Surfing in Uncertain Times

An Outlook for the Upcoming Budget

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CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

Contents

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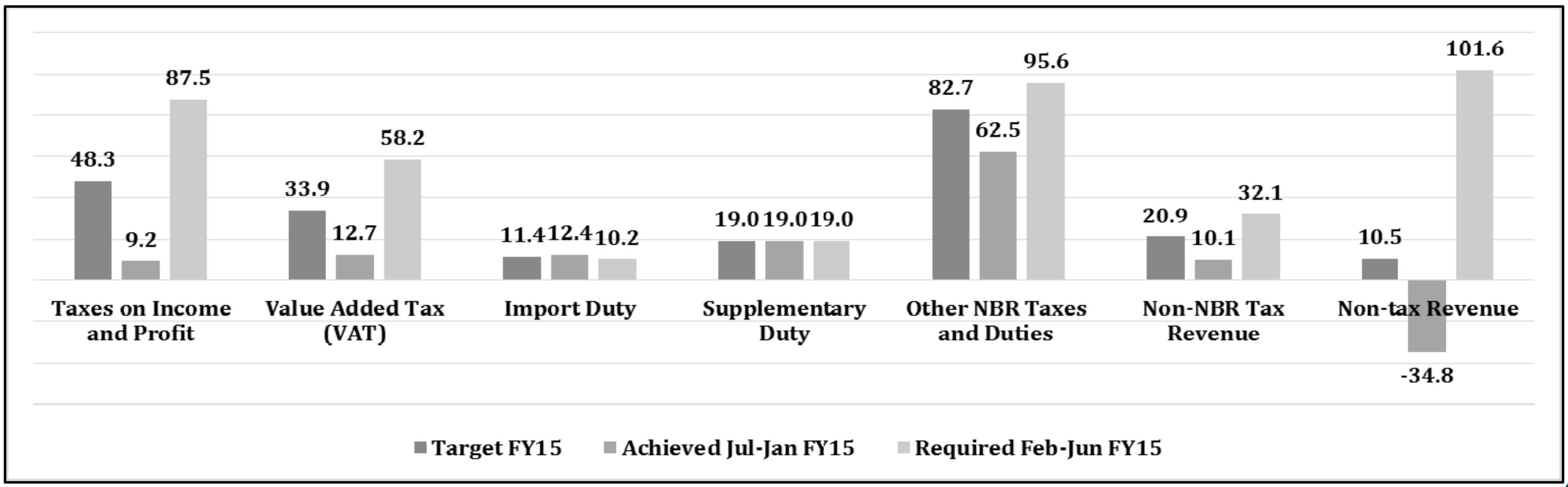
Section I. Introduction

- National budget for FY16 is being prepared at a time when the country is going through another round of political turbulence.
- In H1 of FY15 macroeconomic stability was maintained, to a large extent
- As political instability aggravated during second half of the ongoing FY, disquieting trends may be observed as regards a number of macroeconomic correlates including revenue mobilisation, import of capital machineries and disbursement of private sector credit
- Macroeconomy continued to evince stability (exchange rate against USD, foreign exchange reserves, inflationary trend and the budget deficit)
- The objective of the upcoming national budget for FY16 should be to support the economy to shift towards a higher economic growth trajectory and maintaining macroeconomic stability
- In order to attain this objective, an assessment of incurred losses from the political impasse is perceived to be critical
- It is also important that the budget for FY16 takes cognisance of the emerging global economic scenario which poses both opportunities and challenges for the Bangladesh economy in FY16
- It is also expected that future direction of economic policies in Bangladesh will be influenced by the ongoing *reform programmes under IMF-ECF arrangement* and the *budgetary support programme with the World Bank* which is currently under negotiation

Section II. Macroeconomic Backdrop

- **Revenue shortfall is inevitable!**
- NBR is likely to miss its target for third consecutive year
  - In Jan FY15, declined by (-) 11.8%, reflection of recent disruptions!
- Import duty (12.4% against 11.4% target) and supplementary duties (19.0% against 19.0%) collection were on track
- Non-tax revenue collection declined by (-) 34.8%
- CPD predicted (in Jan 2015) Tk. 25,000 crore shortfall of total revenue

Growth Rates of Revenue Collection



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Section II. Macroeconomic Backdrop

- **Public expenditure will be lower than planned**
- 41.7% of non-development budget was spent (mere 2.0% growth) in Jul-Jan FY15
- Growth of only 'Pay and allowances' head was above the target (13.8% against 8.8% target)
- Tk. 1,716 crore was spent for recapitalisation of the SCBs (Budget earmarked Tk. 5,000 crore; actual spending: Tk. 4,477 crore)
- The higher demand of subsidy requirements for BPDB and fertiliser could be met from unutilised fund earmarked for BPC- thanks to drastic fall in international oil price
  - CPD (2015) earlier recommended not to revise the prices on grounds of the need to catalyse private investment
- **Implementation of ADP remained business as usual**
- 38.5 % of original ADP was spent during Jul-Feb FY15
- ADP was slashed by Tk. 5,315 crore (or 6.6 per cent) to Tk. 75,000 crore
  - Mainly due to resource constraints and slow pace of implementation

Section II. Macroeconomic Backdrop

- **Budget deficit remained within limit**
- The impact of large revenue shortfall was likely to be offset by unutilised budgetary allocation
- Financing will rely heavily on domestic sources- largely on account of NSD sale (Jul-Jan FY15: Tk. 15,747 crore; Target: Tk. 9,056 crore)
- Borrowing from banking sources will be limited

- **Inflation remained stable despite supply chain disruption**
- Headline inflation continued to decline in first eight months to 6.8% (Target 6.5%)
- Food inflation (7.5%) was higher than non-food inflation (5.7%)
  - Low level of international commodity prices, stronger value of BDT and slower growth of money supply helped contain inflation
- Broad money growth was 13.0% (Target: 16.5, Jun 2015)

Section II. Macroeconomic Backdrop

- **Export remained resilient against all odds but off-target**
- Growth was 2.4%, led by RMG growth (2.6%) in Jul-Feb FY15
- 10% annual growth target will be missed
- Total export to the US market declined (-1.9%) driven mainly by (-) 4.3% growth in woven products (Jul-Feb FY15)
- EU market fared better (4.3%) - largely due to 6.7% growth in woven products (Jul-Feb FY15)
- Australia, Brazil (led by RMG products) and India (lead by non-RMG products) experienced significant growth of 23.1%, 21.3% and 36.8% respectively

Periodic growth (%) of export products in FY14 and FY15

Product	Jul-Sep (Q1)		Oct-Dec (Q2)		Jan-Feb		Mar-Jun	
	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15
RMG	24.2	**0.5**	15.7	**1.1**	8.3	**7.6**	8.7	NA
Non-RMG	10.0	**2.7**	-2.1	**7.4**	2.1	**-7.1**	3.2	NA
Total export	21.2	**0.9**	11.9	**2.3**	7.1	**5.0**	7.6	NA

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Section II. Macroeconomic Backdrop

- **Growth of import payments was strong**
- 16.5% (Jul-Jan FY15)
- Imports of POL, fertiliser and textile articles were impressive
- POL import was one-fourth of total import payments (58.5% growth)
- Import of crude oil has increased significantly - over USD 200 mln import in each of the last two months (Overall USD 72.3 mln in FY14)

Category-wise import payments

Product category	Share in FY14	Growth (%) in FY14			Growth (%) in FY15	
		Jul-Dec	Jan-Jun	Jul-Jun	Jul-Dec	Jan
Food Grains	2.2	92.2	32.5	57.2	50.0	-23.6
Consumer goods	11.1	-3.4	-0.5	-1.9	2.5	37.2
Intermediate Goods	57.1	3.6	10.3	7.1	20.4	3.4
Capital Goods	21.7	6.8	29.8	18.2	20.5	-9.1
Others	7.9	15.9	-1.6	6.1	10.9	47.0
Grand Total	**100.0**	**5.5**	**12.1**	**8.9**	**18.3**	**6.2**

- Import payments will come down during the remaining months of FY2015 in view of high benchmark growth and falling LC opening growth (import payment in Jan FY15 has seen only 6.2% growth)

Section II. Macroeconomic Backdrop

- **Growth of inward remittances had been fading out**
- Inflow of remittances increased by 7.0% in Q1-Q3 of FY15
- Q1 of FY15 recorded a strong growth of 22.6%; In Q3 the flow increased merely (by only 0.9%)
- Following revitalisation of the Saudi Arabia market, in three quarters of FY15, average outbound migration per month was 36,268 (below 33 thousand in Q1-Q3, FY14)
- **Balance of payment was at ease**
- Trade balance widened to USD (-) 5,723 mln (Jul-Jan FY15) - as import payments rose at a faster pace than export earnings
- Overall balance of payments surplus was USD 1,706 mln – thanks to hefty financial account surplus (USD 3317 mln)
- Foreign exchange reserve continued to swell (above USD 23.0 bln by Mar 2015) – equivalent to 6 months of import payments
- **Exchange rate of BDT remained strong against all major currencies except Chinese Yuan**
- BDT appreciated 16.5% against falling Euro in last one year
- The other export competing currencies - Cambodian Riel and Vietnamese Dong have also appreciated strongly against Euro, but less than BDT

Section II. Macroeconomic Backdrop

- **Proposed macroeconomic stance for Budget FY2016**
- Set revenue earnings targets more realistically
  - Before setting the revenue earnings targets for FY2016, the revision of FY2015 targets needs to be realistic
  - The discrepancy between revenue earning data reported by the NBR and the MoF needs be taken into consideration (Tk. 3,835 crore in Jul-Jan FY15, Tk. 9,087 crore in FY14)
- Emphasise on revenue mobilisation
  - NBR will need to take the lead role to mobilise most of the incremental revenue
  - Challenge for NBR is to widen the tax net and explore new sources
  - Implementation of NBR modernisation plan needs to be prioritised
  - NBR will need to review the existing and proposed tax incentives
  - An estimated amount of Tk 25,782 crore is eligible to be referred to ADR for settlement. NBR must make proper use the of ADR window
  - Government will have to put emphasis on collection of wealth tax surcharge
  - NBR needs to be vigilant to curb tax evasion. A strong and well-equipped specialised taskforce should be set up to deal with this issue appropriately.
  - Transfer Price Cell at the NBR will need to be strengthened further

Section II. Macroeconomic Backdrop

- Prioritise mobilisation of non-tax revenue
  - Coordinated steps are required to increase non-tax revenue
  - The fees, tolls, commission and service charges need to be revisited and rationalised periodically on a regular basis
  - BTRC has called for an auction of the unused 2G/3G spectrum bandwidths. The mobile operators have urged the government to first settle existing tax related disputes. These issues need to be resolved without compromising the country's interest
- Finalise the new VAT and SD Act
  - Already been deferred for one more year and will not be implemented in FY16
  - It is important that the disputed issues are settled without further delay
- Take cognisance of implication of the forthcoming pay scale for government employees
  - Entails a significant amount of additional revenue expenditure (Commission estimated an additional Tk. 22,953 crore - 63.7% higher than the earmarked figure of FY15)
  - It is important that while finalising and implementing the new pay scale, the government takes note of the fiscal viability and may consider phased implementation

Section II. Macroeconomic Backdrop

- Strengthen monitoring of ADP
  - No breakthrough in implementation of the ADP over the last couple of fiscal years
  - CPD has prepared a list of 26 projects under ADP in FY15 - if implemented in a timely manner, they can leverage and crowd-in private sector investment, help attainment of higher economic growth and generate new employment opportunities in the economy
  - For example, 11 power generation projects considered for the list, to be completed by FY2016, will add 2,842 MW electricity to the national grid
  - The ADP for FY16 must avoid allocating the practice of "symbolic allocation"
- Revisit incentives for NSD certificates
  - Deposit interest rate offered by the commercial banks have seen some decline, as a result, interest rates on NSD certificates are significantly higher than bank deposits over last 2/3 years
  - MoF must address the issue of high dependence on the NSD sales for financing the budget deficit which was likely to have negative implication for medium term debt servicing liability.
- Better delivery of national budget needs meaningful district budgets
  - strengthening the local government should be prioritised

Section III. Economic Losses Arising from Political Violence during January - mid-March, 2015

- An exceptional political unrest during January-March 2015 period (81 days of blockade and 67 days of strike) accompanied with significant violence
- Severely disrupted day-to-day economic activities
  - Disrupted supply chains: disconnected rural and urban markets and domestic and international markets
  - An uncertainty has been lingering due to lack of effective settlement of political issues.

Extent of Violence

Phases	Duration of date	No of Vehicles Vandalisd/torched (Transport + Rail)	No. of people died	No. of People burned
First 12 Days	5 Jan-16 Jan	429	18	111
Next 10 Days	17 Jan-26 Jan	237	9	
Third 10 Days	27 Jan-5 Feb	173	23	
Fourth 10 Days	6 Feb-15 Feb	138	21	8
Fifth 10 Days	16 Feb-25 Feb	48	19	4
Sixth 10 Days	26 Feb-7 March	125	5	..
Seventh 10 Days	8 March-17 March	61	5	..
Total	5 Jan-17 Mar	1211	100	123

Section III. Economic Losses Arising from Political Violence during January - mid-March, 2015

- 16 associations have come up with estimates about the losses
- Daily loss is estimated to be about Tk.2278.0 crore per day: 61.5% of one day's GDP
  - Almost equivalent to per day's GDP of a number of sectors
  - Such high estimates of losses arose from errors of double counting
- The economy would indeed experience a negative growth in FY2015

Comparison of Per Day Loss Reported by Different Sectors and Per Day's GDP

Sector/Subsector	Per Day GDP (2013-14) Tk. Crore	Per day losses reported by different associations/organisations (Tk. Crore)
1. Agriculture and Forestry	443.1	306.4
2. Fishing	116.9	
3. Mining & Quarrying	59.2	
4. Manufacturing	606.7	293.4
7. Wholesale & Retail Trade	472.1	165
8. Hotel & Restaurant	35.7	
9. Transport, Storage & Communication	373.9	300
10. Financial Intermediations	135.6	
a. Insurance	14.8	15
11. Real Estate, Renting & other Business Activities	249.5	250
15. Community, Social and Personal Services	431.5	Tourism (210)

Section III. Economic Losses Arising from Political Violence during January - mid-March, 2015

- CPD has earlier tried to estimate the economic losses occurred due to political unrest prior to the national elections that were held in 2014
- Changes in Gross Output (GO):

ΔSale (S) + ΔChange in Inventory (CI) = ΔIntermediate input (II) + ΔCompensation (CM) + ΔTaxes/interest rates (T) + ΔConsumption of fixed capital (D) + ΔOperating Surplus (OS)

- In Input-output model, there is no scope for counting the changed value twice in the general equilibrium framework
- CPD researchers collected information on losses from different associations and inquired about the types of losses
- This information was examined in a thorough manner in order to identify the actual economic losses.
- Data reported on daily/weekly/monthly basis was calibrated, by putting weights on it.

Section III. Economic Losses Arising from Political Violence during January - mid-March, 2015

Sectoral Estimate of Economic Loss

Agriculture sector

- Supply chain of farm products was severely damaged and disrupted
  - Vegetables perished in the fields
  - Products sold at lower than market price to wholesalers
- Readjustment of margins and distribution in the supply chain occurred
  - Shifting the profit from farmers to wholesalers and retailers
  - Farmers receiving lower prices, were affected and faced difficulty in repaying bank loans and other dues
    - Repayment of agricultural credit in January, 2015 was 18.9% lower compared to the same period in the previous year; largest fall in a month in FY2015
- Loss of perishable vegetables is amounted to Tk.398 crore

Poultry Sector

- Marketing of pountry products due to the disruption in the supply chain: egg, chicken meat and one day chicks
- Problem of marketing had gradually eased over the following days
- Total loss for the poultry sector is estimated to be Tk.606 crore

Section III. Economic Losses Arising from Political Violence during January - mid-March, 2015

Shrimp and Frozen Food Sector

- Stock piling had led to fall in market price
- Production in February to April was sluggish
- Relative appreciation of BDT vis-à-vis Euro had pushed down the price
- Export of shrimp reduce by 25% compared with target for FY2015 (BFFEA)
  - 10% decline is due to the appreciation of Tk and 15% decline was due to political unrest
- The estimated loss: Tk.741.4 crore

Apparels sector

- A total of 41 factories have reported about different types of losses (BGMEA)
- Losses include: (a) cancellation of work order; (b) compulsion to sell at highly discount rate; (c) higher cost incurred on account of higher airfreight charges; (d) additional charge due to delayed shipment; and (f) loss due to vandalism involving transport carrying apparels
- Cancellation of work orders occurred mainly for two reasons: a) lack of confidence & b) undermining of competitiveness due to appreciation of BDT
  - 50% of cancellation of orders was related to political unrest
- Total loss was Tk.1318 crore

Section III. Economic Losses Arising from Political Violence during January - mid-March, 2015

Plastic sector

- Difficulties in the sector include high storage and rental charges, additional shipping charge, lower work orders and damage suffered by delivery vans.
- About 500 firms had faced adverse consequences due to the political unrest
- Total loss of the sector would be Tk.244.0 crore

Transport sector

- Land transport service is resorted to by a wide range of production and services sectors: Components of losses were not counted twice
- Total losses would be Tk.744 crore (incl. loss of prospective income:Tk.4 cr.)
- A major loss in the transport sector took place due to vandalizing or torching of vehicles during the time of blockade and strikes
  - 1405 vehicles were either vandalized or torched: 1390 were of tons/truck type and 15 were railway compartments
  - About 35% of vehicles were torched leading to capital loss and the rest 65% were vandalized leading to partial capital loss
  - Owners of 270 vehicles received financial assistance from PM office to the tune of Tk.1.57 crore
  - Total loss of assets would be Tk.85.44 crore

Section III. Economic Losses Arising from Political Violence during January - mid-March, 2015

Tourism Sector

- Major losses: loss of hotel/motel bookings, loss of food & beverages, loss of the transport sector in the tourist areas, loss incurred by entertainment attraction and loss of retailers, souvenir shops in tourist destinations
- Tourism Board (reported on 15 January, 2015), the sector would incur a loss of Tk.150 crore during this season.
  - A significant number of foreign arrivals are associated with business purposes and the losses on that count would be also significant (about Tk.675 crore)
  - Overall total loss incurred by the sector would be about Tk.825 crore.

Banking and Insurance sector

- A major part of banking and insurance activities is related RMG, real estate, power plants, whole sale and retail trade, land transport, fisheries sector, housing services, health and other services
- Losses incurred by banking and insurance services in those sectors: Tk.67 cr.
- Estimated loss suffered by rest of the sectors is about Tk.89 cr.
- Total losses suffered by the banking and insurance services amounted to about Tk.156.0 crore.

Section III. Economic Losses Arising from Political Violence during January - mid-March, 2015

Wholesale and Retail trading

- Mainly is associated with paddy cultivation, fishing, forestry, rice milling, grain milling, food processing, cloth milling, handloom, cement, basic metals, and land transport
  - Losses incurred by trading activities for these activities are estimated to be Tk.232.0 crore
  - Total losses for wholesale and retail trading would be Tk. 448.0 crore

Real Estate Sector

- Realtors are facing a number of challenges including high bank interest rate, depressed demand from middle-income households due to high apartment prices and reduced bank loan facility for purchase of apartments etc.
  - Blockade and transport disruption have adversely affected their business

Education

- Education sector was severely affected during this period
- Govt. education services account for 49% of contribution of this sector
- Medium to long-term losses to the country and society remained significant
  - Whilst difficult to measure, losses in terms of economic losses remained formidable

Labour Related Losses

- Workers, both skilled and unskilled, take part in wide ranging economic activities.
- In case of contractual and fixed wage employment, a large part of the losses were incurred by the employers.
- Adverse impact on casual workers may not have been covered under those activities.
  - The extent of impact and its measurement is rather difficult

Overall Loss Arising from Political Unrest

- The analysis presented here provides only a partial estimate of the economic losses incurred by the major sectors of the Bangladesh economy.
- As per the estimation, total losses suffered by these selected sectors during January to mid-March, 2015 due to political unrest would be to the tune of about Tk.4900 crore
  - This amount would be 0.55% of GDP of FY2015
- If it was possible to capture all possible sources of losses, this would obviously raise the estimate of losses that this quick study has come up with.
- Different sectors have experienced different types of adverse effects;
- There is also short and medium to long term aspect of this discourse
  - Indirect and multiplier impacts having adverse impact on the economy.

Overall Economic Loss due to Political Unrest in Selected Sectors

Sectors	Loss Due to Political Unrest	Loss Due to Other Reasons	Estimated Loss due to political unrest (Crore Taka)	Loss of Operative Margin due to political unrest
Agriculture	Moderate	No	398.0	Significant (farmers)
Poultry	Significant	No	606.0	Significant
Shrimp	Significant	Significant	741.0	Significant
Apparels	Moderate	Significant	1318.0	Moderate
Plastic	Significant	No	244.0	Significant
Transport	Significant	No	744.0 (+85.0)	Significant
Tourism	Significant	No	825.0	Significant
Banking & insurance	Moderate	No	156.0	Moderate
Wholesale & retail trading	Significant	No	448.0	Significant
Real estate	Marginal	Significant		Marginal
Education	Marginal	No		Marginal
Total (excluding services counted in other activities)			4880 (+85.0)	

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Addressing the Economic Loss in the Upcoming National Budget for FY2016

- The upcoming national budget should address the issue of economic losses through appropriate fiscal and budgetary support.
- A dedicated fund can be set up to take corrective measures to help various sectors and stakeholder groups to undertake the adjustments.
- Central Bank may consider providing rescheduling facilities for repayment of agricultural credit particularly concerning non-crop cultivation
- Central Bank could create a window to provide low cost credit facility to the vehicle owners
- For the small traders and SMEs, tax and SD policies may be calibrated with special provision for time bound rescheduling and low cost credit window

Addressing the Economic Loss in the Upcoming National Budget for FY2016

- To make the supply chains more efficient, private sector may be encouraged to invest in domestic supply chain particularly in building warehousing facility, cold storage facility for perishable products, emergency support facility etc.
- Upcoming national budget can place incentives towards supply chain development which will have positive impact on market management
- There should have an institutional mechanism to estimate economic losses arising from either natural calamities or from man-made disasters.
  - BBS is in an appropriate position to undertake this kind of exercise.

Section IV. Key Developments at the Global Level and Implications for Budget FY2016

- **Global growth outlook indicates a mixed scenario**
  - Estimated increase in growth rates to 3.5% in 2015 and 2016.
  - Improvements in the US performance due to falling rates of unemployment:5.5% in Feb15 from 10% in Oct09
  - Anemic recovery of the EU due to weak investment, low inflation, depreciating Euro and Greek misfortune
  - Projections for Saudi Arabia, a major source for remittance inflow and overseas employment remain mixed
  - Emerging markets and developing economies have promising outlook; growth of 4.3-4.9% and 4.7-5.3% in 2015 and 2016
- **International oil prices to remain at a lower level**
  - Brent (crude) oil price fell from USD 115/barrel in June 14 to USD 50/barrel in Jan 15
  - Projections of an average of USD 53/barrel subject to volatility from rising geopolitical tensions of the recent times
  - Redistribution of income from falling prices from oil exporting countries to oil importers

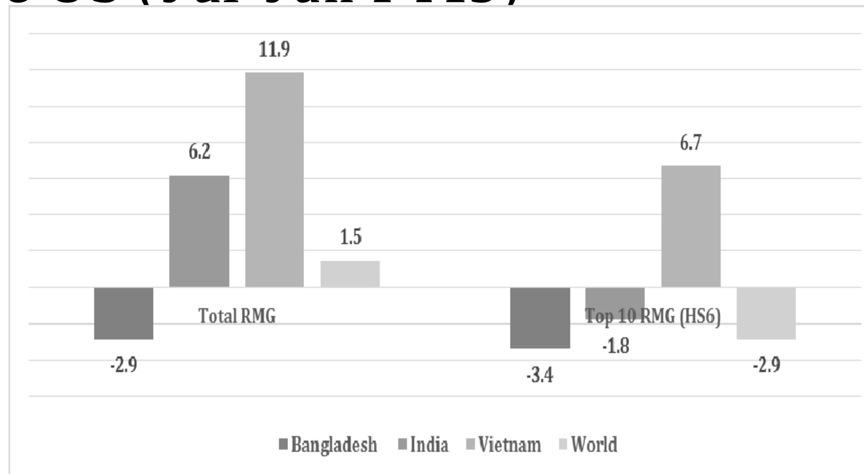
Section IV. Key Developments at the Global Level and Implications for Budget FY2016

- Weak oil demand due to slower growth of China, Euro Zone and commodity exporting countries, surging US productions from shell-energy boom, and OPEC's shift in pricing strategies led to price drop
- Appreciation of USD and expected interest rate tightening by the Fed also important for oil prices

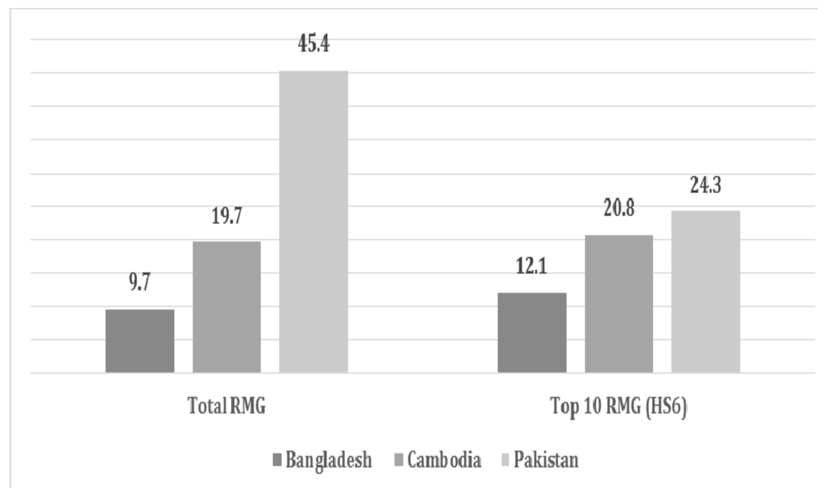
- **International commodity prices declined**
  - Succeeding the fall in oil prices
  - Fall in cotton prices important for the competitiveness of RMG exports
  - IMF commodity price index fell from July 14 till Jan 15; marginal increase in Feb 15 by 5.51% but still below pre-fall levels
- **Global trade growth will remain moderate**
  - World trade growth (in volumes) slowed; grew by less than 4% per annum in 2012-14
  - Slowdown in import demand from weakly growing advanced economies
  - Bangladesh export earnings declined in FY15
  - Jul-Feb FY15 saw a decline of 2.6% in export earnings from US but an increase in export earnings from EU increased by 4.3%

Section IV. Key Developments at the Global Level and Implications for Budget FY2016

- Import Growth of RMG products in the US (Jul-Jan FY15)
  - Total RMG imports from Bangladesh to US declined by 2.9%
  - RMG import growth rates increase by 6.2% from India and by 11.9% from Vietnam.



- Import Growth of RMG products in the EU (Jul-Dec FY15)
  - Import demand in EU increased to 19.7% from Cambodia, 45.4% from Pakistan and 9.7% from Bangladesh during Jul-Dec FY15
  - RMG exports to the US are struggling; export to EU is facing greater competition due to Pakistan's inclusion in the GSP Plus



Section IV. Key Developments at the Global Level and Implications for Budget FY2016

- **USD has been appreciating steadily against a depreciating Euro from end of Jun14- early Jul14.**
  - Stronger USD due to greater job creation
  - Weakening Euro is due to the Quantitative Easing program to promote recovery of the zone
  - BDT appreciating against Indian Rupee and depreciating against Chinese Yuan
  - Raises concerns as China, India, Vietnam, Cambodia and Pakistan are strong competitors in the EU market
  - USD forecasted to appreciate till the fourth quarter of 2015 to 1.12 Euro/USD, reversing to 1.13 Euro/USD in the second quarter of 2016
  - Speculation about the impending rise in the federal funds rate in the US is expected to affect the trend and the forecasts

Section IV. Key Developments at the Global Level and Implications for Budget FY2016

- **Global trends to provide more fiscal space for Budget FY16**
  - Bangladesh, a net importer of oil stands to make formidable gains
    - Lack of subsidy demand from BPC helped the government to not opt for another upward adjustment of electricity prices.
    - With no drastic change in demand and of administered prices of petroleum products, CPD estimates show savings of about Tk.3000 crore in FY16 due to lower oil prices in FY16
    - Implication of zero subsidy demand from BPC and possibility of profits in FY16 to recover losses incurred in earlier years by BPC
    - Important to divert subsidies to BPDB, keeping electricity prices unchanged
  - Implementing the electricity production related ADP projects scheduled to be completed by FY16 which can add more than 25,00 MW electricity to the national grid
  - Lower commodity prices should ease domestic inflationary pressure giving the government additional policy space to use expansionary fiscal and monetary instruments.

Section IV. Key Developments at the Global Level and Implications for Budget FY2016

- **No major breakthrough in overseas employment-** mediocre growth outlook of the Middle East may reduce flow of overseas employment for Bangladeshi workers in FY16.
- Thus important to generate domestic employment by promoting private investment in FY16.
- **Policy support for export-** A number of fiscal policy measures were put in place in favour of export during Apr-Oct 14
  - A special cash incentive (to the tune of 2/3% on fob value) for exports to the EU is being considered; fiscal implication: Tk. 2,400-3,000 crore in FY16
- It may be noted that BDT is not the only currency appreciating against Euro, but the degree is higher for BDT compared to India, Cambodia and Vietnam
- **Prudent management of exchange rate** is required in FY2016; important for the central bank to monitor BDT exchange rate against other major currencies beyond USD
- **Promote trade facilitation measures** in view of the Trade Facilitation Agreement in the Bali package
  - Providing allocation for the required investment projects

Section V. IMF's ECF and World Bank's Proposed DSC: Implications for the Upcoming National Budget

IMF's Extended Credit Facility (ECF)

- Bangladesh has carried out a wide range of reform measures regarding cash and debt management under IMF's three-year long ECF
  - Tax and revenue administration reforms; expenditure control & containing subsidy costs; strengthening safety nets and reinforcing priority including social spending; and sound debt management, non-concessional borrowing and debt sustainability
- Till March, 2015, IMF has carried out six reviews
  - Disbursed US$704 million in five installments out of total approved amount of US$887.6 million
- Initiatives under the IMF programme is currently at different levels of progress and these are set to continue in the next fiscal year.

Implications for the National Budget

Implementation of New VAT Law

- Implementation of new VAT law has been pushed back to July, 2016 due to strong opposition from the private sector
- Major private sector stakeholders had expressed their strong opinion in support of three issues which include: a) lower VAT rate, b) multiple VAT rate and c) more time for preparation.

Section V. IMF's ECF and World Bank's Proposed DSC: Implications for the Upcoming National Budget

- Deferral of the implementation of the VAT law is also linked with slow pace of progress in setting up necessary infrastructure.
- Most of the ongoing projects would not be completed within stipulated timeline (December, 2015)
  - Governance and capacity of tax administration as well as establishment of taxpayers' information and service centre
- Implementation of the envisaged works and activities including setting up the needed infrastructure will need to be reflected in the FY2016 budget with necessary allocations.

Strengthening Financial Management

- Government has decided to amend three acts: a) inclusion of the bank resolution and lender of last resort (LOLR) facilities under the Bank Company Act 2013, b) BB Order 1972 & C) Deposit Insurance Act.
  - Facility of LOLR would provide the BB to intervene in case any bank or financial institution fail to cope up with emerging adverse situation
- Rescheduling facility was not always used with proper justification
- Strict guidelines to identify affected borrowers need to be followed
  - Otherwise there will be room for discretion and hence likelihood of lack of discipline in financial management.

Section V. IMF's ECF and World Bank's Proposed DSC: Implications for the Upcoming National Budget

Power and Energy Tariff Adjustment

- Declining global prices of petroleum products put pressure on the government to reduce the administered prices of petroleum products
- Administered price of petroleum at present moves within the differential limit (not more than Tk 10) between local and international prices
- Government and IMF have agreed not to go for upward adjustment of power tariffs, the idea is also to allow space to BPC to make necessary adjustment of its losses
- IMF has agreed to provision of budgetary support to BPC, BPDB and BCIC to cover subsidy costs
- In FY2016 budget a plan regarding adjustment of power generation to reducing dependence on rental power plants need to be included
    - Tighter pricing rules for rental power plants was proposed

Proposed Development Support Credit (DSC) from the World Bank

- Bangladesh is seeking development support credit from the World Bank (WB)
  - with a view to meet its various budgetary requirements
  - The amount of budgetary support has yet to be fixed although US$500 million has been sought by the government
  - Both sides have identified as many as nine areas of reform which include public fund management, banking, energy, transport, ICT, public private partnership and migrant workers
  - Most of these are related to adoption of new laws, rules and action plans, and timely implementation of various projects related to infrastructure and ICT and other sectors.
  - Common positions with regard to a number of areas including PPP, setting up of special economic zones and infrastructure projects
  - Differences of opinion as regards some of the other areas
    - Time bound action plan to strengthen the financial sector and undertaking energy sector reform
    - World Bank supports IMF's stance on introduction of unified VAT rate instead of the existing multiple VAT rates

Section V. IMF's ECF and World Bank's Proposed DSC: Implications for the Upcoming National Budget

- If Bangladesh government and World Bank reach an agreement in the coming months, FY2016 budget will need to address a number of reform related issues.
- Issues which are included in the first year's proposed activity list:
  - Formation of an apex body to coordinate activities of different government agencies functioning in Dhaka city, preparation of urban transport policy, finalization of an action plan to integrate with regional and global markets, time-bound action plan to strengthen the SOCBs, preparation of a public fund management strategy, devising of a formula for revenue sharing with the local government, updating of telecom policy, design of a strategy for increasing efficiency of existing thermal plants, revising of the energy policy and preparation strategy for reducing cost of remitting funds from abroad.
  - GoB will need to carefully examine the proposals before these are finalized.

Section V. IMF's ECF and World Bank's Proposed DSC: Implications for the Upcoming National Budget

- The need for budgetary support from the World Bank remain unclear.
- The amount of support (US$500 million or Tk. 4000 crore) is also not significant.
- CPD has always maintained that reforms, whilst much-needed, must be domestically-owned and nationally-designed.
  - If there is any shortfall in resources, funds may be mobilized from development partners including the World Bank.
- Regrettably, both in case of IMF-support and World Bank DSC reform agendas are being imposed as conditionalities for receiving funds.
- This undermines both the national cause of policy making independence and also the prospect of implementation of these reforms.

Section VI. Concluding Remarks

- The review indicates that, notwithstanding the deterioration of the political environment, particularly during the third quarter of the current fiscal year, Bangladesh economy continues to enjoy relative macroeconomic stability in the form of low inflation, manageable fiscal deficit, stable exchange rate and favourable BoP position.
- A loss of almost half a percentage point equivalent of the GDP, as our preliminary estimates show, is a substantial dent on the economic prospects of the country.
- One feels concerned also because of some of the fault lines appearing in the global economy including a slowdown in remittance flow, falling economic growth in the EU and sluggish demand for Bangladesh RMG products in the US market, significant decrease in export growth and higher appreciation of the BDT against the Euro vis-à-vis Bangladesh's export competitiveness.
- All these make the effort to break out from the six per cent GDP growth trap a more challenging task.

Section VI. Concluding Remarks

- In view of our foregoing analyses, some of the key areas that FY2016 budget will need to address include more resultative efforts towards domestic resource mobilisation (including non-tax revenue), invigorating and incentivising private investment, smooth functioning of the supply chains and removing the obstacles to higher growth of human resource export.
- However, reform outlook continues to be dim. Such an assessment impinges upon the delivery and effectiveness of the reform measures envisaged under the IMF programme and upcoming WB-Budgetary support.
- There is a heightened need to arrest the downward slide in the current political uncertainties through an inclusive politics.
- A renewed effort will be needed in terms of institutional strengthening and significant improvements in good governance practices.
- This is also the time to put into practice the much-awaited result-based management system in budget implementation and strengthening of the institution of local government, as CPD's District Budget exercise has suggested.

Thank You