CPD DIALOGUE ON

ANALYSIS OF THE NATIONAL BUDGET FOR FY2015

Presented by

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BANGLADESH

a civil society think tank

CPD IRBD 2014 TEAM

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

CONTENTS

I. INTRODUCTION

1. 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

1. 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

II. MEDIUM TERM OUTLOOK

II. MEDIUM TERM OUTLOOK

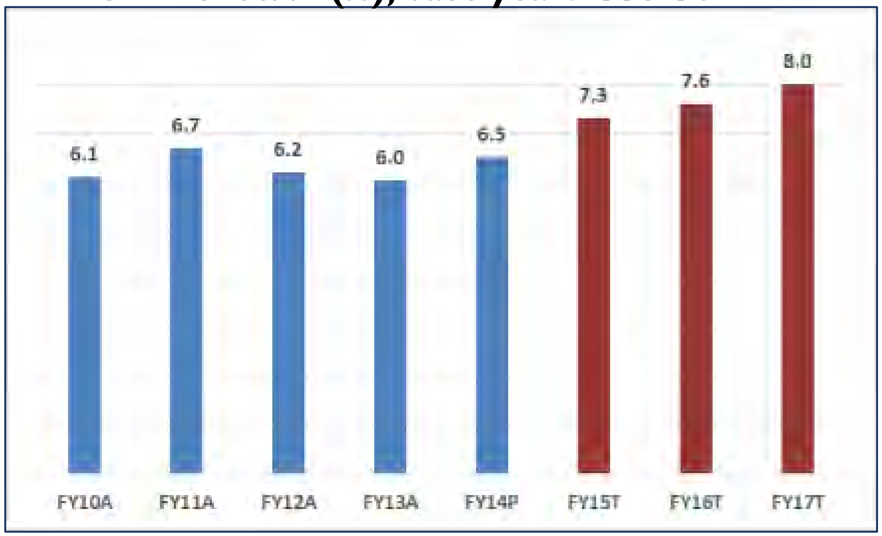
GDP Growth (%), base year:2005-06

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

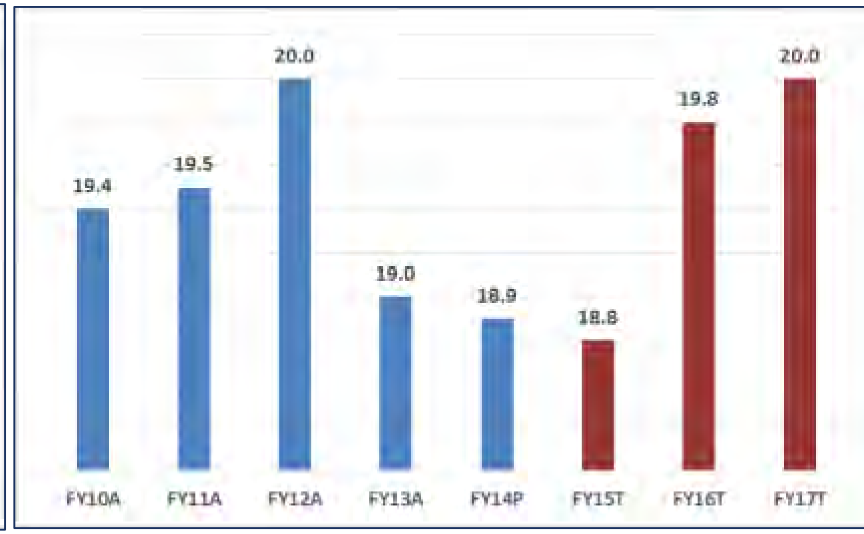
- The new estimates of GDP (base year 2005-06) is not used by the Finance Minister – although the Economic Review (published by the Finance Ministry) used the new estimates
- The same document also provides the medium term macroeconomic framework based on 1995-96 base year
- **Will the GDP growth target 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

- 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?!

11. 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
  - 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

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
- Targets for non-NBR tax and non-tax were raised in RBFY14 over the unattainable targets for BFY14
  - ✓ In absence of any lump receipts (e.g. telecom license fee) the target for FY15 looks to be on the high side
- 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

- 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 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

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
Domestic	*17.9*	*21.7*	*20.3*	*34.7*	*4451*
Foreign	*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

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 be14.8% 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%

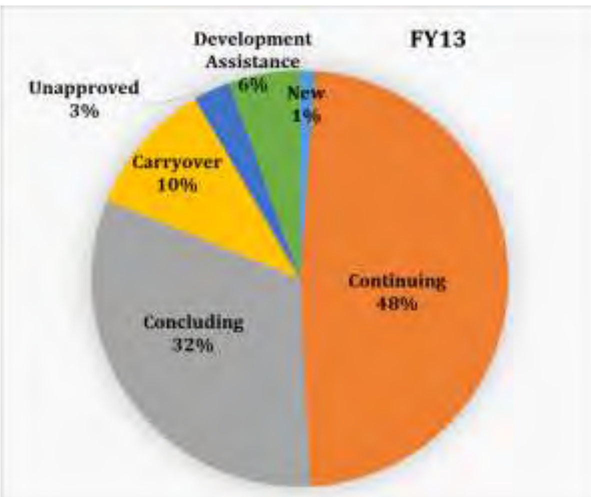
III. PUBLIC FINANCE FRAMEWORK

Annual Development Programme (ADP)

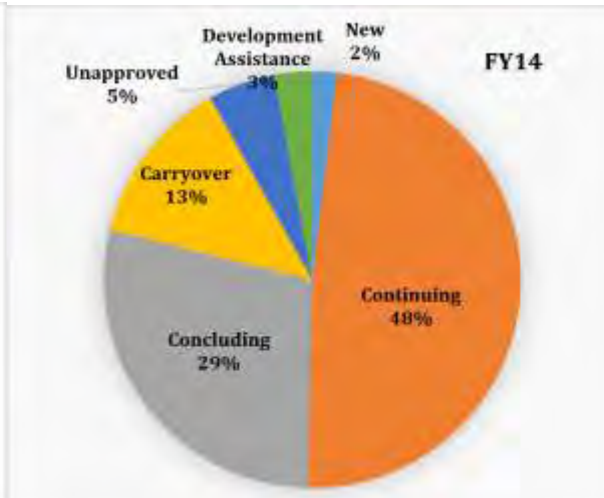
- **ADP** of Tk. 80,315 crore (**6.0% of GDP**) has been proposed for FY15
- 33.9% higher than RADP for FY14 and 21.9% higher than ADP for FY14
  - ✓ It will be 41% higher if there is a 5% shortfall in RADP for FY14 implementation
  - ✓ Project Aid component will be 34.5% of total ADP (35.3% in RADP of FY14 and 37.3% % in original ADP of FY14)
  - ✓ Tk. 3,061 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

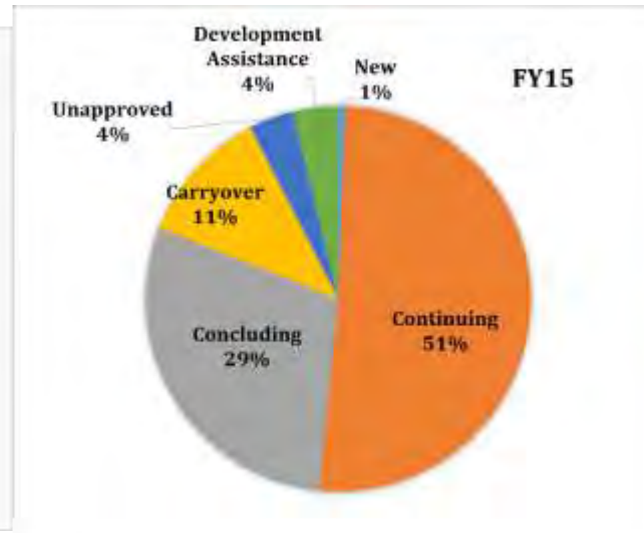
- The ADP for FY15 contains **1,034 projects** (1046 for ADP of FY14)
- **Another 684 unapproved** projects has also been listed in the ADP FY15



Number of Projects
1037



Number of Projects
1046



Number of Projects
1034

- 357 projects are to be concluded in FY15, according to project completion timeline
- Planning Commission identified some 305 of these projects to be completed in FY15

III. PUBLIC FINANCE FRAMEWORK

- 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!
- It has become a tendency in recent years to list a set of unapproved projects, similar to the number of projects allocated under 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**

- 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**
  - ✓ 9 of those are carryover from ADP FY14
- Additional 26 'investment' projects under ADP received only Tk. 1 crore or less
  - ✓ 16 of the projects are carryover

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

- 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
	Crore Tk	% of GDP	Crore 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**
Financing					
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**
Net Aid Requirement (USD)	***3.1***	***1.8***	***2.4***	***1.6***	***30.7***
Gross Aid Requirement	**32,725**	**2.4**	**27,014**	**2.3**	**21.1**
Gross Aid Requirement (USD)	***4.1***	***2.4***	***3.4***	***2.3***	***21.1***

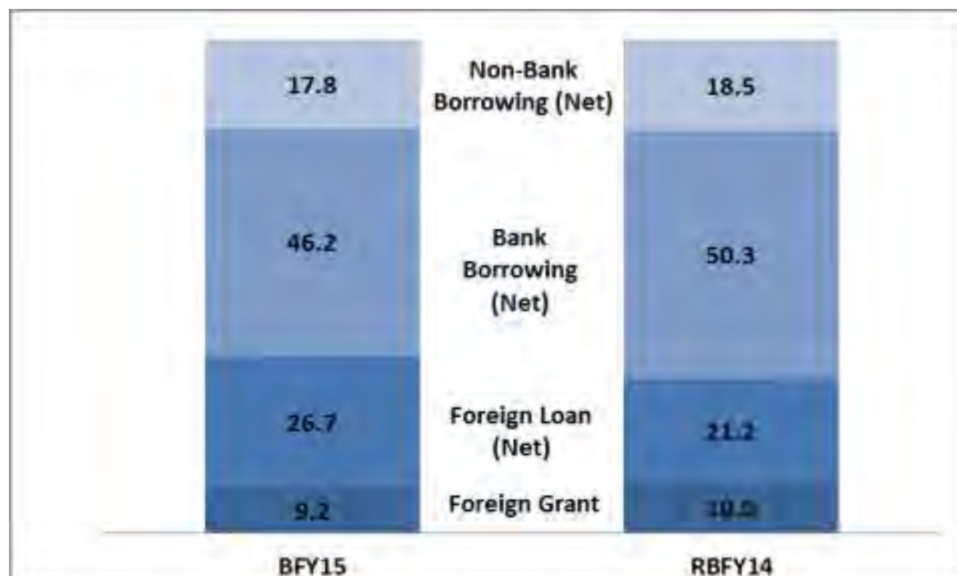
- 71.3% of incremental deficit will be financed by foreign sources

III. PUBLIC FINANCE FRAMEWORK

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

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Personal Income Tax

- Personal **income tax threshold - Tk. 2,20,000 -** lower than in India IRs. 2,00,000 (equivalent to Tk. 2,56,000)
  - ✓ Needs to be revised upwards to Tk. 2,50,000 considering the current inflation rate (7.48% in April, 2014)
- Thresholds for **women and senior citizens** and **physically challenged - revised upwards**
- New threshold - **war-wounded freedom fighters** (Tk. 4,00,000)
- A **new marginal tax rate of 30%** has been imposed for annual income earner of **higher than Tk. 44.2 lakh (monthly taxable income of about Tk. 3.7 lakh)**
  - ✓ Laudable move towards progressive taxation and higher resource mobilization

IV. FISCAL MEASURES

Other Direct Tax Measures

- **Wealth Surcharge** rates have been revised – **20%** for wealth between Tk. 20 crore to Tk. 30 crore; **30%** surcharge on assets above Tk 30 crore
  - ✓ Positive move to increase revenue and to improve distributive justice
- Corporate Tax for **Non-Publicly Traded Companies** has been reduced
  - ✓ Other corporate taxes (publicly traded companies, Banks, Insurance, mobile phones) remain unchanged
- **Minimum Turnover Tax** has been reduced to 0.50% from 0.30% - supports SMEs
- **Capital gains tax** proposed for investment over Tk.10 lakh – imposed in 2 slabs
  - ✓ 15% AIT imposed on gains/profits from transfer of share
- Rate of **tax at source on the deed value of land** has been increased in the jurisdiction of RAJUK and CDA
- **Tax at source** has also been imposed on registration value in other jurisdictions at a lower rate

IV. FISCAL MEASURES

Indirect Tax Measures

- Import duty have been reduced on raw materials used in textile sector, paper, glass, rubber, furniture and plastic industries – helpful measure
- Raw materials of **pre-fabricated building and fire safety equipment** have been fully exempted
- Supplementary Duty (SD) on 770 items has been changed
- Tariff value of crude petroleum has been increased by $ 8/barrel
  - ✓ has both tax implications and subsequently subsidy implications
- New export duty has been imposed on rice bran
- Reduction in tax at source (to 0.3%) for garments exporters - A major incentive
  - ✓ The jute sector should have receive no less support relative to RMG

IV. FISCAL MEASURES

Measures regarding New VAT Law

- The new VAT law envisages:
  - ✓ Substantial improvements in VAT administration and in information technology
  - ✓ Establishment of Processing centre, Data centre and Contact centre and decentralization of filed offices
  - ✓ Removal of the truncated base value system in line with the new VAT Law
- A number of key initiatives remain incomplete for the forthcoming VAT Law 2012 (to be implemented from June, 2015)
- The VAT strategic plan aims to achieve a VAT-GDP ratio of 4.6 percentage points (which currently stands at 3.9% in RBFY2014)
  - ✓ Bangladesh fares very poorly (15 out of the 16) as compared to other low income countries in terms of VAT-GDP ratio

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

Fiscal Measures that need Reconsideration

- Provision for allowing **undisclosed money income** is financially and morally unacceptable
  - ✓ Scope to invest in government treasury bond remained unchanged
- SD on 2 types of cars (over 1750 cc) have been reduced - will help the rich!
- Changes in SD rates in the following goods needs revisit!
  - ✓ Reduction of SD on a number of items will hurt agriculture and agro based industriies

Description of Goods	Existing SD Rate (%)	Proposed SD Rate (%)
Frozen shrimps	20	15
Tomatoes, fresh or chilled.	20	15
Other vegetables, fresh or chilled	20	15
Sweet biscuits	100	60
Potato chips	60	45
Fruit juices	30	20

IV. FISCAL MEASURES

- FY15 budget proposals which ought to be appreciated:
  - ✓ Launch of online registration from 01/01/2015 and online filing of return by end June, 2015
  - ✓ 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
  - ✓ VAT enhancement in English medium schools, jewellery items and land development and building construction sectors

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 FY15
- FY15 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. ALLOCATIVE PRIORITIES

a. AGRICULTURE

a. AGRICULTURE

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

Figure: Share of AAS in Total Budget

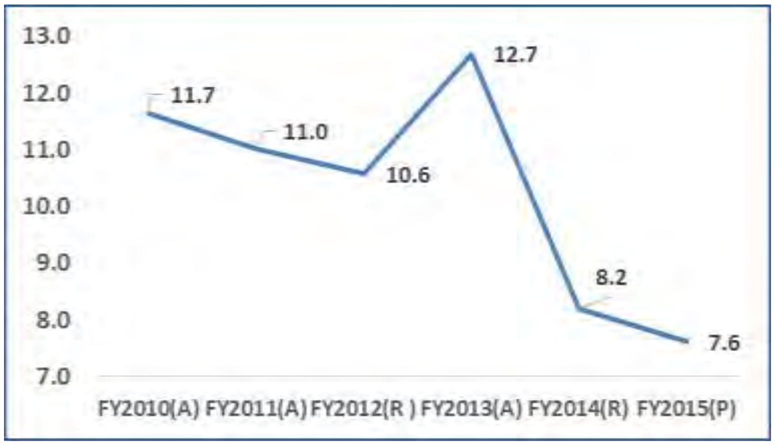


Figure: Share of AAS in Total GDP

✓ 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 the same at Tk. 9,000 crore
  - ✓ 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
- To ensure fair prices of agricultural commodities, an Agricultural Price Commission needs to be set up
- Introduction of Authoritative Land Records would help to reduce land litigation
- The Pure Food Act, 2013 has been enacted but its implementation has not started yet
- Formulation of the National Shrimp Policy 2014 may help
- Zero duty on poultry & livestock feed item Sorghum, Millet, Guar meal, & Zeolite will reduce prices of poultry feed

b. INDUSTRY

b. INDUSTRY

- Allocation for the Industrial sector in FY15 is lower than that of RADP14
  - ✓ Shares less than 21% of total public expenditure
  - ✓ Reduced allocation Industries, Labour and Employment ministries
  - ✓ Increased allocation for Jute & Textiles, Commerce, Expatriate Welfare and Overseas Employment
  - ✓ ADP allocation 32.9% less than RADP14;
  - ✓ Insufficient allocation for key infrastructure ADP projects
  - ✓ 16 projects are likely to be completed
  - ✓ A number of those projects remain far behind the targeted timeline

b. INDUSTRY

- Subsidised credit and refinancing facilities for the SMEs will likely to promote private investment
- Stimulus package for leather products may contribute positively
  - ✓ Slow progress in relocation of the Tannery Industrial Estate
- Tax deduction at source for Jute sector may not be adequate
  - ✓ Enactment of the Mandatory Packaging Act, 2010 is urgently needed
- financial support for RMG and Textile will be fruitful
  - ✓ *Enforcement of minimum wage should be contingent*
- Stimulus package for ship building may have a positive impact
- ADP allocation significantly raised for ICT
- 'Special Tourism Fund' can be developed
- Four Special Economic Zones should be set up in a speedy manner
- Significant reduction of allocation for the Ministry of Labour
  - ✓ Slow progress in skill development project

c. CAPITAL MARKET

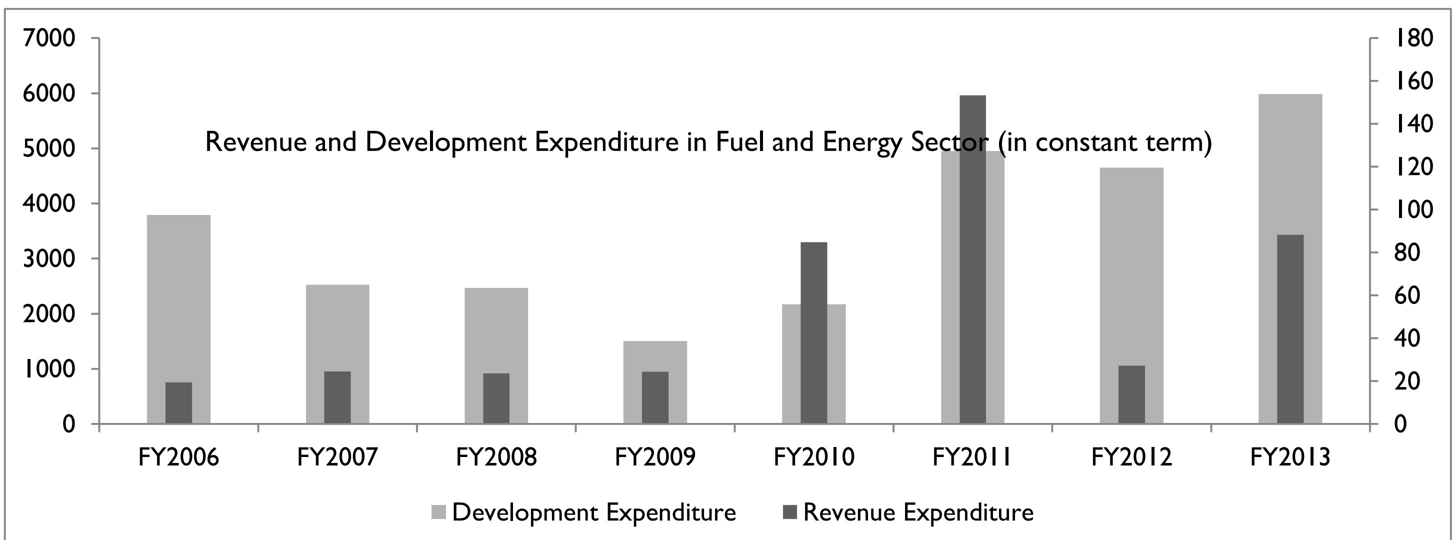
c. CAPITAL MARKET

- 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
- Proposal for tax exemption facilities for demutualised stock exchanges for over 5 years in graduated rate would help
  - ✓ 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

d. ENERGY & POWER

d. ENERGY AND POWER

- Total allocation for fuel and energy sector has increased by16.5% over RADP14
  - ✓ Sectoral allocation in terms of total allocation will remain same (4.6%)
  - ✓ Development expenditure has increased consistently (in real term) since FY2010
- Allocation for **power sector** has increased by 16.7% (over RADP)
  - ✓ 13 ‘to be completed’ projects need attention
- Increased subsidy allocation for BPDB in FY15 - (Tk.7000: 14.8% higher than last year)



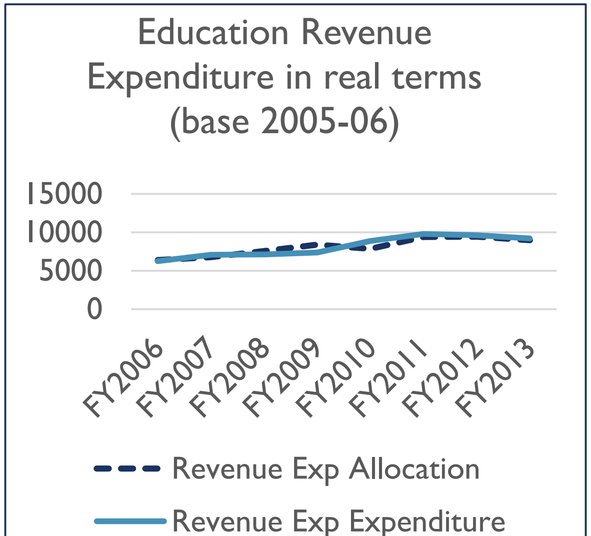
e. ENVIRONMENT

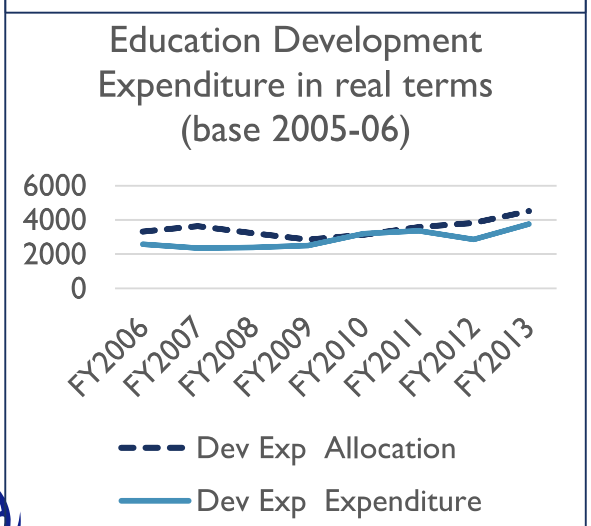
e. ENVIRONMENT

- Introduced 1% 'Environment Protection Surcharge' or **'Green Tax'**
  - ✓ Very good initiative to discourage pollution
  - ✓ Challenges remain in estimating and realizing the tax
  - ✓ 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
- Tax holiday-facilities for pollution-free Hybrid Hoffman Kiln (HHK) brickfields would help reducing air pollution
- Guidelines are yet to be formulated to utilise Bangladesh Climate Change Resilience Fund

VI. SOCIAL SECTOR

a. EDUCATION

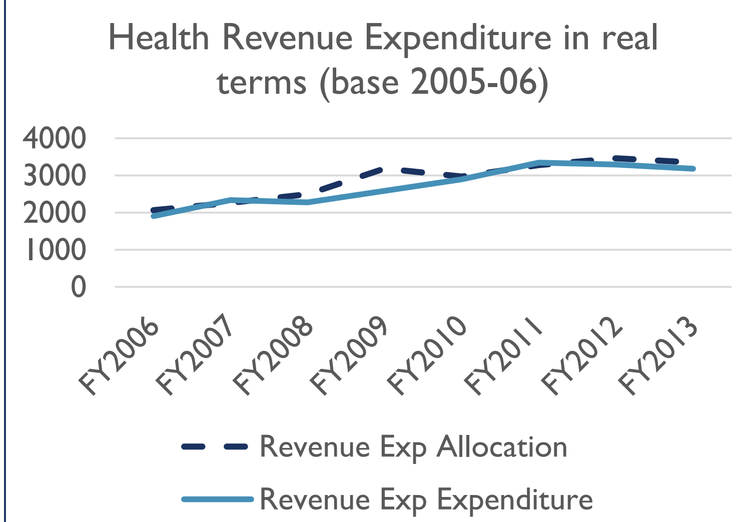


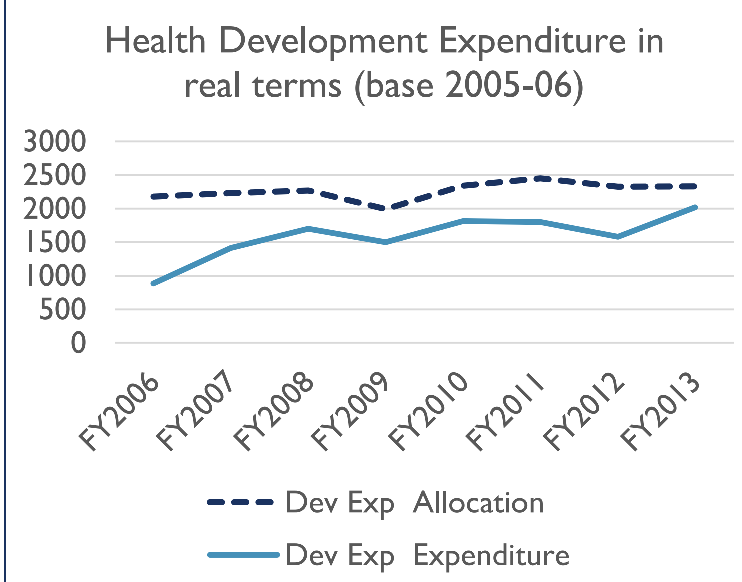


- Combined allocations for the Ministry of Education (MoE) & the Ministry of Primary and Mass Education (MoPME) have increased by 16.4%
  - ✓ However, the allocation as percentage of total budget is 11.7% which is lower than the average allocation of 14.1% during FY10-FY14
- Allocation for the MoE & MoPME is 2.2% of GDP which is slightly higher than the average share of 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
- 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) 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!
- Introduction of Social Health Insurance Programme is a timely initiative.
- 1% 'Health Development Surcharge' on tobacco products has to be ensured





c. GENDER

- Forty ministries prepared gender budget report for FY 2015
  - ✓ Allocation increased in 31, unchanged in1 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

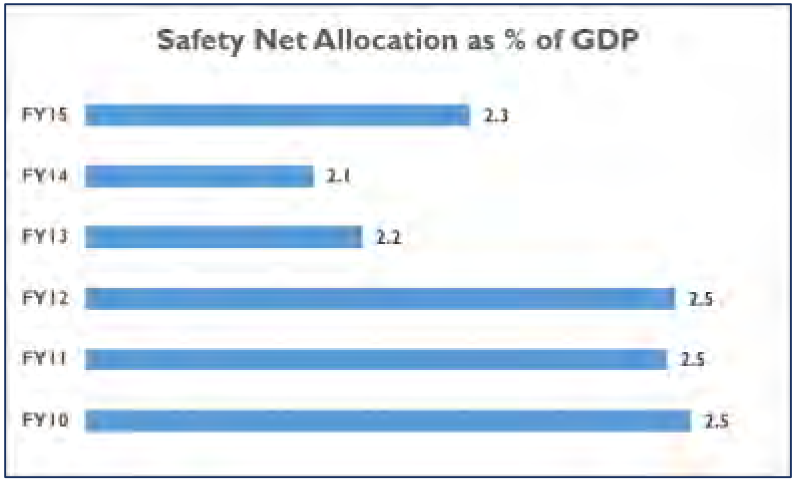
Year	Total (Tk.Cr.)	%of Budget	%of GDP	Gender Budget for No. of Ministry
FY13 (R)	54,304	28.68	5.23	25
FY14 (R)	59,756	27.64	5.06	40
FY15(P)	66,739	26.64	4.98	40

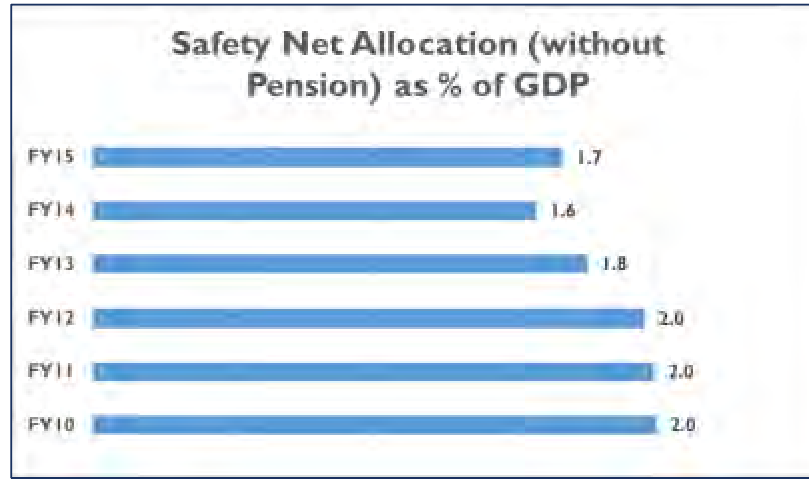
- Tax free income for women has been raised from Tk. 2.5 lacs in FY 2014 to Tk. 2.75 lacs in FY 2015
- Special allocation of Tk. 100 crore is allocated for development of women
  - ✓ An amount of Tk. 100 crore was allocated in the budget for FY 2014. However, how much has been utilized is not known
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

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 21compared 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

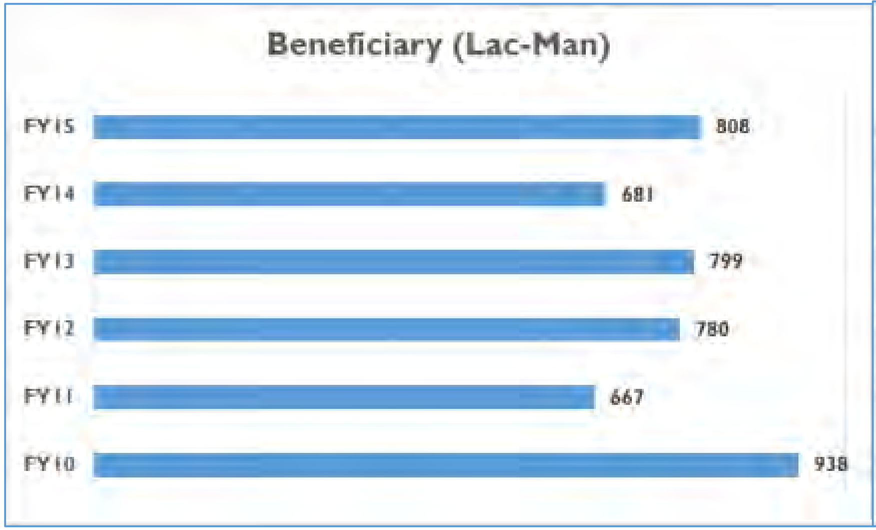
e. SOCIAL SAFETY NET PROGRAMMES

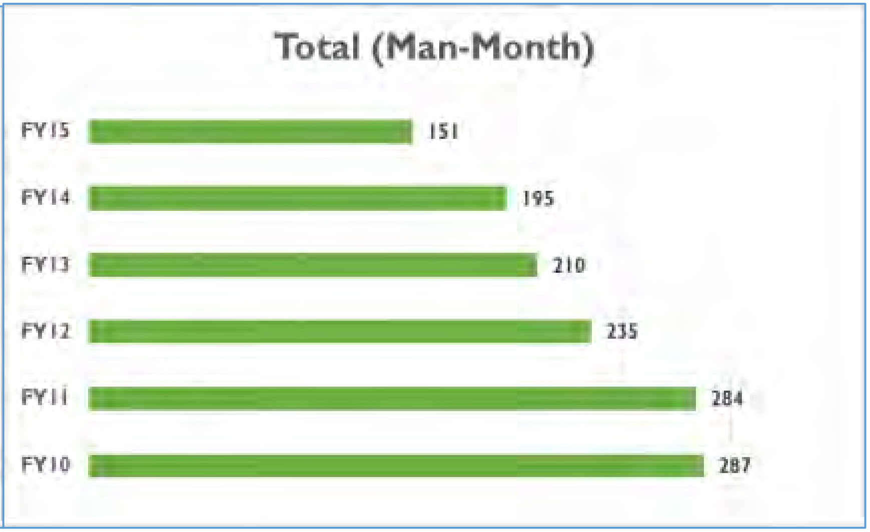


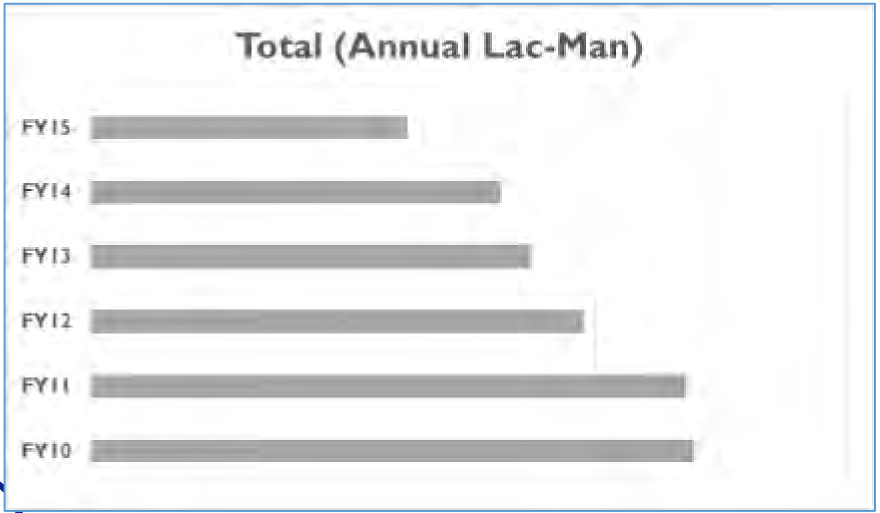


- Allocation for SSNPs suffered due to dearth of funds
- In absence of universal pension scheme (27.6% of total allocation), the accounting of SSNPs allocation should not include government pension fund
- Total allocation for SSNPs increased by 21.2% (Tk. 5379 crore)
- For Pension it increased by 26.8% (one-third of incremental allocation)
- Total allocation for SSNPs less government pension increased by 19.2%
- About Tk. 9,500 crore less than the SFYP target (3% of GDP) – was possible if recapitalization of State owned banks was not required

e. SOCIAL SAFETY NET PROGRAMMES







- ***Very little increase in coverage!***
- Both coverage and allocation for School Feeding Programmes declined by 42%
- It was aimed to distribute additional 5,000 acres khas land among 21,000 landless families in FY14
  - No update on this was mentioned!

e. SOCIAL SAFETY NET PROGRAMMES

- Number of allocated programmes increased to 145 in FY15 from 84 in FY14
- Old age allowance, allowance for widow, deserted and destitute women have been reduced by 1.23% in 2014 at July 2010 price level
- However, allowance for disable and lactating mother have been increased little along with significant increase in honorarium for freedom fighters

Real value of a few cash transfer programmes at July 2010 price level

Programmes	2010 (R)	2015 (P)	Real Value	% Increase
Old Age Allowance	300	400	296.30	-1.23
Allowances for the Widow, Deserted and Destitute Women	300	400	296.30	-1.23
Allowances for the Financially Insolvent Disabled	300	500	370.37	23.46
Maternity Allowance Programme for the Poor Lactating Mothers	350	500	370.37	5.82
Honorarium for Insolvent Freedom Fighters	1,500	5000	3703.70	146.91

VI. LOCAL GOVERNMENT & DISTRICT BUDGET

a. LOCAL GOVERNMENT

- Allocation for LGD as percentage of total budget is 6.2% - similar (6.2%) in RBFY14
  - ✓ Growth rate is about 16.1 % over RBFY14
- Share of allocation for LGD in ADP came down to 16.8% - 19.0% in RADP of FY14
- As is usually the case, budget speech contained several promises for improvements, but did not refer to any specific area of policy intervention
- 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 more allocation

b. 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

b. 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

VII. ECONOMIC REFORMS

VII. 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.

VII. 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	▪ 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	▪ 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.	▪ 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

VII. 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)**
Ongoing priority programmes	▪ Ensuring appropriate utilization of project aid ▪ Operationalization of PPP ▪ Public Service Act 2013	▪ Controlling unethical financial practices ▪ Preparing Financial Reporting Act and establishing Financial reporting Council	▪ Formulating Audit Act for budget implementation ▪ Formulation of Public Servants Act. 2013 ▪ Digitization of the Land Registration

VII. 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	▪ Establishing the ICT Capacity Development Company/ ▪ Establishing Tax Information Management and Research Centre	▪ 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	▪ Simplification of investment related laws ▪ Establishing Reserve for Reward and Financial Incentives Fund

VII. 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.

VII. 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.

VII. 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

VIII. CONCLUDING REMARKS

VIII. CONCLUDING REMARKS

Our 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