



MEDIA BRIEFING
**AN ANALYSIS OF THE
NATIONAL BUDGET FOR FY2015**

06 JUNE 2014



CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H

a civil society think tank

CPD IRBD 2014 TEAM

Dr Debapriya Bhattacharya, Distinguished Fellow CPD and *Professor Mustafizur Rahman*, Executive Director, CPD were in overall charge of preparing this report as the Team Leaders.

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

Valuable research support was received from *Mr M Shafiqul Islam*, Additional Director, Administration & Finance; *Ms Khaleda Akhter*, Senior Research Associate; *Mr Muhammad Al Amin*, Senior Research Associate; *Mr Kishore Kumer Basak*, Senior Research Associate; *Mr Md. Zafar Sadique*, Senior Research Associate; *Ms Mehruna Islam Chowdhury*, Senior Research Associate; *Mr Uttam Kumar Paul*, Deputy Director, Accounts; *Mr Mashfique Ibne Akbar*, Research Associate; *Ms Farzana Sehrin*, Research Associate; *Ms Saifa Raz*, Research Associate; *Ms Umme Salma*, Research Associate; *Ms Umme Shefa Rezbana*, Research Associate; *Ms Mahenaw Ummul Wara*, Research Associate; *Mr Muhammad Zahir Hassan Nabil*, Dialogue Associate; *Mr Md. Naimul Gani Saif*, Research Associate; *Mr Mohammad Afshar Ali*, Research Associate; *Ms Shahida Pervin*, Research Associate; *Ms Afnan Ashfaque*, Research Associate; *Mr Mostafa Amir Sabbih*, Research Associate; *Ms Kashfi Rayan*, Research Associate; *Ms Shahzeen Hafiz*, Programme Associate; *Mr Ziad Quader*, Research Intern; *Ms Nadee Naboneeta Imran*, Research Intern and *Mr Ali Ishraq Khabir*, Research Intern, CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2014 Team.



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Concerned officials belonging to a number of institutions have extended valuable support to the CPD IRBD 2014 Team members for which the Team would like to register its sincere thanks

The CPD IRBD 2014 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report



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I. INTRODUCTION



I. INTROUCTION

- The national budget is an important policy document –
 - ✓ Means of addressing the political commitments
 - ✓ Medium for making policy pronouncements
 - ✓ Way to address prevailing and emerging economic challenges
- The budget has been prepared in the backdrop of –
 - ✓ Enhanced public investment
 - ✓ Stable inflation
 - ✓ Substantial surplus in BoP
 - ✓ Stable exchange rate
 - ✓ Augmented foreign exchange reserve
 - ✓ Stable (falling) global commodity prices
- At the same time -
 - ✓ Slowdown in GDP growth
 - ✓ Declining private investment
 - ✓ Significant shortfall in revenue mobilisation
 - ✓ Reliance on domestic sources for financing fiscal deficit
 - ✓ Depressed domestic demand



I. INTROUCTION

- The objectives of the budget for FY15 appear to be:
 - ✓ Attaining fiscal consolidation backed up by high growth of revenue
 - ✓ Revitalising economic growth momentum
 - ✓ Reverting the downturn of private investment
 - ✓ Further control of inflation
- It also seems that the Budget for FY15:
 - ✓ Has finally abandoned the Sixth Five Year Plan targets
 - ✓ The Seventh Five Year Plan has not been picked up
 - ✓ Has little reference to new and specific commitments of the recent election manifesto



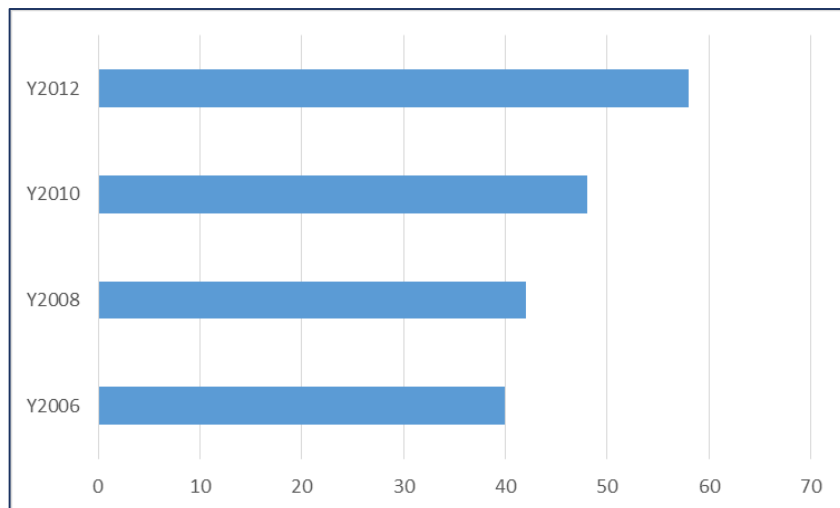
I. INTROUCTION

- CPD's analyses on the budget have been undertaken in view of –
 - ✓ Trends in macroeconomic correlates and outlook including the consistency between fiscal framework and macro targeting
 - ✓ Soundness of fiscal framework
 - ✓ Sectoral priorities
 - ✓ Sensitivity to social groups (e.g. gender, child, poor)
 - ✓ Regional dimensions (local government)
- Emphasises the importance of economic reform agenda
- Concludes with a set of summary observations



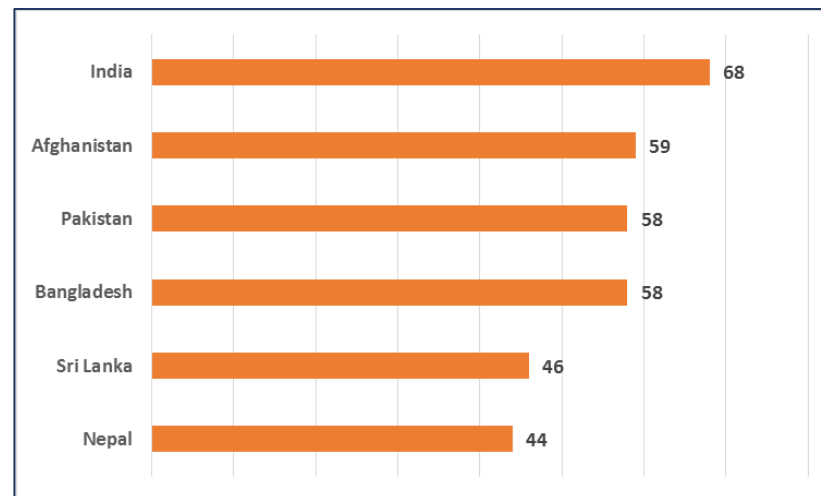
I. INTROUCTION

Bangladesh's score in Open Budget Index (OBI)



Source: Open Budget Index

OBI Score in South Asia (2012)



- Bangladesh has improved its performance in OBI over the years
- However, within South Asia Bangladesh's performance is average



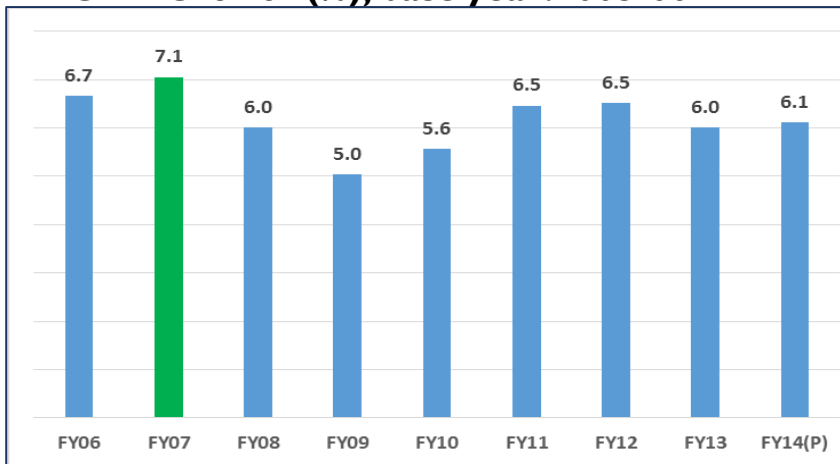


II. MEDIUM TERM OUTLOOK

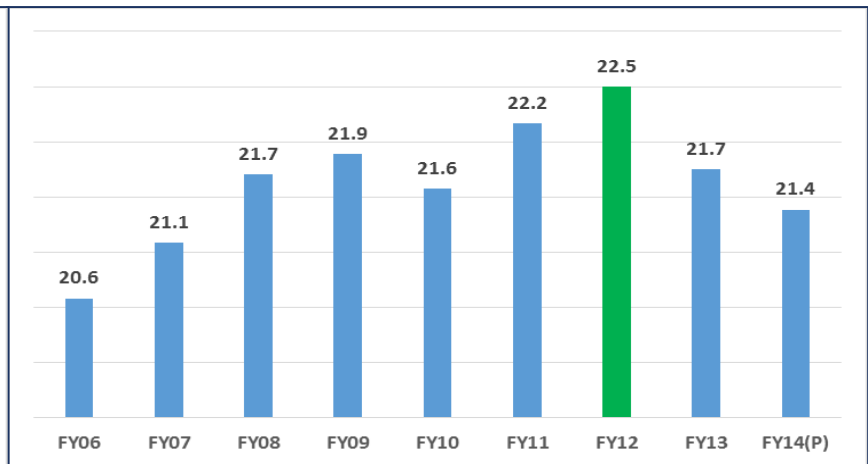


II. MEDIUM TERM OUTLOOK

GDP Growth (%), base year:2005-06



Private Investment as % of GDP, base year:2005-06

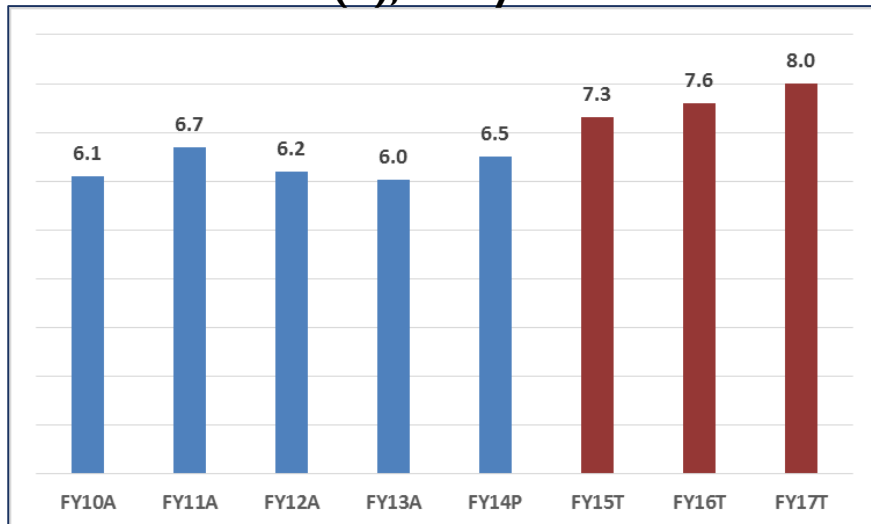


- The new estimates of GDP (base year 2005-06) is not used by the Finance Minister – although the Economic Review (published by the Finance Ministry) used the new estimates
- The same document also provides the medium term macroeconomic framework based on 1995-96 base year
- **Will the GDP growth target be compared with the new or old base year?**
- If GDP growth in FY15 has to be 7.3%, private investment (as % of GDP) has to grow from 21% to 25% (4-5% percentage points or around Tk. 75,000 crore additional amount of private investment or USD 9.5 billion) in a single year – an impossible target.
- Considering continuing improvement in public investment and trend capital productivity
- **Indeed dual approach is creating confusion!**

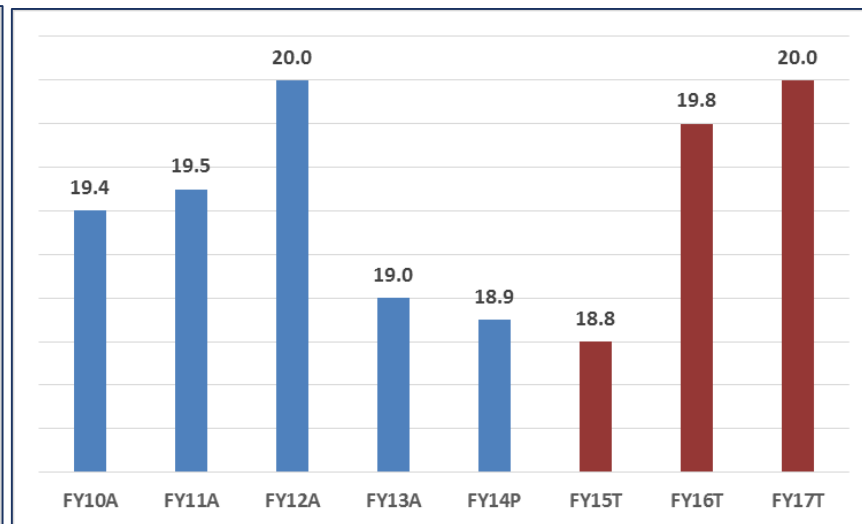


II. MEDIUM TERM OUTLOOK

GDP Growth (%), base year: 1995-96



Private Investment as % of GDP, base year: 1995-96

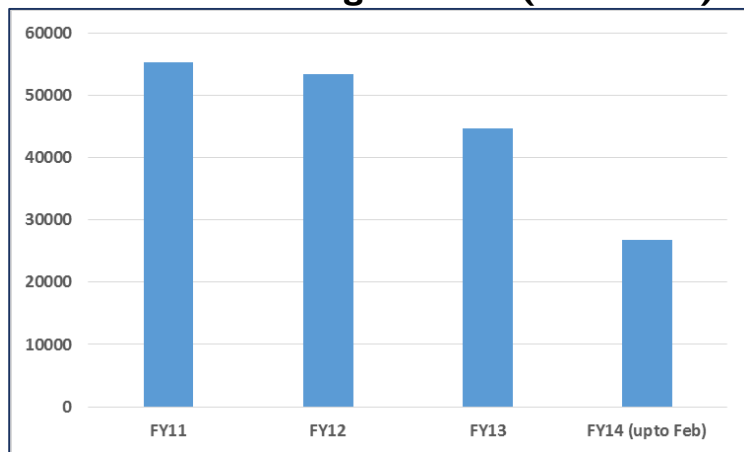


- GDP growth for FY15 is possibly a desirable target, which regrettably does not have any substantive basis
- The Finance Minister is expecting **favorable weather** and **political stability!**
- Public investment (as % of GDP) is expected a rise by 1.2 percentage points in FY15
- However, the projection shows that in FY15 **private investment as a share of GDP will continue to decline** (for third consecutive year), but will ensure higher growth of GDP!

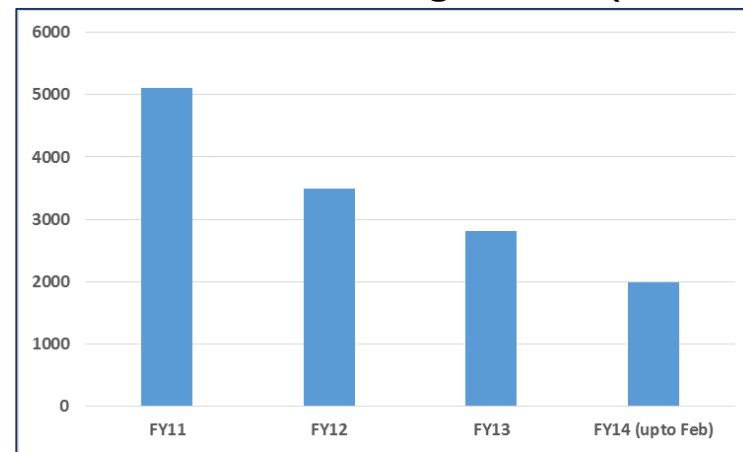


II. MEDIUM TERM OUTLOOK

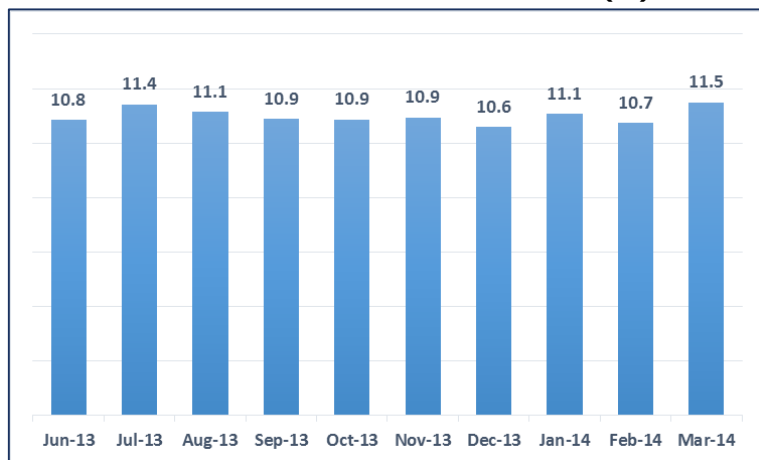
Local Investment Registration (Crore Tk.)



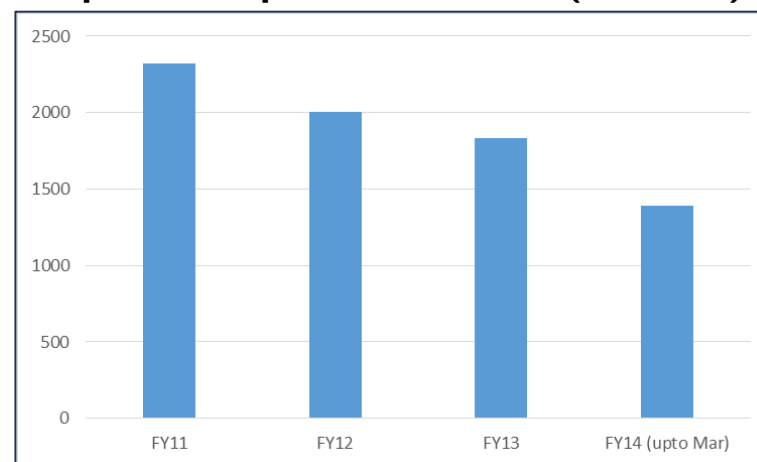
Joint Venture Investment Registration (Crore Tk.)



Growth of Private Sector Credit (%)



Import of Capital Machineries (million \$)



II. MEDIUM TERM OUTLOOK

- Private sector credit growth for FY14 is reported to be 16.5% (11.5% as of March 2014)
- Inflation rate to come down to FY14 at 7.0% (7.5% in April 2014)
 - ✓ Target for FY15 is set at 6.0%
- Export is expected to increase by 15% in FY15
- Import on the other hand is anticipated to grow by 15% in FY15
- 10% growth of remittances inflow is envisaged for FY15 ((-) 3.6% growth during Jul-May FY14)
- Foreign exchange reserve at the end of FY14 will be \$16.9 bln (20.4 bln on 3 June'14)
 - ✓ 2.6 months of imports!
 - ✓ Should be 5 months of imports - is it a computational error?!



II. MEDIUM TERM OUTLOOK

- It can also be seen that the medium term outlook proposed by the government has predicated a very optimistic scenario - e.g. 8% GDP growth in FY17
- GDP growth will accelerate, while inflation will systematically slide
- Similarly, the budget deficit will reduce (as % of GDP), while the financing will be more from foreign sources
- Basis of such optimistic medium term outlook is quite obscure.
 - ✓ Poor projection of macroeconomic correlates
 - ✓ Weak quality of fiscal planning
 - ✓ Little consistency between fiscal framework and macro targeting





III. PUBLIC FINANCE FRAMEWORK



III. PUBLIC FINANCE FRAMEWORK

- **Revenue** (16.8%) projected to grow **faster** than **public expenditure** (15.9%)
 - Total budget expenditure is set at 18.7% of GDP
 - Revenue income will be 13.7% of GDP
- **Development expenditure** (32.5%) programmed to **grow faster** than non-development revenue expenditure (14.3%)
- **ADP**: 32.1% of total public expenditure (27.7% in the RBFY14)
- **Budget deficit** has been projected at **5.0%** of GDP (same in RBFY14)
- Balance in financing budget deficit will be restored, if implemented –
 - **High foreign financing** target (30.7% growth over the RBFY14) has been set with anticipated gross foreign aid flow of **USD 4.1 billion**
 - Government's **net bank borrowing** will **increase** by only 4.1%
- **The fiscal framework may once again be found to be vulnerable in the face of reality!**



III. PUBLIC FINANCE FRAMEWORK

Exploring Credibility of Fiscal Framework

Differences between Actual and Proposed Figures of Fiscal Variables (%)

FY	Revenue							
	NBR (1)	Non-NBR (2)	Tax Revenue (3=1+2)	Non-Tax Revenue (4)	Total Revenue (5=3+4)			
FY2012	-0.30	-7.20	-0.58	-13.95	-3.13			
FY2013	-7.95	-9.73	-8.02	-6.48	-7.77			
FY2014	-8.15	0.96	-7.82	0.96	-6.44			
Avg. FY12-FY14	5.47	5.47	5.96	7.13	5.78			
Expenditure								
	ADP (1)		Non-ADP (2)		Total Expenditure (3=1+2)			
FY12	-18.41		-2.27		-6.81			
FY13	-10.81		-8.47		-9.14			
FY14	-8.91		-0.25		-2.82			
Avg FY12-FY14	12.71		3.66		6.26			
Deficit Financing								
	Foreign Grants (1)	Foreign Loan (2)	Amortization (3)	Foreign Borrowing Net (4=2+3)	Bank-Borrowing (5)	Non-Bank Borrowing (6)	Domestic Borrowing (7=5+6)	Total Financing (8=1+4+7)
FY2012	-27.29	-49.09	4.64	-72.24	43.44	-59.17	12.32	-16.43
FY2013	6.33	-34.84	-10.07	-50.36	16.75	-50.94	4.45	-14.25
FY2014	-10.70	-11.28	-9.50	-12.43	15.35	38.00	20.66	8.20
Avg FY12-FY14	14.77	31.74	8.07	45.01	12.48	25.18	49.37	12.96

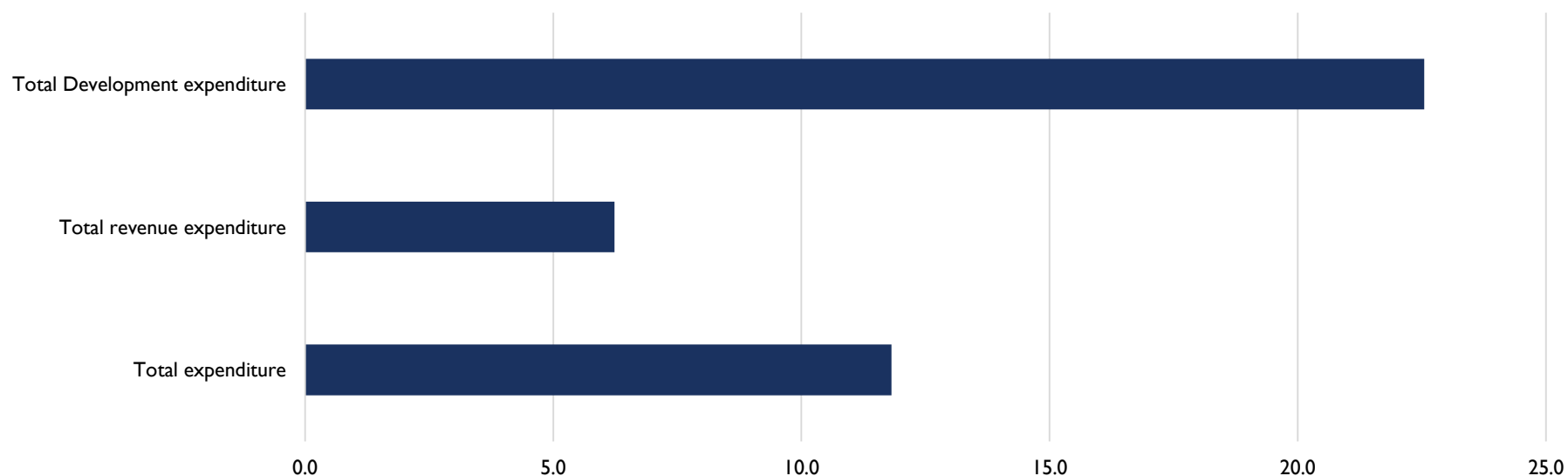
III. PUBLIC FINANCE FRAMEWORK

- Applying Chi-square test on fiscal variables of FY2001-FY2014, it is found that all the actual figures of fiscal variables significantly deviates from proposed figures
 - In FY2014, actual total financing was 8.2 per cent larger than proposed total financing. It was due to high actual non-bank borrowing and actual domestic borrowing in FY2014
 - The most volatile component of fiscal framework is total financing of which most volatile is domestic borrowing
 - The second most volatile component of fiscal framework is total expenditure of which most volatile is ADP
 - The third most volatile component of fiscal framework is total revenue of which most volatile is non-tax revenue
- Quality of planning in the area of fiscal framework in Bangladesh remain wanting



III. PUBLIC FINANCE FRAMEWORK

Average (FY2005-06 to FY2012-13) expenditure difference between allocation and expenditure in real terms (base 2005-06)

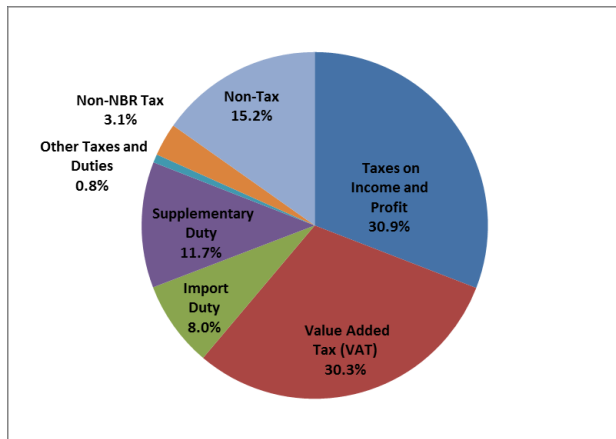


- Deviation of total expenditure from allocation is 11.8 per cent over FY06 to FY13
- Deviation of development expenditure from allocated figures stands at 22.6 per cent
- This raises questions regarding the planning and implementation of public expenditure



III. PUBLIC FINANCE FRAMEWORK

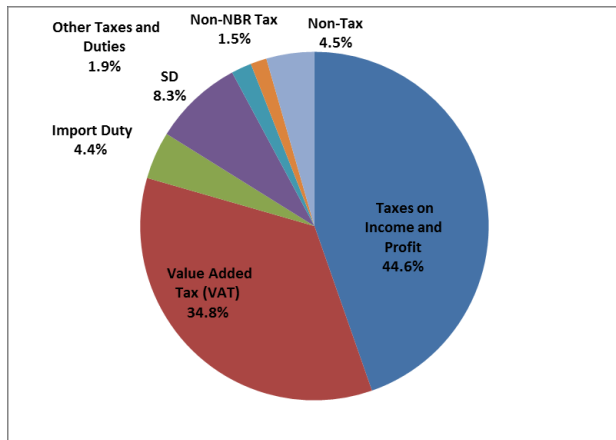
Share of Revenue FY15



Revenue Mobilisation

- FY15 budget targets an additional Tk. 26,283 crore revenue with a 16.8% growth over RBFY14
- NBR to take the lead role (accounting for 94.1% of incremental revenue) with 19.3% growth
- 44.6% of incremental revenue from income tax; while 34.8% from VAT
- Import duty collection growth target is set at 8.6%

Incremental Share of Revenue FY15



III. PUBLIC FINANCE FRAMEWORK

Revenue Mobilisation

- Non-NBR revenue growth for FY15 remain at a subdued level
 - ✓ In absence of any lump receipts (e.g. telecom license fee) the target looks to be on the high side
- Targets for non-NBR tax and non-tax were raised in RBFY14 over the unattainable targets for BFY14
- Overall revenue collection may fall short of Tk. 12,000-13,000 crore from the target of RBFY14 (around Tk. 23,000 crore from the budget target)
- Under such a scenario required growth rate for revenue in FY15 may shoot up to around **27%**, while for NBR the actual target may stand around **25%**
- Only in FY08 (27.4% - CTG effect) and FY11 (28.0% - international price effect) a higher growth was attained – two outlier years!



III. PUBLIC FINANCE FRAMEWORK

Total Public Expenditure

Sector	Share in BFY15	Share in RBFY14	Change in FY15B over FY14R	
	%	%	Crore Tk	%
Public Service	15.3	12.4	11349.0	42.2
Education and Technology	13.1	13.1	4497.0	15.9
Interest	12.4	12.3	4503.0	17.0
Transport and Communication	9.8	7.2	8940.0	57.7
Agriculture	7.6	8.2	1390.0	7.9
LGRD	7.1	7.1	2326.0	15.1
Defence Services	6.6	7.0	1282.0	8.4
Social Security and Welfare	6.1	5.7	2882.0	23.4
Others(Memorandum Item)	5.3	8.9	-5839.0	-30.4
Public Order and Safety	5.0	5.6	530.0	4.4
Fuel and Energy	4.6	4.6	1638.0	16.5
Health	4.4	4.6	1191.0	12.0
Industrial and Economic Services	1.1	1.7	-765.0	-21.0
Housing	0.8	0.8	321.0	18.5
Recreation, Culture and Religious Affairs	0.8	0.9	39.0	2.0
Total Public Expenditure	100.0	100.0	34284.0	15.9



III. PUBLIC FINANCE FRAMEWORK

Economic Analysis of Non-Development Revenue Expenditure

Indicators	Growth FY15/RBFY14	Share B FY15	Share RB FY14	Incremental Share FY15B	Change FY15/RBFY14
Pay and Allowances	4.4	21.2	22.5	9.4	1202
Goods and Services	0.3	12.1	13.3	0.4	46
Interest Payments	17.0	23.0	21.7	35.1	4503
<i>Domestic</i>	17.9	21.7	20.3	34.7	4451
<i>Foreign</i>	3.1	1.3	1.4	0.4	52
Subsidies and Current Transfers	11.2	37.1	36.9	39.5	5057
Block Allocation	312.5	1.4	0.4	11.1	1428
Acquisition of Assets and Works	9.0	5.2	5.3	4.5	579
Non-Development Revenue Expenditure	10.5	100.0	100.0	100.0	12815

- Allocation for Public Services is set to be 1.4 times of RBFY14 (Tk. 11,349 crore)
 - ✓ Tk. 10,269 crore additional allocation for Finance Division! – 90.5% of the incremental allocation for Public Services
 - ✓ Additional Tk. 6,466 crore allocation for Investments in Shares and Equities – 57.0% of the incremental allocation to Public Services
 - ✓ Tk. 5,000 crore has been for Investment for Recapitalisation
- Highest incremental share to Subsidies and Current Transfers, followed by interest payments and block allocation – block allocation is to increase by a substantial margin!
- Interest payment remains the sector with third highest allocation
 - ✓ Domestic Interest Payments will increase by 17.9% in FY15– about 34.7% of total incremental augmented non-development revenue expenditure



III. PUBLIC FINANCE FRAMEWORK

Subsidy

- No clear mention of the total demand proposed for FY2015
- Total subsidy allocation is reduced by (-) 18.2%
- Total subsidy in BFY14 is 2.0% of GDP which was 2.7% in RBFY14
 - ✓ Kept within the IMF-ECF indicated limit
- BPC subsidy is expected to be (-) 61.9% lower
 - Higher tariff values are proposed for import of petroleum! Will increase subsidy demand
 - Will it require another price adjustment?!
- PDB subsidy for power is expected to be 14.8% higher
- These are reflected in loans and advances ((-) 39.9% reduction)
- Allocation for net loans and advances is kept below the IMF-ECF limit
- Agriculture subsidy will be Tk. 9,000 crore – same as the previous year
- For export sector, allocation is increased by 10%



III. PUBLIC FINANCE FRAMEWORK

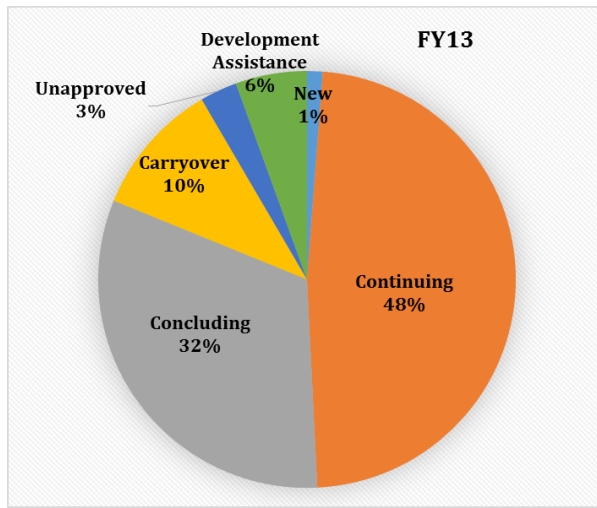
Annual Development Programme (ADP)

- **ADP** of Tk. 80,315 crore (**6.0% of GDP**) has been proposed for FY15
- 33.9% higher than RADP for FY14 and 21.9% higher than ADP for FY14
 - ✓ It will be 41% higher if there is a 5% shortfall in RADP for FY14 implementation
 - ✓ Project Aid component will be 34.5% of total ADP (35.3% in RADP of FY13 and 37.3% % in original ADP of FY13)
 - ✓ Tk. 3,060.6 crore has been provided to development assistance programmes
 - ✓ Tk. 3,006 crore has been allocated to unapproved block allocation
- Self-financed development budget is reported for the second time
 - ✓ Allocation for autonomous bodies and corporations has been reduced to Tk. 5,686 crore (Tk. 8,114 crore for FY14)
 - ✓ Only 1,744 crore has been implemented upto April 2014

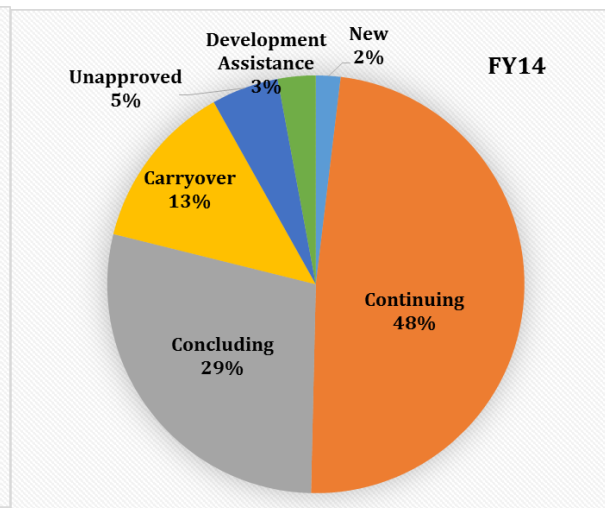


III. PUBLIC FINANCE FRAMEWORK

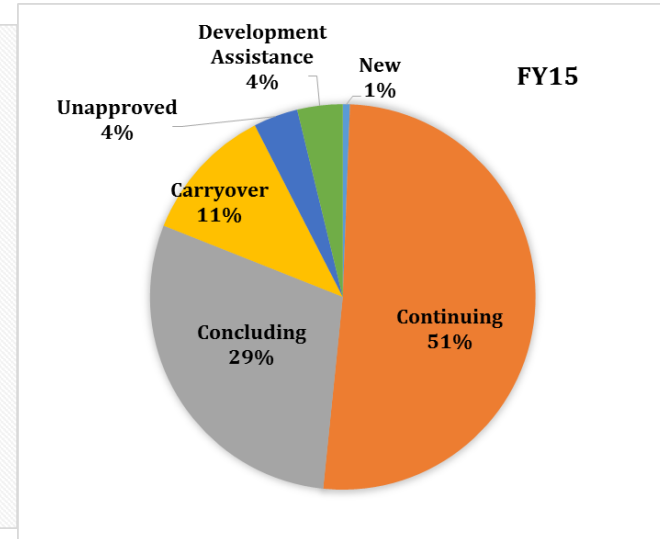
- The ADP for FY15 contains **1,034 projects** (1046 for ADP of FY14)
- **Another 684 unapproved** projects has also been listed in the ADP FY15



Number of Projects
1037



Number of Projects
1046



Number of Projects
1034

- Similar trend in the structure of ADP continues
- Only **29 new projects** are included: 0.6% of total ADP;
 - ✓ 202 new projects were included in the RADP for FY14; 157 new projects were included in the RADP for FY13



III. PUBLIC FINANCE FRAMEWORK

- More than half of the allocations (about 51.0%) are provided to 352 projects which are suppose to continue to the next ADP (for FY16)
- However, highest number of projects (357 projects) are to be concluded in FY15, according to project completion timeline
- **296 carryover projects** consist of **11.4%** of the total allocation
 - ✓ Transportation sector has 87 of these projects, while ‘Physical Planning, Water Supply & Housing’ Sector also has 53 number of similar projects
- Planning Commission identified some **305** of these projects to be **completed in FY14**
 - ✓ However, 110 projects (36.1%) have been carried forward to this list from ‘expected to be completed’ list for ADP FY14
- It has become a tendency in recent years to list a set of unapproved projects, similar to ADP

Project Status	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Unapproved projects without Allocation	407	492	800	702	720	662	624
Projects listed to seek Foreign Funds	160	227	292	259	327	346	338
Total Number of Projects in the ADP	904	886	916	1039	1037	1046	1034



III. PUBLIC FINANCE FRAMEWORK

Top Five Sectors in ADP FY15

Sector	No of Projects ADP FY15	Share (%) ADP FY14	Share (%) RADP FY14	Share (%) ADP FY15	Growth (%) ADP FY15
Top Five Sectors	581	68.7	64.5	66.5	37.9
Transport	189	23.3	17.2	23.4	82.9
Education & Religious Affairs	112	13.3	13.3	12.2	22.9
Power	53	13.7	13.4	11.6	15.0
Physical Planning, Water Supply & Housing	131	8.3	9.0	10.0	49.2
Rural Development & Institutions	96	10.1	11.6	9.3	6.7
Other 12 Sectors	453	28.3	31.9	29.7	24.5
Development Assistance	NA	2.9	3.5	3.8	44.2
Total	1034	100.0	100.0	100.0	33.9

- **Top 5 sectors** have received **66.5%** of total allocation
 - ✓ Transport Sector once again received both highest number of projects and amount of allocation (23.4% of total allocation): 82.9% growth over RADP FY14
 - ✓ Impact of Padma Bridge once again!



III. PUBLIC FINANCE FRAMEWORK

- Total allocation for PMBP for FY15 is **Tk. 8,100 crore i.e. 39.5%** of the total cost
 - ✓ Accounts for 29.8% of incremental allocation of ADP FY15 over RADP FY14
 - ✓ Only 10.7% of the project cost has been implemented upto March 2014
 - ✓ The project cost was estimated in 2009 – needs revisit!
- Foreign exchange reserves will definitely suffer erosion if there is no notable external financing associated with the project
- One of the priority projects '**Dhaka-Chittagong 4-lane project (revised)**' is expected to be completed by December 2014
 - ✓ If RADP FY14 allocation for the aforesaid project is assumed to be fully utilised, share of implementation over its project cost would be 50.8%
 - ✓ The project received only Tk. 500 crore in ADP for FY15 (which is 15.7% of project cost) and the project is 'not' included 'to be completed' reported by the Planning Commission
 - ✓ One can question as regards possibility of completion of the project in due time – adequate allocation has also not been received
- Many of the projects to be complemented were carried forward to the next ADP due to inadequate allocation (i.e. Ashugonj 450MW, Siddhirgonj 335 MW Projects etc.)



III. PUBLIC FINANCE FRAMEWORK

- It appears that number of new projects in ADP FY15 was limited - however, the practice of “**symbolic allocation**” (the minimum to keep the project in the ADP list) is still **pervasive**
- **13 projects under ADP received only Tk. 1 lakh for FY15**
 - ✓ 10 of those are investment projects
 - ✓ 9 of those are carryover from ADP FY14
 - ✓ 7 of the 13 projects are from Transport sector
- **26 ‘investment’ projects under ADP received only Tk. 1 crore or less (besides those 10 investment projects with 1 lakh allocation) for FY14**
 - ✓ 16 of the projects are carryover
 - ✓ As a whole these 26 projects received only Tk. 10.2 crore allocation in ADP FY15 (averaged Tk. 39.3 lakh per project)
 - ✓ Projects from 11 different sectors shared this allocation



III. PUBLIC FINANCE FRAMEWORK

- The business as usual as regards ADP continues -
 - ✓ Large number of projects with stagnating capacity
 - ✓ Challenges of concluding and carry-over projects
 - ✓ Preponderance of unfunded projects
 - ✓ No attempt to bring discipline in the ADP
 - ✓ No prioritisation framework
 - ✓ No result-based monitoring



III. PUBLIC FINANCE FRAMEWORK

Budget Deficit and Financing

Description	BFY15		RBFY14		Growth
	Core Tk	% of GDP	Core Tk	% of GDP	FY15 over RB FY14
Revenue Collection	182,954	13.7	156,671	13.3	16.8
Total Expenditure	250,506	18.7	216,222	18.3	15.9
ADP	80,315	6.0	60,000	5.1	33.9
Non-ADP	170,191	12.7	156,222	13.2	8.9
Overall Deficit (Excl Grants):	67,552	5.0	59,551	5.0	13.4
<i>Financing</i>					
Foreign Grants	6,206	0.5	5,956	0.5	4.2
Foreign Loan-Net	18,069	1.3	12,613	1.1	43.3
Foreign Loan	26,519	2.0	21,058	1.8	25.9
Amortization	8,450	0.6	8,445	0.7	0.1
Domestic Borrowing	43,277	3.2	40,982	3.5	5.6
Bank Borrowing (Net)	31,221	2.3	29,982	2.5	4.1
Non-Bank Borrowing (Net)	12,056	0.9	11,000	0.9	9.6
Net Aid Requirement	24,275	1.8	18,569	1.6	30.7
<i>Net Aid Requirement (USD)</i>	<i>3.1</i>	<i>1.8</i>	<i>2.4</i>	<i>1.6</i>	<i>30.7</i>
Gross Aid Requirement	32,725	2.4	27,014	2.3	21.1
<i>Gross Aid Requirement (USD)</i>	<i>4.1</i>	<i>2.4</i>	<i>3.4</i>	<i>2.3</i>	<i>21.1</i>

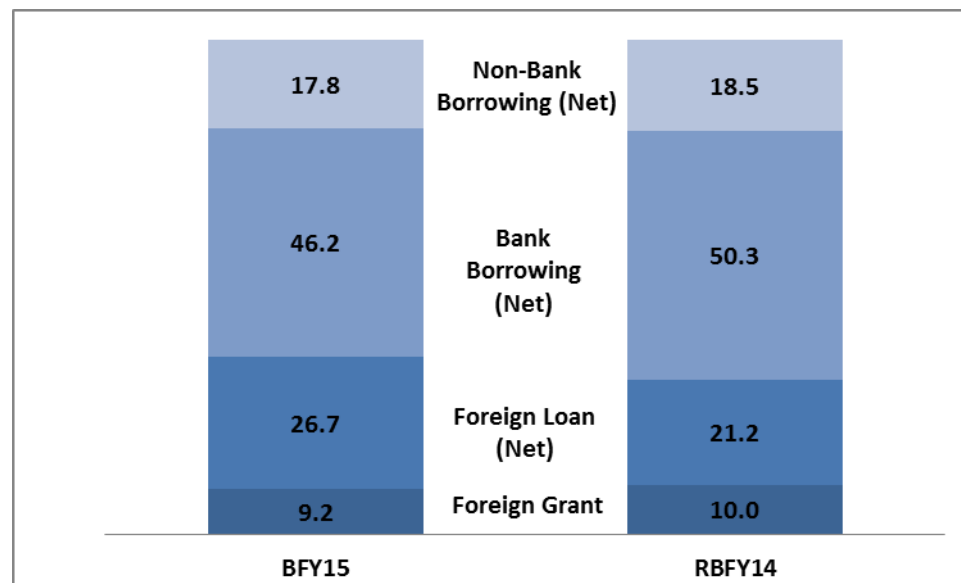
- 71.3% of incremental deficit will be financed by foreign sources



III. PUBLIC FINANCE FRAMEWORK

- ▶ Share of **domestic financing 64.1%** (68.8% in RBFY14)
- ▶ **Tk 31,221 crore** (46.2%) will come from the **bank borrowing** (50.3% in RBFY14)
- ▶ Tk 12,056 crore (17.8%) will come from non-bank sources (18.5.0% in RB of FY14)
- ▶ Share of foreign financing will be 35.9% in FY15 (31.2% in RB of FY14)
- ▶ **Gross foreign aid requirement will be around USD 4.1 bln (USD 3.4 bln in RBFY14)** – an almost impossible target in view of **only USD 2.4 billion** being received during **Jul-Apr FY14**.

Sources of Deficit Financing





IV. FISCAL MEASURES



IV. FISCAL MEASURES

Personal Income Tax

- Personal **income tax threshold** has remained the same at **Tk. 2,20,000**
 - ✓ Needs to be revised upwards to Tk. 2,50,000 considering the current inflation rate (7.48% in April, 2014)
 - ✓ Taxable threshold in Bangladesh is lower than in India, which is IRs. 2,00,000 (equivalent to Tk. 2,56,000)
- Threshold for women and senior citizens has been revised upwards to Tk. 2,75,000 from Tk. 2,50,000
- For Physically challenged: the threshold has been increased to Tk. 3 lakh50 thousand from Tk. 3,00,000
- New threshold has been added for and war-wounded freedom fighters at Tk. 4,00,000
 - ✓ Welcome moves to lessen the pressure on marginal taxpayers



IV. FISCAL MEASURES

Personal Income Tax

- The fourth slab have been changed in FY15 (from 3 lakh to 5 lakh) and a new fifth slab of 30 lakh has been added
- **A new marginal tax rate of 30%** has been imposed for income **higher than Tk. 44,20,000, i.e. to be applicable on persons with a monthly salary of about Tk. 3,70,000**
 - ✓ Laudable move towards progressive taxation and higher resource mobilisation

Proposed Individual Tax Rates

Income Threshold (Yearly)	Tax Rate	Taxable Income (Monthly)
On first Tk. 2,20,000 of taxable income	nil	1 to 18,333
On next Tk. 3,00,000 of taxable income	10%	18,334 to 43,333
On next Tk. 4,00,000 of taxable income	15%	43,334 to 76,667
On next Tk.5,00,000 of taxable income	20%	76,668 to 118,333
On next Tk.30,00,000 of taxable income	25%	118,334 to 368,333
Balance of Income above TK 44.20 lakh	30%	368,334 and above



IV. FISCAL MEASURES

Wealth Surcharge

- In FY15, rates of wealth surcharges have been thoroughly revised
 - ✓ 20% surcharge will be imposed on individuals with wealth between Tk. 20 crore to Tk 30 crore and 30% surcharge on assets above Tk 30 crore
- Positive move to increase revenue and to improve distributive justice

Corporate Tax

- Tax for **Non-Publicly Traded Companies** has been decreased from 37.5% to 35%
 - ✓ Gap with publicly traded companies has been narrowed down
- **Minimum Turnover Tax** has been reduced to 0.50% from 0.30%
 - ✓ This will support SMEs
- Other corporate taxes (publicly traded companies, Banks, Insurance, mobile phones) remain unchanged



IV. FISCAL MEASURES

Tax at Source

- Rate of tax at source on the deed value of land has been increased from 3% to 4% in areas other than the important commercial and posh areas within the jurisdiction of RAJUK and CDA.
- Besides, tax at source has been imposed at 3%, 2% and 1% on registration value in other City Corporations and municipalities at district headquarters, other municipalities, and other areas outside municipalities respectively.
 - ✓ Good move to earn additional revenues



IV. FISCAL MEASURES

Undisclosed Income

- Scope of voluntary disclosure of income by paying tax at normal rate plus an additional 10% penalty remains unchanged
- Scope to invest in government treasury bond paying only 10% tax remain unchanged
- Opportunity to whiten black money by investing in residential building and apartments
 - ✓ This is financially and morally unacceptable
 - ✓ Moreover, this provision is an unjust scheme that creates a culture of tax evasion. This is also discrimination against honest tax payers. Contradicts other measures of taxation
 - ✓ The Finance Minister opted to remain silent about it in his budget speech



IV. FISCAL MEASURES

Import Duty

- Significant reduction in import duties has taken place
 - ✓ Supplementary Duty (SD) on 770 items has been changed – loss of Tk. 500 crores!
 - ✓ To help local industries, several Customs Duties (CD) have been reduced on raw materials used in paper, glass, rubber, furniture and plastic industries
 - ✓ Import duty on raw materials used in textile sector has also been reduced to 10% from 5 % and from 5% to 3%
 - ✓ It appears that for some items reduction in SD was paralleled by rise in CDs to give protection to domestic industries
 - ✓ Tariff value of crude petroleum has been increased by \$ 8/barrel (tariff value of other refined petroleum products also increased by 9 cents/litre). This has both tax implications and subsequently subsidy implications



IV. FISCAL MEASURES

Import Duty

- 2 more slabs have been added with the existing 10 slabs of SD (15% & 200%)
- Raw materials of Pre-Fabricated Building and fire safety equipment have been fully exempted from import duties
 - ✓ This should help RMG owners to relocate their factories and to help address compliance issues in RMG industry

SD on Motor Vehicles

- SD on 2 types of cars have been reduced: from 150% to 100% for 1751-2000cc cars and from 250% to 200% for 2001-2750cc cars: Will help the rich!
- 60% SD has been imposed on import of new hybrid cars
- SD on Microbuses and Double Cabin Pickups has been increased too



IV. FISCAL MEASURES

Export Duty

- 10% new export duty has been imposed on Rice bran
 - ✓ Will reduce the pressure on imported edible oil (import duty on edible oil has been raised)

Tax at Source

- Reduction in tax at source (from 0.8% to 0.3%) for garments exports:
A major incentive
- For all other export sectors tax at source has been reduced from 0.8% to 0.6%
 - ✓ In the backdrop of the difficulties faced by the jute sector (drastic reduction in export), the sector should receive no less support relative to RMG



IV. FISCAL MEASURES

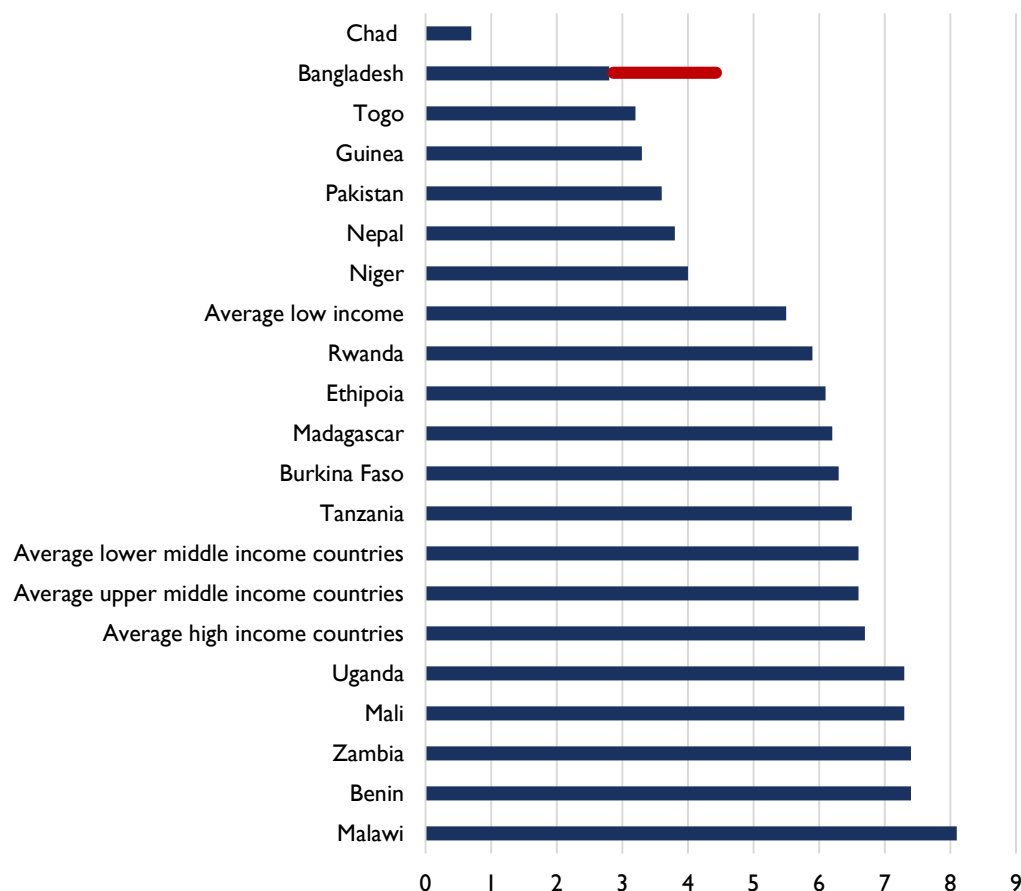
VAT

- The forthcoming VAT Law 2012 (to be implemented from June, 2015) broadly aims to undertake the following:
 - ✓ **Substantial improvements in VAT administration and staff arrangements**
 - ✓ **Decentralisation of field offices**
 - ✓ **Extensive improvements in information technology**
 - ✓ **Specialisation of tax employees to cater to a range of specialized functions for the taxpayers**
 - ✓ **Assignment of tax officials**
 - ✓ **Establishment of Processing centre, Data centre and Contact centre**
- A number of key initiatives remain incomplete
- The VAT strategic plan aims to achieve a VAT-GDP ratio of 4.6 percentage points (which currently stands at 3.9% in RBFY2014)



IV. FISCAL MEASURES

VAT revenue (as percentage of GDP)



- Bangladesh's VAT rate coincides with the standard VAT rate of 15 to 20 per cent
- Bangladesh fares very poorly as compared to other low income countries in terms of VAT-GDP ratio
 - ✓ In 2011 Bangladesh lagged behind 15 out of the 16 low-income countries considered in the analysis; if target of 4.6% is achieved, Bangladesh will be behind 11 of the 16 countries

Source: IMF (2011)

IV. FISCAL MEASURES

- FY2015 budget proposals which ought to be appreciated:
 - ✓ Launch of online registration from 01/01/2015 and online filing of return by end June, 2015
 - Should be implemented at the earliest to ensure widening of the tax base
 - ✓ Setting a cap for maximum penalty of VAT evasion
 - ✓ 1% 'Health Development Surcharge' and tax incidence hike for cigarettes
 - ✓ Will the new money be spent on health Sector?
 - ✓ Tax exemption of services related to the export-oriented industries
 - Will benefit exporters and overall export
 - ✓ Existing 23 sectors under the VAT regime will be charged the 'standard' VAT rate of 15%
 - Removal of the truncated base value system in line with the new VAT Law



IV. FISCAL MEASURES

- ✓ VAT enhancement in English medium schools, jewellery items and land development and building construction sectors
 - Luxury items have been targeted – needs to be appreciated

Welcome fiscal measures:

- ✓ VAT reduction on edible oils to stabilize consumer prices
- ✓ Reduction of supplementary duty on filament bulbs
- ✓ Exemption of kidney dialysis procedures from VAT
- ✓ Fixed tax on replacement sim
 - Hopefully, this would act as a measure to curtail disputes with the mobile companies



IV. FISCAL MEASURES

Tax Holiday

- Existing tax holiday facilities have been extended till **June 2019** (Accelerated Depreciation has been reinstated for new industries)
- Tax holiday period extended from 7 years to 10 years for the existing industries in LDAs and the new ones (2014 to 2019)
 - ✓ Proper implementation must be ensured to prohibit misuse of the facility
- 5 years tax exemption for Demutualised Stock Exchange
 - ✓ This may not encourage investment until other factors (political stability, infrastructure, power etc.) for investment are there

Tax Rebate for Industries in LDAs

- 10% till 30 June, 2019 for the existing ones and 20% for the new or relocated ones
 - ✓ Will be helpful to reduce geographical imbalance in industrialisation



IV. FISCAL MEASURES

Tax administration

- Strengthening NBR needs to be addressed at the earliest given the uphill task in the form of augmenting challenging revenue targets for FY2015
- FY2015 budget mentions that around 9000 new positions have been created to strengthen functioning of NBR
- Some of the initiatives including simplification of income tax return, e-payment system, e-TDS system and e-filing, tax administration retrieval system, implementation of the ASYCUDA system have already taken place
- Several initiatives are yet to be realized
 - ✓ Implementation of New Income Tax law (draft prepared); Direct Tax modernization program not fully enforced; Business Identification number (BIN) program not implemented; Bills as regards amendments of Acts on Tax, VAT, Customs, Civil Procedure Codes for accommodating ADR are progressing at slow pace
- Expediting the modernisation plan through adequate financial and human resources will be crucial in the above regard





V. SECTORAL MEASURES





a. AGRICULTURE



a.AGRICULTURE

- Allocation for agricultural & allied sectors (AAS) is decreasing

Figure: Share of AAS in Total Budget

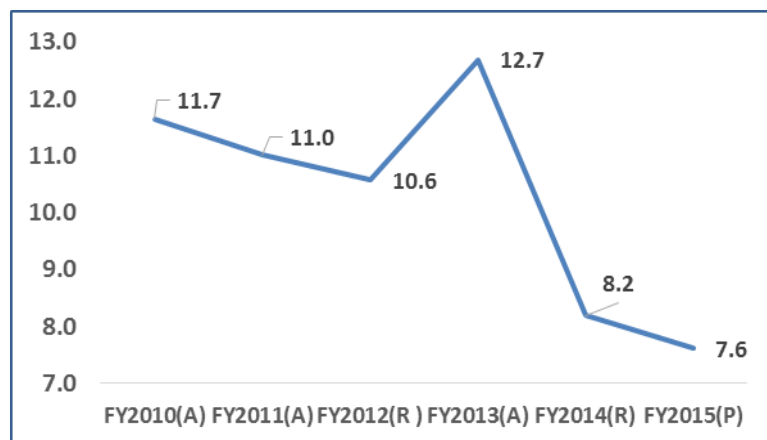
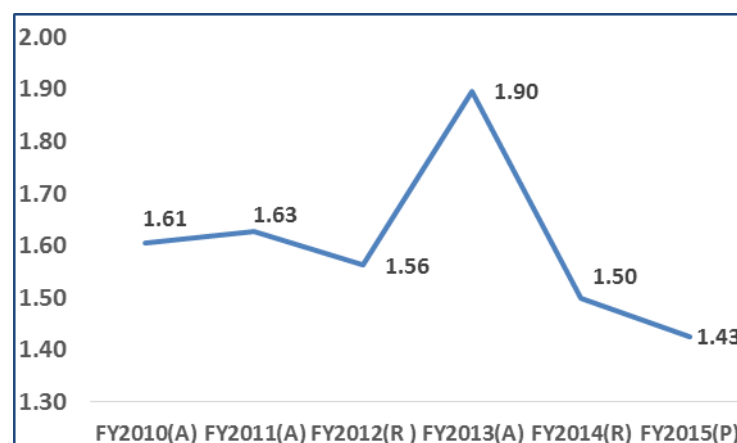


Figure: Share of AAS in Total GDP



- ✓ Average share of AAS in total budget was **10.8%** during FY10-FY14, but reduced to **7.6%** in FY15
- ✓ Average share of AAS in total GDP was **1.64%** during FY10-FY14, but reduced to **1.43%** in FY15
- ✓ Allocation for the Ministry of Water Resources increased by 30.6%. This is mainly due to rise in development budget by 40%.



a.AGRICULTURE


- Agricultural subsidy remains constant at Tk. 9,000 crore
 - ✓ It was 4.2 % of total budget in FY14 which with decline to 3.6% in FY15.
 - ✓ CPD estimates that if current administered prices of fertilizer in local market remain same and international prices prevail at the average prices of last 12 months, GoB will need Tk. 4,679 crore (52% of total Ag. Subsidy) to underwrite the projected fertilizer demand of 43.7 lac MT in FY15.
 - It could adversely affect the subsidy allocation for other agri-inputs subsidies such as seeds and irrigation
- To ensure fair prices of agricultural commodities, an **Agricultural Price Commission** needs to be set up on an urgent basis to ensure incentive price for the producers while maintaining market stability
- Introduction of **Authoritative Land Records** would help to reduce land litigation. Use of PPP to implement the project would also be a good move.



a.AGRICULTURE

- Food adulteration is a huge problem in Bangladesh. The **Pure Food Act, 2013** has been enacted but its implementation has not started yet.
 - ✓ **Pure Food Authority** needs to be established urgently
- Formulation of the **National Shrimp Policy 2014** would help Shrimp farming.
- Zero duty on poultry & livestock feed item Sorghum, Millet, Guar meal, & Zeolite
 - ✓ will reduce the prices of poultry feed, and
 - ✓ is expected to help the poultry farmers who have suffered during the political turmoil last year
- Providing identity card to fishermen is a good initiative. If there will be any government support for them in future, it will targeting





b. INDUSTRY



b. INDUSTRY

- Enhancing private investment within short to medium term requires a set of well-targeted and well-designed fiscal and budgetary measures
 - ✓ Need to address the supply side and demand side challenges
- A set of fiscal and budgetary measures has been announced in the national budget FY15 which partly addresses those challenges
 - ✓ Fiscal measures (direct impact on investment, production, export and sales)
 - Supply side issues: by reducing operational cost ; by enhancing revenue income
 - Demand side issues: by enhancing households' income and by reducing price of consumer products
 - ✓ Public investment (medium to long term impact on private investment)
 - Supply side issues: by enhancing investment in physical infrastructure (e.g. transport, power and energy) and social infrastructure (human resource development)
 - Demand side issues: by creating new jobs through increase in public investment



b. INDUSTRY

- A number of measures, however, constrain attaining the targets
 - ✓ Adverse impact on domestic industries due to reduction of CD/SD on imported finished products: *reduction of tax incidence: from -3% to -56%*
 - ✓ Insufficient allocation for key infrastructure ADP projects
 - ✓ Adverse impact on consumers for possible rise in retail price of consumer goods and services due to enactment of new VAT act along with withdrawal of VAT exemption and reduced VAT
- Curiously, proposed budget allocation for the Industrial sector in FY15 is lower than that that of RADPI4 (less than 21% and share of total public expenditure to fall by 0.6% point)
 - ✓ Reduced allocation for a number of ministries such as Industries, Labour and Employment but increased allocation for Jute & Textiles, Commerce, Expatriate Welfare and Overseas Employment: *Deprive private sector in getting early benefit*
 - ✓ ADP allocation (Tk.1830 cr.): 32.9% less than RADPI4; however, inclusion of self financed projects (Tk.348 crore) has decelerated the extent of negative growth (-20%)



b. INDUSTRY

- 43 projects related to industry sector are currently under implementation: a total of 24 projects are supposed to be completed by FY15 as per project timeline
 - ✓ ADPI5 claimed that 16 projects are likely to be completed in FY15: of these, 9 projects will near completion level if full budget allocation is made in FY15: *Positively contribute to investment in the private sector*
 - ✓ A number of those projects remain far behind the targeted timeline: Shahjalal fertiliser (87%), API Park (70%), BSCIC industrial estates in Sirajgonj (38%), and Borguna (54.9%), Comilla industrial estate (1.7%), strengthening of BSTI (88%), establishment of four textile vocational institute (18%); BMRE of existing cloth processing centre at Narshingdi (17%): *overrun of time and cost is likely to reduce the expected return from these projects*



b. INDUSTRY

Small and Medium Enterprises (SMEs): Subsidised credit and refinancing facilities for the SMEs will continue: Likely to promote private investment

- ✓ Reduction of CDs on various raw materials (from 10-25% to 5-10%) will benefit a number of industries including glass, ceramics, rubber, paper, furniture, paint, electrical, plastic and baby diaper: *positively contribute to investment, production and sales*
- ✓ Reduction of SD on intermediate input by 5%: *positive for local firms producing filament bulb*
- ✓ Exemption on billet manufacturing raw materials (sponge iron reduced iron) and rise in import duty of billet and ingot: *will provide advantage to local industries against imported products*
- ✓ Reduction of VAT by 5% for local mobile phone assembling industry: *Positive*
- ✓ Rise of VAT on imported mobile phones (10% → 15%): *Positive for local industries*
- Rise in CD (25% from existing 5%) on LPG cylinders: *will give advantage to local industry*
 - ✓ 25% CD on energy saving bulbs and electric fan motors; reduction of CD on raw materials for diaper production: *Positive*
- Introduction of 1% 'Green Tax' : *Positive market based approach; Limited impact to reduce pollution; strong enforcement of environmental rules and regulations is required*



b. INDUSTRY

- **Leather:** Proposed reduction of SD on selected inputs of leather and footwear (e.g. prepared water pigments; polishes, creams: from 20% to 15%): *Likely to reduce production cost*
 - Announcement of stimulus package for leather along with four other export-oriented sectors may contribute positively: *package yet to be detailed out*
 - Slow progress in implementation of relocation of the Tannery Industrial Estate (10.2% till March 2014 and 51.2% by FY15) raise doubt about full implementation within the revised deadline: *Relocation is planned to be started in March, 2015*
- **Jute:** Given the weak state of export and poor competitiveness, the tax deduction at source from 0.8% to 0.6% would not be adequate to compensate their losses: *it may be further reduced at least at the level of those of the RMG sector (to 0.3%)*
 - ✓ Enactment of the Mandatory Packaging Act, 2010 is urgently needed in order to expand the domestic market for jute sacks and other jute products (CPD, 2014)
 - ✓ Timely completion of project related to HYV jute and seed production (51.2% by FY15) with a view to pass the benefits to the private sector.



b. INDUSTRY

- **RMG and Textile:** Reduction of tax at source from 0.8% to 0.3% (till June, 2015) along with other financial support have given relief to entrepreneurs and help undertaking necessary retrofitting measures to make the factories compliant: *Enforcement of minimum wage should be contingent*
 - ✓ Withdrawal of duties on raw materials necessary for manufacturing of prefabricated buildings and full exemption on fire resistant door, emergency light, and sprinkler system: *Positively contribute to improve fire safety in the workplace*
- Reduction of CD on flex fiber (from 10% to 5%) and artificial staple fibre (from 5% to 3%) would likely to reduce production cost of specific textiles in b/l textile industries
 - ✓ Reduction of SD on imported fabric (e.g. woven fabrics, woven pile fabric, knitted fabrics, track suit, undergarments) would likely to reduce cost of import: *may benefit the consumers*
- **Ship building:** Announcement of stimulus package for ship building along with four other export-oriented sectors may positively contribute: *the package is not detailed out*
 - Fixing import duty at 5% on navigation light, broadcasting equipment and fire extinguishers: (existing: 15%/kg): *reduce the production cost*
- **Science & Technology, ICT:** Total allocation increased by 83% over RADPI4.
 - ADP allocation registered a significant rise: 108% growth over RADPI4; 11 projects are suppose to be completed in FY15: 71-100% to be implemented



b. INDUSTRY

- **Pharmaceuticals:** Reduction of SD on 40 basic raw materials of pharmaceuticals industry from 15-25% to 5% would reduce cost of raw materials: *Positively contribute to the industry*
 - ✓ Reduction of CD on 40 raw materials for allopathic medicine: *positively contribute to local industry*
- **Special Economic Zones:** Four SEZs will be set up under Bangladesh Economic Zones Development Fund at a cost of Tk.81.95 crore with 97% financial support from IDA, WB's soft-lending facility: *Should be set up immediately*
- **Tourism:** Published a special booklet on tourism (2014-20 plan; long term plan: 2014-25)
 - ✓ Short term projects: 59; medium term: 49 and long term: 19 (total 127): A separate ministry for tourism sector
 - ✓ Significant reduction of total allocation (-43% over RADPI4) mainly due to reduction of development expenditure (-55% over RADPI4) particularly in project on upgradation of Shahjalal International Airport
 - ✓ Enhanced allocation for construction of motels and refurbishment of hotel in Cox's bazar: *quick implementation is needed*
 - ✓ PPP initiative for developing exclusive tourist zones: *still at project development stage*
 - ✓ Seven unapproved allocated projects for tourism development: *Need ADP allocation*
 - ✓ 'Special Tourism Fund' for development can be set up (e.g. Malaysia)



b. Industry

Labour

- Significant reduction of allocation for the Ministry of Labour (-23.4% over RADPI4) mainly due to reduction of development expenditure (-47%)
 - ✓ This has been partly covered with significant allocation under self-financed projects under labour related projects of different ministries (Tk.413.6 crore)
- Slow progress in skill development project (under Ministry of Education and Religion: 32% by June, 2105 supposed to be completed by June 2014)
 - ✓ Poor progress in establishment of hostel for female garment workers at Ashulia, Savar & Dhaka (2% by FY2015; completion period: June, 2017).
- Unapproved and unallocated project on establishment of 9 modern fire service & civil defense station in areas with concentration of garment industries: *Need allocation and quick implementation*
- Few welfare centres for workers (50): *allocation required for setting up more health centres in industrial zones*





c. CAPITAL MARKET



c. CAPITAL MARKET

- Capital market has remained stable during FY14: DSEX index has increased by 11.7%; total trade value by 9.4% and market capitalisation by 16.3%
 - ✓ 11 companies have offloaded IPOs during FY14 – mostly manufacturing companies: concerns regarding poor base of some these companies: *weak oversight during the approval stage*
- Proposal for tax exemption facilities for demutualised stock exchanges for over 5 years in graduated rate would help to build confidence on the bourses to potential international institutional strategic partners
 - ✓ Remaining works of demutualisation (e.g. finding out strategic partners) should be completed on time.
- Retail investors will get some relief because of rise in tax exempted dividend income from Tk. 10,000 from Tk. 15,000



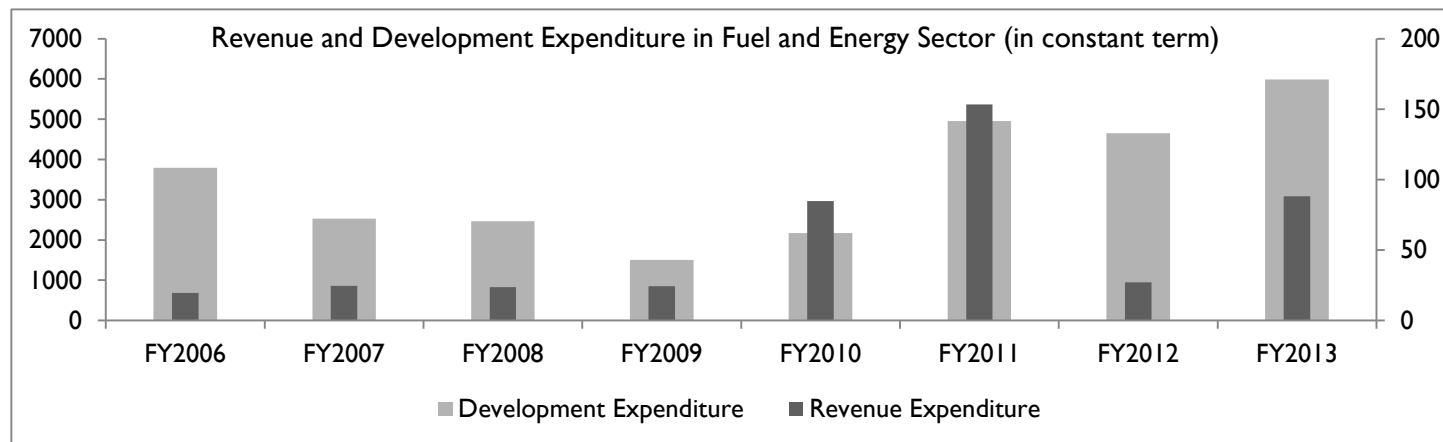


d. ENERGY & POWER



d. ENERGY AND POWER

- Total allocation for fuel and energy sector has been increased by 16.5% in FY15 over RADPI4); but sectoral allocation in terms of total allocation will remain same (4.6%)
 - ✓ Development expenditure has increased consistently (in constant term) since FY2010 (Figure)
- **Power:** Allocation for power sector has increased by 16.7% (over RADP) mainly due to rise in development expenditure
 - ✓ Out of 13 projects listed as ‘projects to be completed by FY15’ only 1 project is likely to be completed while 3 projects will be completed above 50 % and rest 9 projects below 50%
- Increased subsidy allocation for BPDB in FY15 (Tk.7000: 14.8% higher than last year): perhaps to compensate higher cost burden for procurement of petroleum at higher price after the adjustment of tariff value (from US\$32/barrel to US\$40)



d. ENERGY AND POWER

- *Energy & mineral*: Allocation will be increased by 16% but reduced in share of total expenditure (-0.25% point)
- Development expenditure: Reduction in allocation in investment programme, technical assistance and JDCF (-3%, -68% and -73% respectively) will be outweighed by increased allocation for self finance projects (24.8%)
 - ✓ Number of projects has doubled (58 vis-à-vis 29 in RADP 14); highest allocation under self-financed projects (34 projects)
 - ✓ Four unapproved projects (170% higher than ADP 14): *Maheshkhali-Anowara gas transmission line need to be included in ADP with adequate allocation*
- 3 projects related to gas transmission and distribution are likely to be completed by June, FY15: *improve supply of gas at consumers' end (industry would be benefitted)*
- Mixed progress in 28 projects to be completed by June, 2015 (Table)
 - ✓ 7 projects-max. 50% & 19 projects –max 75% to be disbursed by June, 2015
- Projects which cost over Tk.100 crore and are supposed to be completed by June, 2015 will not be completed on time: 4 projects-less than 20% & 10 projects –max 100% by June, 2015



d. ENERGY AND POWER

- As per the budget speech of the FM, establishment of an LNG terminal (at Maheshkhali Island) still in consideration: *No immediate hope*
- Increase in tariff value for crude petroleum as well as for other refined petroleum products along with drastic reduction of subsidy for BPC (from Tk.7350 crore to Tk.2800) would require significant upward adjustment of tariff at retail level: *likely to increase cost of fuel in production and increased households' expenditure- adverse impact*
- Rooppur nuclear power plant (1st Phase) is a fast track project: 50% of the project cost has been allocated for FY15 (completion due in FY17)

Status of implementation of all projects which are supposed to be completed in FY15 (except self financed)

Project Cost	No of Projects	No of projects suppose to be completed by June, FY15	Share of possible disbursement by June FY15 for the projects suppose to be completed by June, FY15
Less than tk 10 crore	2	1	55%
Between tk.10-50 crore	7	7	47-94%
Between tk 50-100 crore	5	5	89-99%
More than tk.100 crore	14	12	0.8-99%
Total	28	25	



e. ENVIRONMENT



e. ENVIRONMENT

- FY15 budget has proposed to introduce **1%** ‘Environment Protection Surcharge’ or ‘**Green Tax**’ on ad-valorem basis on all kinds of products manufactured in Bangladesh by industries which pollute the environment.
 - ✓ This is a a very good initiative to discourage pollution.
 - ✓ There will be significant challenge in estimating and realizing this tax
 - ✓ Identification of polluting industries will also be a challenging task
 - ✓ In order to implement this measure, capacity of the department of environment needs to be strengthened
- In order to protect the environment & control pollution of rivers, GoB is planning to introduce **Eco-Tax**
 - ✓ a very good initiative; would help reduce pollution
- Similarly, tax holiday-facilities for pollution-free Hybrid Hoffman Kiln (HHK) brickfields would help reducing air pollution
- Conversion of wastes into compost fertilizer with wastes collected from all city corporations and municipalities in an eco-friendly waste management system will be useful to improve the environment.
- Guidelines are yet to be formulated to utilize Bangladesh Climate Change Resilience Fund



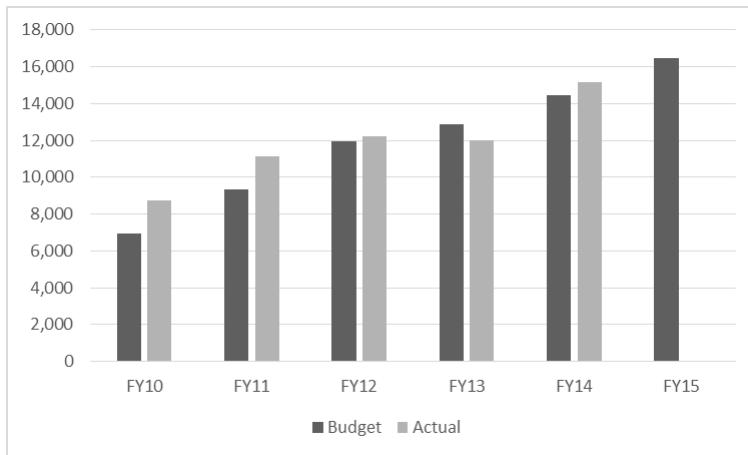


f. DEFENSE



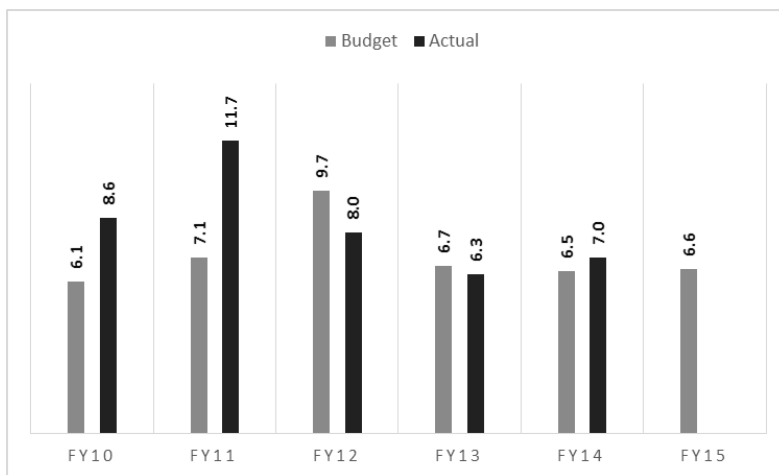
f. DEFENSE

Defense Budget (Tk. Crore)

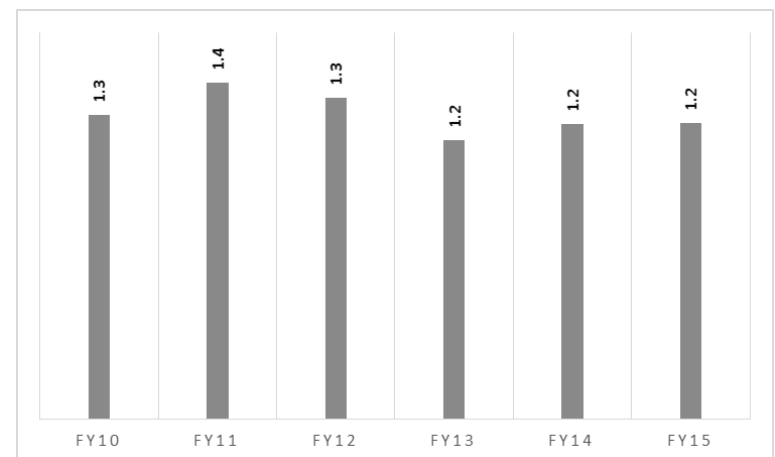


- Explicit allocation for Defense services is 6.6% of total expenditure (7.0% in RBFY14)
- One may expect this allocation to increase at the end of the year as per past trend

Defense Budget as % of Total Budget



Defense Budget as % of GDP





VI. SOCIAL SECTOR

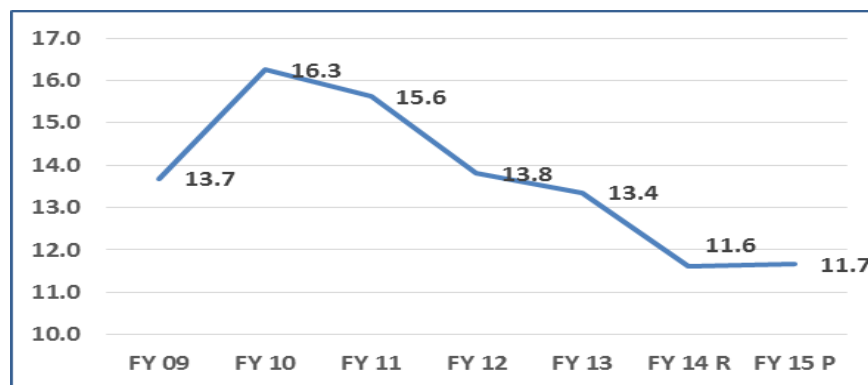


a. EDUCATION

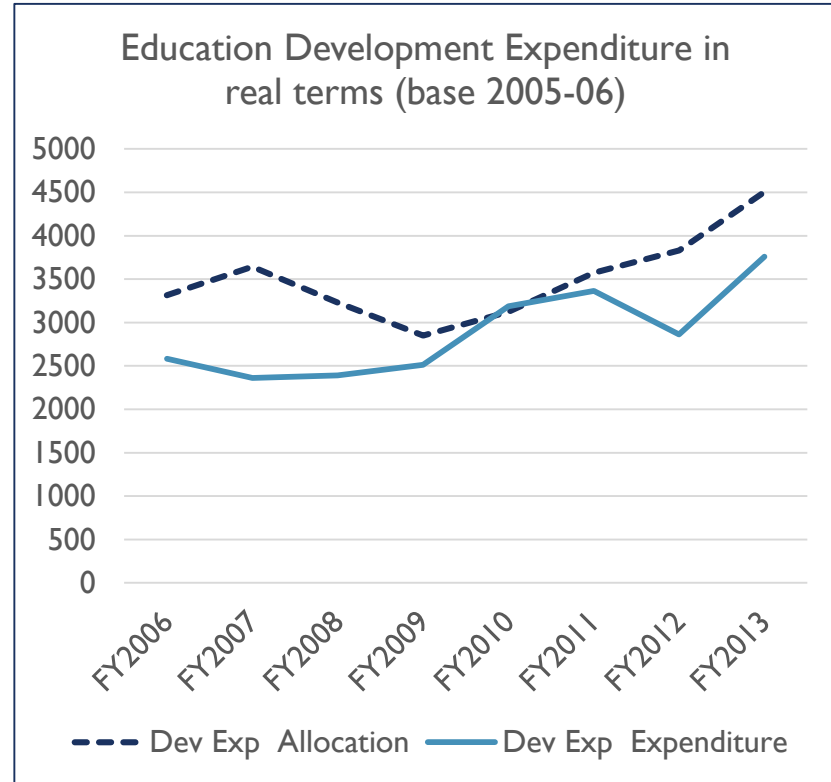
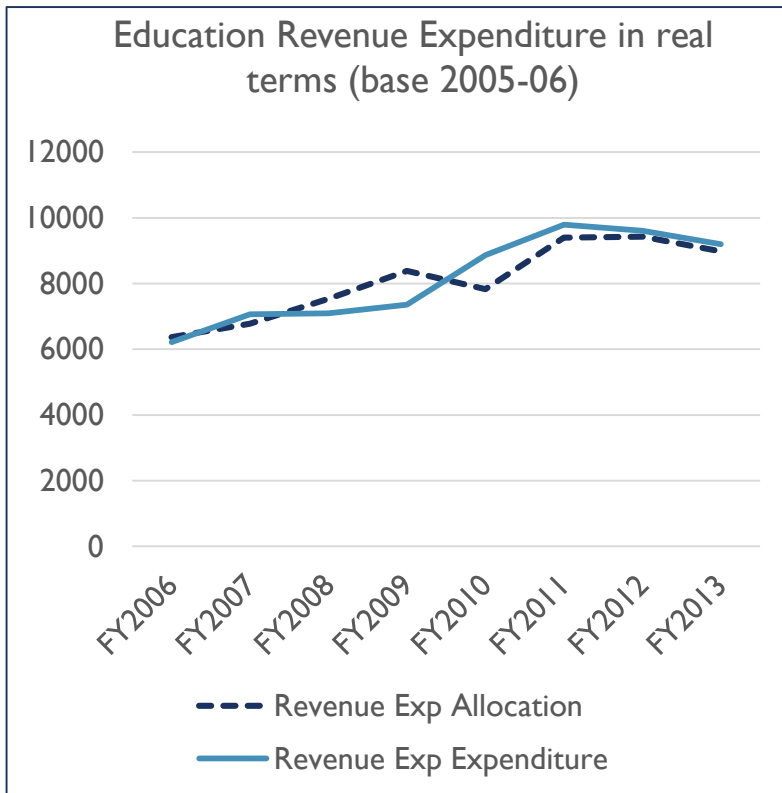
- Allocations for the Ministry of Education (MoE) & the Ministry of Primary and Mass Education (MoPME) have increased by **16.4%**.
- However, the allocations for these two ministries as percentage of total budget is **11.7%** which are lower than the average allocation of **14.1%** during FY10-FY14.
- Allocation for the MoE & MoPME is **2.2%** of GDP which is slightly higher than the average share during FY10-FY14 (of **2.1%** of GDP) – Not increasing!

- ✓ In FY10 allocation for MoE & MPME was 16.3% which has declined to 11.7% in FY15

Figure: Share of MoE & MoPME in Total Budget



a. EDUCATION



- Allocation for revenue expenditure on Education (in real term) is falling during FY11.
- Development expenditure had been much lower than the allocation since FY11



b. HEALTH

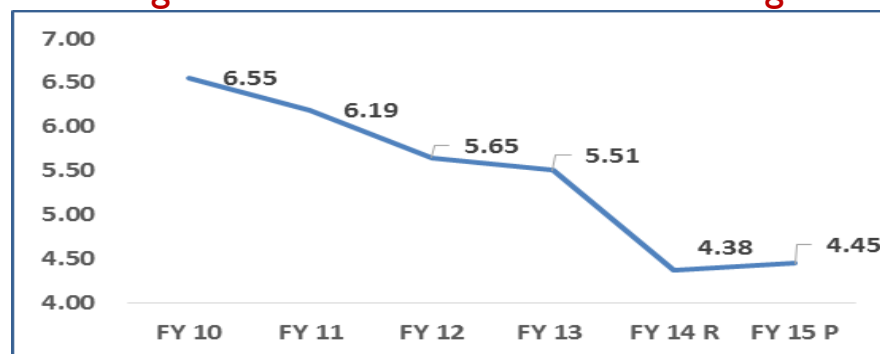
- Allocation for the Ministry of Health and Family Welfare (MoHFW) in FY15 has been increased by **17.7%**.
- However, the allocation as percentage of total budget is **4.5%** which is lower than the average allocation of **5.7%** during FY10-FY14.
- Allocation for the MoHFW is **0.83%** of GDP in FY15 which is lower than the average share of **0.86%** of GDP during FY10-FY14 – Stagnating!

✓ In FY10 allocation for the MoHFW was **6.6%** of total budget which dropped down to **4.5%** in FY15

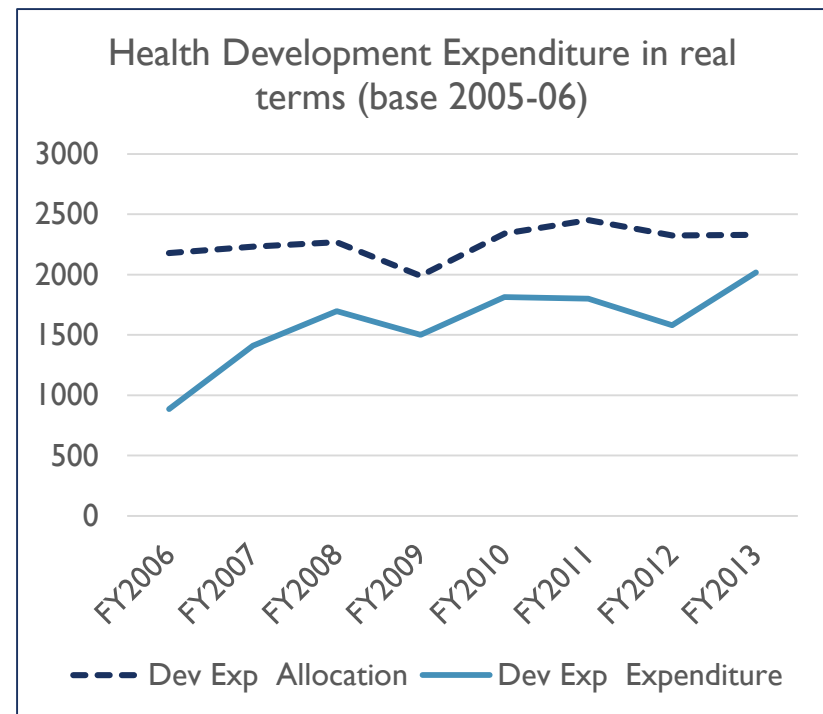
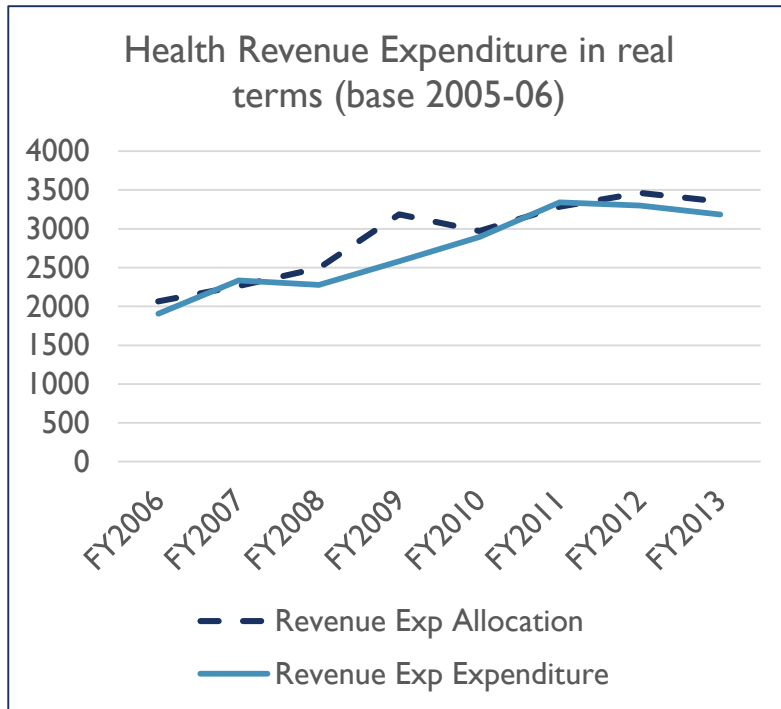
- Introduction of **Social Health Insurance Programme** is a timely initiative.

- Use of revenue received from the **1% 'Health Development Surcharge'** on all imported and domestically produced tobacco products for the treatment and rehabilitation of tobacco disease-stricken people has to be ensured

Figure: Share of MoHFW in Total Budget



b. HEALTH



- Revenue budget allocation and use are declining in real terms



c. GENDER

- Forty ministries prepared gender budget report for FY 2015
 - ✓ Allocation increased in 31, unchanged in 1 and decreased in 8 ministries
- Allocation for gender budget in FY 2015 is Tk. 66,739 crore which is 4.98 % of GDP and 27.64% of total budget
 - ✓ However, when the allocation for gender budget under 40 ministries is added, the amount stands at Tk. 58510 crore. The reason for the anomaly in allocation for women is not clear.
- This year's allocation is 11.68% higher than FY 2014

Table: Allocation for gender budget

Year	Total (Tk.Cr.)	%of Budget	%of GDP	Gender Budget for No. of Ministry
FY13 (R)	54,304	28.68	5.23	25
FY14 (R)	59,756	27.64	5.06	40
FY15(P)	66,739	26.64	4.98	40

- Tax free income for women has been raised from Tk. 2.5 lacs in FY 2014 to Tk. 2.75 lacs in FY 2015
- Special allocation of Tk. 100 crore is allocated for development of women
 - ✓ An amount of Tk. 100 crore was allocated in the budget for FY 2014. However, how much has been utilized is not known
 - ✓ Women from rural areas should be provided training on small business in order to access resources from this fund.



c. GENDER

Top 20 ministries according to the share of total allocation in FY 15

Ministries	% of Total in FY 15	% of Total in FY 14 (R)
Ministry of Primary and Mass Education	11.75	11.41
Local Government Division	11.23	11.29
Ministry of Agriculture	11.00	12.16
Ministry of Disaster Management and Relief	8.42	8.01
Ministry of Food	8.25	7.82
Ministry of Education	8.24	8.42
Ministry of Health and Family Welfare	8.24	8.54
Power Division	5.36	6.02
Roads Division	3.15	2.80
Ministry of Water Resources	2.96	2.50
Ministry of Railways	2.59	2.58
Ministry of Women and Children Affairs	2.14	2.31
Ministry of Social Welfare	1.99	1.63
Ministry of Home Affairs	1.82	1.89
Rural Development and Co-operatives Division	1.76	1.85
Energy and Mineral Resources Division	1.30	1.09
Ministry of Liberation War Affairs	1.30	0.87
Ministry of Chittagong Hill Tracts Affairs	0.93	0.80
Ministry of Industries	0.79	1.53
Ministry of Fisheries and Livestock	0.73	0.60

Bottom 20 ministries according to the share of total allocation in FY 15

Ministries	% of Total in FY 15	% of Total in FY 14 (R)
Ministry of Civil Aviation and Tourism	0.04	0.12
Ministry of Labour and Employment	0.05	0.13
Ministry of Cultural Affairs	0.09	0.08
Ministry of Information	0.12	0.13
Ministry of Textiles and Jute	0.13	0.12
Ministry of Religious Affairs	0.15	0.20
Ministry of Commerce	0.16	0.12
Ministry of Science and Technology	0.17	0.18
Ministry of Land	0.18	0.17
Ministry of Expatriates' Welfare & Overseas Employment	0.20	0.16
Prime Minister's Office	0.25	0.22
Ministry of Youth and Sports	0.31	0.29
Ministry of Shipping	0.40	0.46
Law and Justice Division	0.41	0.32
Information and Communication Technology Division	0.47	0.50
Ministry of Environment and Forest	0.55	0.60
Posts and Telecommunications Division	0.55	0.59
Election Commission	0.59	0.48
Ministry of Public Administration	0.59	0.48
Ministry of Housing and Public Works	0.62	0.54

*According to gender budget total allocation in FY 15 and revised FY 14 allocations are Tk. 66,739 crore and 59,756 crore respectively but according to our summation the values are Tk. 58510 crore and Tk. 53689 crore respectively

d. CHILD

- The number of projects under ADP which concerns the development of children in Bangladesh has been reduced substantially in FY15
- In FY15 the number of ADP projects related to child development stands at 21 compared to 55 in ADP of FY14
- The allocation for children has also declined
- Child related allocation in ADP of FY15 is 1.94% of total budget and 0.36% of GDP
 - ✓ The corresponding figures for previous fiscal year were 3.73% of total budget and 0.70% of GDP





e. SOCIAL SAFETY NET PROGRAMMES



e. SOCIAL SAFETY NET PROGRAMMES

- Allowances under social safety net programmes (SSNP) remain unchanged since FY 2010. As a result the real value of allowance reduced over the years
 - ✓ Thus the real value of Tk. 300 would be Tk. 221 if price level of April 2014 is compared with price level of July 2010 (CPI in July 2010 and April 2014 was 147.19 and 198.93 respectively)
- Honorarium for freedom fighters has been increased from Tk. 2000 in FY2014 to Tk. 5000 in FY 2015.
 - ✓ This is a positive move as many freedom fighters live in abject poverty without having any source of income.
- A special allocation of Tk. 50 crore has been proposed for construction of houses in divisional and district towns for neglected segment of the society
 - ✓ This is a positive initiative. However, this proposal should be translated into implementation.





VII. LOCAL GOVERNMENT & DISTRICT BUDGET



LOCAL GOVERNMENT

- Allocation for local government division as a percentage of total budget is 6.17 per cent which is almost similar (6.16 per cent) compared to the last years' (2013-14) revised budget. Also, Growth rate is about 16.08 per cent over 2013-14 revised budget.

Allocation for LGD in the Total Budget (FY2011-12 to FY2014-15)

Fiscal Year	Budget for Local Government (Crore Taka)	Revised Budget for Local Government (Crore Taka)	Actual budget for local government (Crore Taka)
2011-12	10,909 (6.67)	10,393 (6.45)	9,442 (6.19)
2012-13	12,433 (6.48)	13,220 (6.98)	12,314 (7.08)
2013-14	12,961 (5.83)	13,322 (6.16)	6177.6 (Upto March, 2014)
2014-15	15,464 (6.17)		



LOCAL GOVERNMENT

- As is usually the case, budget speech contains several promises for improvements, but does not refer to any specific area of policy intervention
- Allocation for LGD in ADP remains stagnant, with the share coming down from 19.0 per cent (revised 2013-14) to 16.8 per cent of ADP
- The speech stated about vesting more power and authority to the rural local government institutions but nothing is said about the urban local government institutions.
- Creation of specialized bureaucracy may lead to incurring unnecessary revenue expenditures; it is unlikely to contribute to development of local government and will not ease the dependency of local government on central government
- Elected representatives' capacity development programmes need to have more allocation.



DISTRICT BUDGET

(As Percentage of Total District Budget)

	FY 2013-14	FY 2014-15							
	Tangail	Tangail	Khulna	Chittagong	Barisal	Rajshahi	Rangpur	Sylhet	
Total Development	33.16	40.53	59.87	45.83	36.97	27.68	36.10	40.14	
Total Non-development	66.84	59.47	40.13	55.13	63.03	72.32	63.90	59.86	
Sector-wise Allocation									RANKING (WEIGHTED AVERAGE)
Top 1	Education (17.06%)	Roads (13.04%)	Railway (20.19%)	Local Government (18.55%)	Education (15.33%)	Education (28.53%)	Education (14.98%)	Local Government (11.75%)	Education 26
Top 2	Primary and Mass Education (11.40%)	Education (12.18%)	Education (10.57%)	Railways (14.18%)	Local Government (12.91%)	Home (9.89%)	Local Government (13.11%)	Home (11.67%)	Local Government 25
Top 3	Disaster Management and Relief (8.76%)	Primary and Mass Education (11.54%)	Local Government (9.33%)	Education (11.05%)	Primary and Mass Education (11.70%)	Primary and Mass Education (8.49%)	Health and Family Welfare (9.45%)	Primary and Mass Education (11.37%)	Primary and Mass Education 16
Top 4	Local Government (8.71%)	Local Government (9.72%)	Home (9.21%)	Primary and Mass Education (7.92)	Home (11.53%)	Local Government (8.24%)	Primary and Mass Education (8.94%)	Health and Family Welfare (9.07%)	Home 13
Top 5	Health and Family Welfare (8.32%)	Food (7.59%)	Water Resources (8.77%)	Home (7.10%)	Health and Family Welfare (9.20%)	Health and Family Welfare (8.13%)	Food (7.92%)	Railways (6.79%)	Railways 10

DISTRICT BUDGET

	Allocated amount for 7 districts (in crore taka)	Estimated budget for 64 districts (in crore taka)	Estimated budget for 64 districts as a % of National Budget 2014-15 (in crore taka)
Total District Budget	19,596.00	1,79,163.40	71.52
Development Budget	7703.82 (39.31%)	70434.92 (39.31%)	81.57
Non-development Budget	9937.87 (50.71%)	90860.52 (50.71%)	70.86

- Share of non development budget (50.71%) for these 7 districts are in harmony with the national non-development budget (51.19%).
- Share of development budget (39.31%) is a little higher than that of the national budget (34.47%).
- If the current budget proposed for all 64 districts, it would have taken about 70% of the total budget leaving about 30 % for the national budget which would have not been sustainable.





VIII. ECONOMIC REFORMS



VIII. ECONOMIC REFORMS

- It may be recalled here that CPD, in its State of the Economy report released on June 4, 2012, has argued in favor of undertaking rigorous institutional reforms and policy measures to enable Bangladesh to graduate to the next phase of development. Later on, the budget speech 2012-13 recognized the need for undertaking second generation reforms and consequently a dedicated section was placed on reforms. This was one of the novelties of Budget FY2012-13. This is definitely a positive move which has been continued over two successive years i.e. FY2014 and FY2015.
- CPD in its Proposals for the National Budget FY2015 released on May 4, 2014 stated that macroeconomic performance and budget implementation will critically hinge on non-economic dimensions of institutional and policy environment in the country : (i) implementation capacity of the state; (ii) oversight capacity; (iii) capacity for reforms.
- In line with the earlier two budgets, FY2015 budget has presented a list of policy reforms and programmes under three broad heads: (i) Implemented Policies and programmes ; (ii) Ongoing priority programmes; (iii) Programmes yet to be completed.



VIII. ECONOMIC REFORMS

Selected Policies/Programmes in FY2015 Budget according to the three categories identified by the CPD

	Implementation capacity (Human resource management, devolution of power and autonomy and data/information availability and monitoring)	Oversight capacity (Rule of law, democracy and representativeness and control of corruption and leakages)	Capacity for reforms (Regulatory reforms, administrative reforms and legal and institutional reforms)
Implemented Policies	<ul style="list-style-type: none"> ▪ A state of the art debt database installed to enhance the capacity of public debt management ▪ The total accounting and human resource management systems of Bangladesh Bank brought under Enterprise Resource Planning (ERP) software 	<ul style="list-style-type: none"> ▪ Money Laundering Prevention Act, 2012 enacted. ▪ The Exchanges (Demutualization) Act, 2012 passed in the parliament. ▪ List of large foreign aided projects prepared, monitoring activities taken and an index of external resource mobilization prepared. 	<ul style="list-style-type: none"> ▪ VAT and Excise Duty Act, 2012 enacted ▪ Provision for tax rebate on corporate social responsibility spending introduced ▪ The Customs Act, 1969 amended ▪ Facility for refinancing SME sector through four funds continued



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	Implementation capacity (Human resource management, devolution of power and autonomy and data/information availability and monitoring)	Oversight capacity (Rule of law, democracy and representativeness and control of corruption and leakages)	Capacity for reforms (Regulatory reforms, administrative reforms and legal and institutional reforms)
Ongoing priority programmes	<ul style="list-style-type: none"> ▪ Ensuring appropriate utilization of project aid ▪ Operationalization of PPP ▪ Public Service Act 2013 	<ul style="list-style-type: none"> ▪ Controlling unethical financial practices ▪ Preparing Financial Reporting Act and establishing Financial reporting Council 	<ul style="list-style-type: none"> ▪ Formulating Audit Act for budget implementation ▪ Formulation of Public Servants Act. 2013 ▪ Digitization of the Land Registration



VIII. ECONOMIC REFORMS

Selected Policies/Programmes in FY2015 Budget according to the three categories identified by the CPD

	Implementation capacity (Human resource management, devolution of power and autonomy and data/information availability and monitoring)	Oversight capacity (Rule of law, democracy and representativeness and control of corruption and leakages)	Capacity for reforms (Regulatory reforms, administrative reforms and legal and institutional reforms)
Priorities Programmes yet to be Completed	<ul style="list-style-type: none"> ▪ Establishing the ICT Capacity Development Company/ ▪ Establishing Tax Information Management and Research Centre 	<ul style="list-style-type: none"> ▪ Setting up Trade Portal by 2012 ▪ Establishing separate clearing and Settlement Company for settling the transactions in the Stock Exchange ▪ Establishing the National Tax Tribunal 	<ul style="list-style-type: none"> ▪ Simplification of investment related laws ▪ Establishing Reserve for Reward and Financial Incentives Fund



VIII. ECONOMIC REFORMS

A Review of Economic Reforms

- *Efficacy of Implemented Reforms:* It is good that Money Laundering Act, 2012 has been enacted. However, anecdotal information and global database indicate that a significant amount (about \$1.5 billion annually) is being siphoned off through offshore accounts, second homes, trade mispricing in the form of over and under invoicing and other forms of capital flight. A law was framed earlier to set up a Transfer Pricing Cell (TPC) to address capital flight. On a positive note, FY2015 Budget states that the recently set up Transfer Pricing Cell will start functioning from 1st July 2014.
- *Scaling Up:* Some initiatives such as performance audit has been undertaken on pilot basis. But the unfinished agenda is to scale this up on a universal basis.
- *Preparatory Work :* With regard to operationalizing New VAT Law, concerns remain whether the needed preparatory works (re-designing the VAT administration processes, acquiring and configuring a new computer system, recruiting and training new staff etc.) will be completed before the law comes into effect in 2015. Even though some key preparatory tasks including procurement of new information technology systems and services were supposed to be completed by the end of 2013, much of the work remain behind planned schedule.



VIII. ECONOMIC REFORMS

Many Important Measures are stalling

- In 2013-2014 budgets, 27 programmes were mentioned as ‘programs yet to be completed’. In 2014-2015 budget, the number has remained the same i.e. 27, with 25 initiatives/reforms carried over from the previous year.
- *Public Servant Act 2013* is not making any headway for the last couple of years. As per budget 2014, ‘Formulation of Public Servant Act was ‘awaiting approval of the Cabinet Committee’ while in Budget 2015 its status was mentioned as ‘under process’. This is an agenda that demands highest priority.
- As per budget FY2015, formulation of ‘Audit Act for Budget Implementation’ is underway while the status was the same in budget FY2014 indicating lack of positive movement.
- Many important reforms are stalling over the years. For example, in FY2013 budget it was mentioned that draft ‘Financial Reporting Act’ was in place. FY2014 and FY2015 budgets state ‘work in progress’.
- Although in his FY2009 budget speech, the Finance Minister talked of continuing with Regulatory Reforms Commission’s work, this was not followed up. Time has come to set up a Task Force to address pending reform measures.
- 96 ongoing priority programmes mentioned in Budget FY2013 list are included in the list of 265 ongoing programmes mentioned in FY2015 Budget.



VIII. ECONOMIC REFORMS

Missing Agendas

- Capacity Building of IMED has emerged as a key factor particularly in view of implementation of major infrastructural projects in recent times.
- Strengthening of local government institutions is needed to involve these closely with the task of monitoring and implementations of projects within their jurisdiction.
- Time has come to put in place the following initiatives towards better Macroeconomic Management:
 - Set up an Independent Statistical Commission to validate the Macroeconomic correlates
 - Set up Agriculture Price Commission
 - Set up Local Government Financing Commission
 - Constitute Public Expenditure Review Commission





IX. CONCLUDING REMARKS



IX. CONCLUDING REMARKS

Our four levels of analyses lead us to the following conclusions:

- Macroeconomic correlates are pretty inconsistent and lack due diligence in their estimation
- Key fiscal targets do not reflect reality and lack rigour in designing of the framework
- Fiscal measures are largely in order and tuned to budgetary objectives
- The budget has not provided for necessary institutional reforms towards improved fiscal-budgetary management as well as supportive policy environment





THANK YOU

