excise Duty	7	0	7	0	7

- The imposition of higher SDs was to a large extent balanced by large scale reduction in regulatory duties. There were 1,202 products on which SD has increased while RD has decreased; however overall total tax incidence has been increased in all these products
- It is not clear what policy stance has informed the policymakers in going for this duty structure

Prices may increase for the following products:

- Fast food, snacks; Foreign salt; Baby food; Crushed milk, butter; Dry grapes, any kind of fresh fruit; Exotic sweet biscuits and biscuit like foods (waffles, wafers, etc.); Mineral water (up to 3 liters), soft drinks, energy drinks
- Autorickshaw, electric battery-powered motor vehicle, CC vehicle, four-door double cabin pickup, two and four stroke auto-rickshaw/three wheeler engine; Battery used in private car, oven
- Foreign made mobile set, memory card, SIM card; Bathtub Shower Bath, Sink, Wash Basin, Bidet, Lavatory
- IPS and UPS; Ceiling fan and its parts; Color and varnish; Cosmetics; Fabrics, carpets; Foreign shoe; Fuel oils, paintings, varnishes
- Imported solar panel; mosquito coil, aerosol and mosquito repellants; motor vehicle tires; paints, powder, shampoo, scented bath salts and other goods, ceramic wall tiles and bathtub; plastic products, plastic doors, windows, frame; poultry feed or poultry meal; rod; room perfume; shirt-suit-jacket, trouser, blouse, various types of foreign clothes, silk or silk woven fabrics; soap, similar products and detergents; stainless steel sync, tableware and kitchenware used in kitchen; toothbrush; air ticket; various types of bags

IV. FISCAL MEASURES

- **Prices may decrease for the following products:**
  - 93 kinds of medicines for emergency survival, Other medicines, including cancer-resistant medicines
  - Air Conditioner Parts; Faro silicon; hybrid motor cars; LD Gas Cylinder below 5000 liters; Local battery; locally assembled motorcycles and mobile sets; Locally made laptops, tabs, cellular phones and iPads; Locally made refrigerator, air conditioner, LPG gas cylinder, computer raw materials
  - Fertiliser, seeds, pesticide, salt, fish/meat, rice, sugar, palm oil, soybean oil, crashed rice, vegetables, and maize; Foreign toilet paper, tissue paper, towel or napkin paper and homogeneous products
  - Hair care products; Talcum powder
  - Leather industry equipment; Glue (glue)
  - Products for agriculture, fisheries, poultry and dairy product
  - Tubes and hose pipe; Various products of ceramic products including bathtub, sink, wash basin

Major Changes in Customs Duty

CDs have been selectively increased and decreased with a view to:

- Domestic industry protection through increase of CD (articles of copper; dry mixed ingredients of bulk food items etc.)
- Consumers' interest through decrease of CD (pepper, cinnamon, cardamoms etc.)
- However, for some items no logic could be discerned (database software-CD raised from 2 to 25%; books (CD raised from 0 to 5%)

Major Changes in Regulatory Duty

- While SD has been increased for 1,243 items, regulatory duty (RD) has been reduced for 2,992 items at the import stage!
- Regulatory duty has been newly imposed on 58 products of which 20 products were semi-finished iron or steel items, rubber goods, rice (Husked & broken) and maize, cocoa powder

Changes in Rice products

- CD remained at 25%, no SD has been levied, 15% VAT has been waived and 3% RD has been imposed – *as a result, total tax incident on rice has come down to 28% from 54.02% in FY17*

Advance Income Tax at import stage

- Advance income tax has *decreased* by 5% for semi-finished iron or steel products, semi-milled and broken rice items and polyethylene terephthalate

Independent Review of Bangladesh's Development

IV. FISCAL MEASURES

- Two notable changes have been made in the **Excise and Salt Act, 1944**
  - **Excise Duty on Bank Account –** *Done for revenue raising purpose. Disincentive for those using banking channel at a time of falling interest rate on savings*

Balance of the bank account	Existing Excise Duty Amounts (in Tk.)	Changes proposed in Budget Speech FY2018 (in Tk.)	Changes mentioned in Finance Bill 2017 (in Tk.)
Tk. 0 to Tk. 20,000	0	0	Nothing mentioned about these slabs
Tk. 20,000 to Tk. 1 lakh	150		
Tk. 1 lakh to Tk. 10 lakh	500	800	
Tk. 10 lakh to Tk. 1 crore	1500	2500	
Tk. 1 crore to Tk. 5 crore	7,500	12000	
Balance above Tk. 5 crore	15,000	25000	30,000

  - *The anomaly between Budget Speech FY18 and Finance Bill 2017 could create confusion and ought to be aligned*

❑ Excise Duty on Airline Tickets

Airline Tickets for	Existing Excise Duty Amounts (in Tk.)	Changes proposed in Budget Speech FY2018 (in Tk.)	Changes mentioned in Finance Bill 2017 (in Tk.)
Travel to SAARC countries	500	No change proposed	Nothing is mentioned about these categories
Travel to Asian countries excluding SAARC countries	1,000	2,000	
Travel to Europe, USA and other countries of the world	1,500	3,000	3,000

- *The anomaly between Budget Speech FY18 and Finance Bill 2017 could create confusion and ought to be aligned*

Duty and Tax on Cigarette and Bidi

- On top of 30% and 35% SD on non-filter and filter bidi respectively, price of bidi has been increased
- CD has increased from 10% to 25% on Electronic Nicotine Delivery System (ENDS) and its refill pack alongside 100% imposition of SD
- Every 10 sticks of local and international brand cigarette SD are respectively 55% and 52% (raised from 50% in BFY18)

Type of Bidi / local cigarette	Existing Price	Proposed Price	Growth (%)
25 sticks non-filter	Tk. 10.61	Tk. 15	41.3
20 sticks filter	Tk. 12.03	Tk. 15	24.7
Every 10 sticks of local cigarette	Tk. 23	Tk. 27	17.4

IMPLEMENTATION PLAN

Implementation Plan: Revenue

In FY2017-18 Budget, a number of implementation measures have been mentioned.

- **Proposed: 27** measures
- **Ongoing: 12** measures
- **Implemented: 16** measures

Example: Tax Administration Measures/Reforms in FY2017-18		
Proposed	**Ongoing**	**Implemented**
➢ New tax zones in Jessore and Kushtia. Tax circle offices in 103 new upazilas. ➢ Online submission of returns, appeal petitions, ADR petitions etc. ➢ System generated orders, notices and certificates; ➢ Submission of accounts, statements, documents and data electronically.	➢ e-TDS system under a central Withholding Tax Unit. ➢ Establishment of a modern and fully automated TIU ➢ Establishment of an appropriate administration set up for international taxes ➢ NBR working under 'Good Governance and Modern Management (GGMM)' Framework.	➢ Capacity of BCS Tax Academy and Customs, Excise and VAT Training Academy increased. Board of Directors for the academies formed. ➢ Central Intelligence Cell (CIC) and Customs Intelligence and Investigation Directorate of NBR strengthened.

V. IMPLEMENTATION PLAN

Example: Value Added Tax and Supplementary Duty in FY2017-18

Proposed	Ongoing	Implemented
➢ Fully implement the VAT and SD Act, 2012 from July 1, 2017. ➢ Bring Dhaka and Chittagong cities and their adjacent areas under digital addressable system within 2017-18 and entire nation within June, 2019. ➢ Formulate a skill-based incentive and reward policy guideline for the VAT officials by next December.	➢ Preparatory work ongoing under VAT online project. ➢ Under online VAT project training programme, workshops, seminars are continuing. ➢ Electronic Fiscal Device (EFD) will be procured and distributed to the business community at cost price. ➢ Mobile application to cross-check the VAT paid by taxpayers .	➢ Value Added Tax and Supplementary Duty Rules, 2016 published in the Gazette. ➢ Online VAT registration activities started from March 23, 2017. ➢ 200,000 taxpayer already received training on new Act under the VAT Online project. ➢ VAT Online Service Centers (VOSC) established in different parts of the country. ➢ VAT helpdesks are installed at all the Income Tax Commissioner's offices and Custom Houses across the country. ➢ Introduction of Mobile Helpdesk. ➢ Steps have been taken to collect VAT by ensuring the use of Electronic Cash Registers (ECR).

❑ Implementation Plan: ADP

There are only a few measures mentioned in the budget FY18

- Budget FY18 has mentioned 6 measures to improve public investment
- One specific measure under "Digital Bangladesh" section can help improve ADP implementation
- Additionally, 2 measures under "Public Administration" section are also relevant for better ADP implementation
- A comparison between ADP measures during FY17 and FY18 shows that:
  - ✓ 3 initiatives of FY17 are also mentioned in FY18
  - ✓ 4 initiatives suggested in FY17 do not have any reference in FY18

❑ Implementation Plan: ADP

Public investment

- Coordination between ERD and development partners
- Identify low-performing projects and appoint consultants
- Form a pool of project directors and provide training
- Monitoring of implementation of projects under 10 ministries/divisions with large ADP allocations has been strengthened through regular meetings
- Growth stimulating 10 large projects have been brought under "Fast Track" monitoring
- Ensure financing of these projects on priority basis and monitor their implementation closely

❑Implementation Plan: ADP

Digital Bangladesh

- A project titled "Digitizing Implementation Monitoring and Public Procurement" for the expansion of e-GP and increasing the capacity of public procurement management has been undertaken

Public Administration

- Government has introduced performance management system in government organisations. Software has been developed to evaluate and monitor whether the action plan under the performance agreement is being implemented properly or not.
- Action plans of all government organisations will be updated in order to take measures according to the Action Plan expounded in the National Integrity Strategy and Training programmes will be conducted for government employees to enhance their efficiency

V. IMPLEMENTATION PLAN

❑ Comparison of FY2018 ADP initiatives with FY2017

Selected FY2017 ADP initiatives mentioned in FY2018	Selected FY2017 ADP initiatives not mentioned in FY2018
A pool of project directors, will be put in place within the next fiscal year	Implementing structural reforms in project design and execution stages namely, formulation of policies and procedures for finalising project preparatory work prior to project approval
Widen the scope of e-GP in public procurement	Formulation of a project implementation manual and extending training programmes for project employees
Finalise 'Public Financial Management Reform Strategy 2016-21'	Digitalisation of project monitoring system, with a view to ensuring timely implementation as well as quality in project spending
	Result-based monitoring and evaluation system from FY2017

V. IMPLEMENTATION PLAN

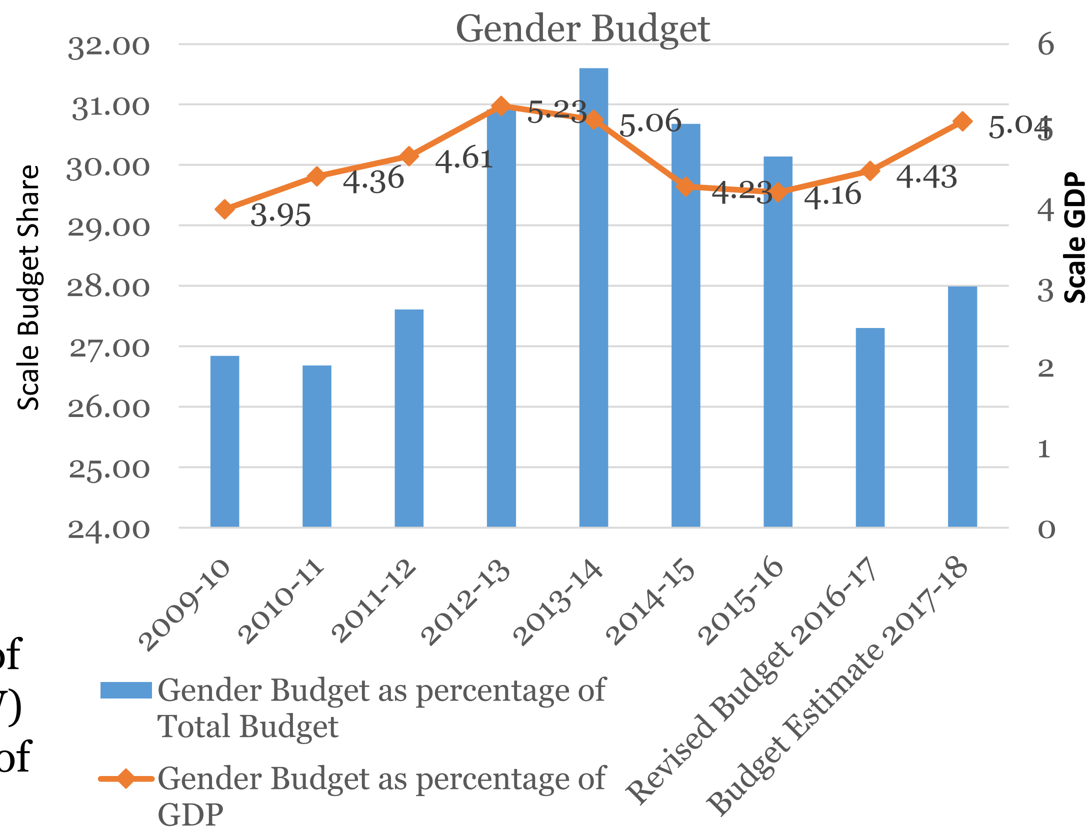
Inclusivity of Budget

- **Gender Budget**

❖ Allocation for Gender Budget in FY18 (Tk 1,120,19) increased by 29.3% against RBFY17.

❖ Share of Gender Budget in Total budgetary allocation in **FY18 (27.99%) is still far from peak of FY2013-14 (31.6%).**

❖ **6 New Divisions Involved -** 2 additional Divisions within both Ministry of Education and Ministry of Health and Family Welfare (MoHFW) and Ministry of Home Affairs (total of 43 Ministries)



❖ MoHFW introduced new allocation to Medical Education and Family Welfare Division at Tk 1,016 crore.

- ➢ Allocation **increased** for 32 ministries and **decreased** for 7 Ministries (same for 1)
- ➢ **Highest Allocation** for women in Local Governance Division (Tk 11,804 crore or 10.5% of Gender Budget) and **Lowest** in Ministry of Commerce (Tk 39 crore or 0.03% of Gender Budget)

V. IMPLEMENTATION PLAN

Inclusivity of Budget

- **Child Budget**
- **The Child Budget has been announced for the third time, with increased coverage.**
- Allocation in Child-focused budget **increased at a growth rate of 21.4%**
  - Number of Ministry and Divisions increased to 15 in BFY18 (7 in BFY17)
  - Allocation has marginally decreased from 14.5% of total budget in BFY17 to 13.96% in BFY18.
- **Highest Allocation** under Ministry of Primary and Mass Education (Tk. 218.71 bn) and **Lowest** under Ministry of Labour and Employment at Tk 17 crore (6.84% of the ministry's budget)

Fiscal Year	Budget allocated (In Bn Cr. TK)	As % of Total Budget	As % of GDP	No. of Selected Ministries
Actual FY16	383.88	14.5	2.23	5
Actual FY17	460.2	14.51	2.35	Increased from 7 to 13 Ministries and Divisions (including 4 Divisions)
Estimate FY18	558.6	13.96	2.51	13 Ministries and Divisions (including 4 Divisions)

- **Proposed Child-focused budget framework**
  - Using needs analysis across life cycle
  - Expressed need to develop and implement M&E Framework
- **Children Act of 2013**
  - Said to have legal instruments to protect children
  - Against exploitation, abuse from child marriage and child labour
  - Lack of access to justice system.

CPD (2017): An Analysis of the National Budget for FY2017-18

Inclusivity of Budget

❑ Climate Relevant Allocation

- **Out of Total Budget – 19.20% is Climate Relevant**
- FY18 Budget Estimates show a **downward trend** in allocation for climate relevant allocation.
- **Local Government Division** - Noticeable **increase** in Climate Change (CC) allocation as % of **Total Ministry Budget in FY17 to FY18 increased from 6.37% to 7.23% respectively**
- **Ministry of Agriculture – Significant Decrease** in Climate Change (CC) allocation as % of **Total Ministry Budget in FY17 to FY18 decreased from 52.60% to 40.58%**

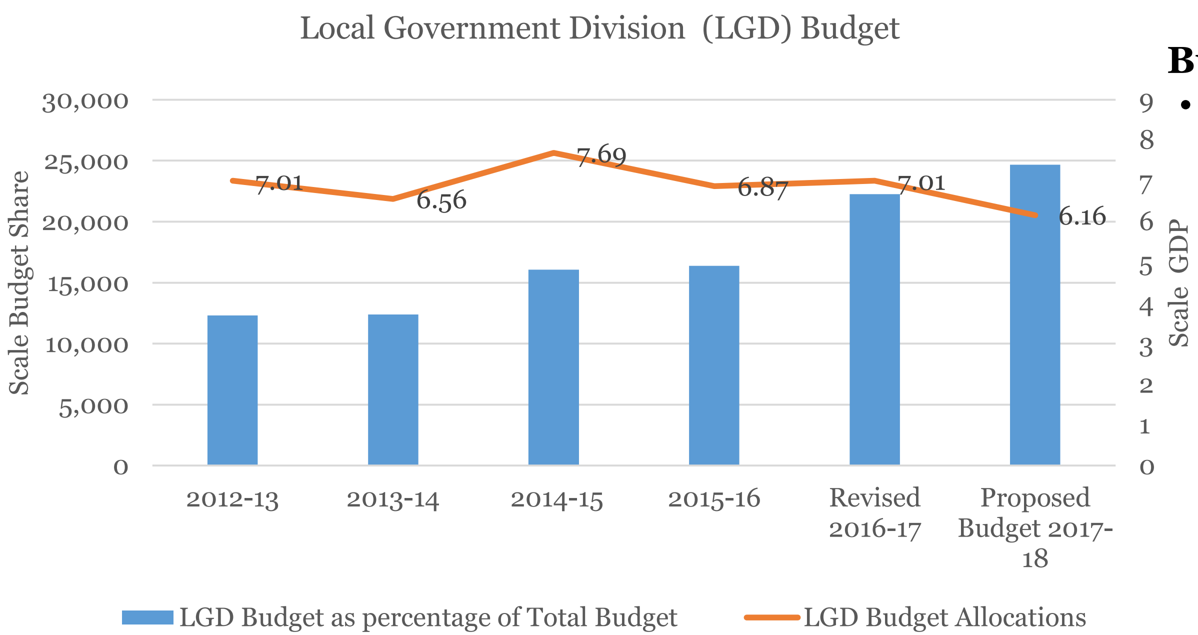
Climate Relevant Allocation

Fiscal Year	Budget Allocated	As % of Total Budget	As % of GDP
Actual 2014-15	94,049,267	17.95	0.62
Actual 2015-16	123,707,312	20.7	0.71
Actual 2016-17	137,738,867	20.88	0.7
Budget Estimate 2017-18	146,366,106	19.2	0.66

CPD (2017): An Analysis of the National Budget for FY2017-18

Inclusivity of Budget

❑ Local Government Division



Budget Allocation in FY18:

- Allocation for LGD in FY18 has increased (growth in FY18 over RBFY17 was 10.85% and 18.4% respectively). However, **allocation for LGD as a share of total budget has decreased**.

- The **decreasing pattern** for LGD Allocation share of total budget follows **an alternating trend**, **decreasing** in **FY14, FY16** and now in **FY18.**
- Allocation for **Rural Development and Cooperatives Division** in FY18 has increased by 36.8% from BFY17 and **remains increased from RBFY17 by 16.08%**

Inclusivity of Budget

❑ **Marginalised Groups**

Physically Challenged People

➢Proposed to **provide identity cards** to Physically Challenged people by using already compiled database. *However, how this identity card will benefit or be utilised is not mentioned.*

➢Proposed **increasing number of beneficiaries of Education Stipend Allowances** for disabled people at primary and secondary levels

Char, Haor and Backward Areas

➢**Special allocation** for Tk 200 crore for **implementation of ongoing projects**, overall development including **health and education systems**, by 10,000 adding 5000 at each level

Transgender

➢**Increased Special allowance** by Tk 2.35 crore to Tk 11.35 crore

Enabling Environment

Budget FY18 – Chapter VIII: Good Governance and Institutional Development- An Assessment

- In FY18 Budget Speech, a separate chapter on 'Good Governance and Institutional Development'- following last fiscal year's tradition.
- 12 areas have been covered with around 42 policy initiatives and commitments in various stages of conception or implementation
  - 14% have specific actions implemented;
  - 7% have specific actions mentioned;
  - 50% at various stages of implementation or have been initiated
  - 29% are general statements with no specific action/measure mentioned
- Areas according to descending number of initiatives:
  - Public Financial Management: 8 [*also includes greatest number (4) of initiatives in the pipeline]
  - Public Administration: 7
  - Pension: 4
  - Rule of Law and Climate Finance: 1 each

Selected FY17 initiatives followed up in FY18 Budget Speech

- **Status of FY17 initiatives given in FY18 Speech**
  - **Implemented**: iBAS and VoP
  - **Timeline unspecified**: For implementation of iBAS++ and automating land management system at Upazila level and National Single Window (NSW)

- **Selected FY17 initiatives not mentioned in FY18 budget speech**
  - Electronic at-source tax management
  - Proposed minimum Tax System instead of final settlement of taxes
  - In addition to appointing observers in different banks, updating of risk management guidelines

Table: CPD Recommendations and Implementation Status Analysis

CPD recommendations	Status
Formulate an appropriate foreign aid policy in view of the changed global aid architecture	Nothing in Budget FY18; National Policy on Development Cooperation finalised in March 2017, awaiting cabinet approval
Provide quarterly reports on budget implementation in Parliament	Irregular publication; last published in December 2016
PPP Act	Enacted and gazetted on Sept 16, 2015; has not taken off
Privatisation	FY16 Budget mentions merger of Privatisation Commission with BOI - no known privatisation in last three years
Implementing the VAT and SD Act, 2012	Implementation in revised form by 1 July, 2017
Implementing new Acts on Direct Tax	Budget speech FY17 mentioned that the Act will be passed in July 2018
Automate VAT collection process by ensuring increased use of ECR/POS	FY18 mentions steps taken to ensure the use of ECR machines
Rationalise and modernise Customs Act with correspondence to the current industrial and export policies	FY18 mentions that the Bangla version of the New Customs Act, incorporating international best practices, has been prepared
Constitute the long awaited Financial Council to operationalise Financial Reporting Act 2015 (FRA)	The process of forming a council under the Financial Reporting Act enacted is in the final stage and a Chairman has been appointed

CPD Recommendations: Yet to be implemented

- Establish an independent fiscal policy authority and separate the existing unit from revenue collection authority
- Introduce separate but integrated budget for local government and set up a permanent local government financing commission
- Integrate NGO financing in the public expenditure structure
- Set up an independent Public Expenditure Review Commission (PERC)
- Set up an Independent Financial Sector Reform Commission (IFSRC)
- Set up an Agriculture Price Commission
- An independent statistical commission to validate the macroeconomic correlates

VI. CONCLUDING REMARKS

VI. CONCLUDING REMARKS

There is very little scope for enhancing the delivery efficiency of this budget. One will have to get the political economy right in this regard. The time for that may have come and gone. Yet the Ministry of Finance needs to come up with a bold implementation plan, building on some of the ideas mentioned in the budget.

Thank You