Independent Review of
iRBD
Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD Budget Dialogue 2017

An Analysis of the National Budget for FY2017-18

Dhaka: 17 June 2017

CENTRE FOR POLICY DIALOGUE

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

Issues for Discussion

- ❑ How realistic is the investment and employment outlook in the Budget FY2018?
- ❑ Is the Budgetary Framework attainable in view of recent years' achievements?
- ❑ What would be the plan to achieve a double than trend revenue growth?
- ❑ Does Public Expenditure maintain inter-sectoral balance?
- ❑ Is there any change in the trend of ADP Expenditure?
- ❑ How fast are the Fast Track projects?
- ❑ Is the Budget FY2018 capable of overcoming the embedded weaknesses?
- ❑ How much is there for Agriculture and Social Sectors?
- ❑ Are fiscal measures biased toward revenue generation?
- ❑ Are we ready to operationalise the VAT and SD Act 2012?
- ❑ Is there any economic philosophy behind duty restructuring?
- ❑ Reform measures: unsung agenda?
- ❑ CONCLUDING REMARKS

How realistic is the investment and employment outlook in the Budget FY2018?

INVESTMENT OUTLOOK

- The GDP growth target FY18: 7.4% (7.24% in FY17, provisional)
- Public investment driven growth forecasted
- Private investment to rise by only 0.2 percentage points as % of GDP
- CPD analysed additional investment requirements in FY18
  - Private investment: Tk. 66,000 crore (approx.)
  - Public investment: Tk. 50,000 crore (approx.)
- ICOR is expected to rise marginally (decline in capital productivity) in FY18
- Inflation is expected to remain stable at 5.5% – *doubtful*

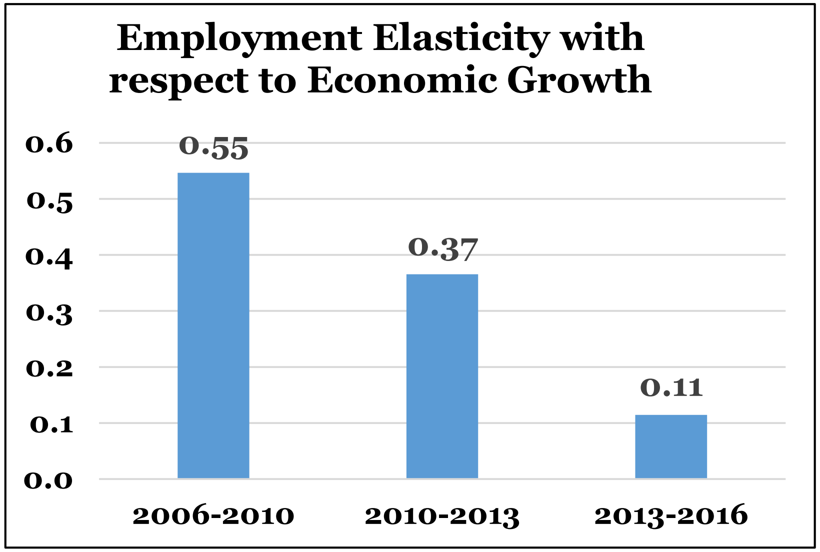
Growth, Investment and Inflation

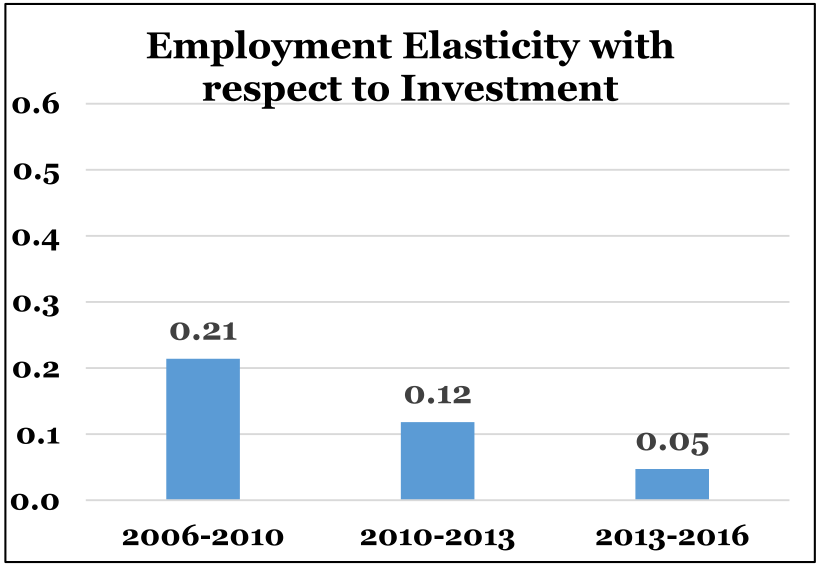
Indicators	FY16 (A)	FY17 (B)	FY17 (R)	FY18 (B)
GDP growth (%)	**7.1**	**7.2**	**7.24**	**7.4**
Investment (as % of GDP)	**29.6**	**31.0**	**30.3**	**31.9**
Private (as % of GDP)	23.0	23.3	23.0	23.2
Public (as % of GDP)	6.7	7.7	7.3	8.7
ICOR	4.2	4.3	4.2	4.3
CPI inflation (%)	**5.9**	**5.8**	**5.5**	**5.5**

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

EMPLOYMENT GENERATION

- The budget speech mentioned that "around 20 lakh workers enter our labour market each year"
- Both GDP growth and investment have lower impact in terms of employment generation in recent years
- Between 2013-2016 (according to LFS), labour force in Bangladesh increased by only about 4.7 lakh each year
- **Job creation** has also slowed down – **about 4.7 lakh each year. Same as labour force!**
- Unemployment rate: unchanged (4.2% in FY16)
- Manufacturing sector employment: declined by 9 lakh (2013-16)
  - Curiously, the **manufacturing sector** posted about **11.0% annual growth** on an average





Is the Budgetary Framework attainable in view of recent years' achievements?

Broad Fiscal Framework

- **Revenue** (Target growth: 31.8%; trend growth rate: 15.3%) projected to grow **faster** than **public expenditure** (Target growth: 26.2%; Trend growth rate: 14.7%)
  - Additional revenue required in FY18: Tk. 69,494 crore
  - *CPD Projection: approx. Tk. 83,000 crore (due to shortfall in achieving RBFY17 targets)*
  - Additional expenditure required in FY18: Tk. 83,092 crore
- **Development expenditure** (37.1%) also programmed to **grow faster** than non-development revenue expenditure (2.1.3%)
- **ADP**: shares 38.3% of total public expenditure (34.9% in the RBFY17)
- **Budget deficit:** projected at **5.0%** of GDP (same in RBFY17)
  - Actual deficit in FY17 may remain at 4.0% of GDP
- Targets a turn around in financing budget deficit
  - **High foreign financing target** (80.5% growth over the RBFY17)
  - Anticipated **gross foreign aid flow** of **USD 7.6 billion (highest in history – USD 2.7 billion in FY16; USD 2.0 billion** received during **Jul-Feb FY17)**
  - Much will depend on project aid utilisation of ADP

PUBLIC FINANCE FRAMEWORK

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

Fiscal Framework (as % of GDP)

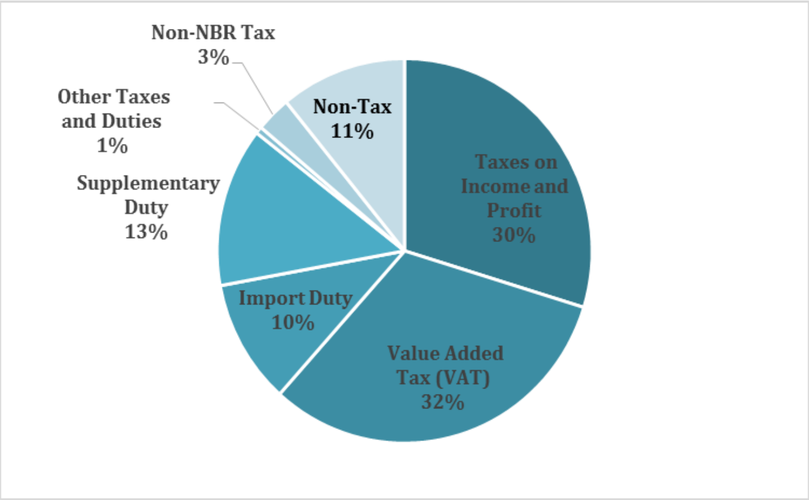
Indicator	FY16 (A)	FY17 (B)	FY17 (R)	FY18 (B)
Revenue	**10.0**	**12.4**	**11.2**	**13.0**
NBR Revenue	8.4	10.4	9.5	11.2
Non-NBR Revenue	0.3	0.4	0.4	0.4
Non-Tax Revenue	1.2	1.6	1.3	1.4
Expenditure	**13.8**	**17.4**	**16.2**	**18.0**
of which, ADP	4.6	5.6	5.7	6.9
Budget Deficit	**3.8**	**5.0**	**5.0**	**5.0**
Domestic Financing	2.9	3.1	3.6	2.7
of which, Banking	0.6	2.0	1.2	1.3
Foreign Financing	0.9	1.9	1.5	2.3

- Interest payments for domestic debt has already risen substantially
- Debt servicing for borrowing for large infrastructure projects may put further pressure in future in case of both domestic and foreign sources
- **Implementation plan remains absent!**

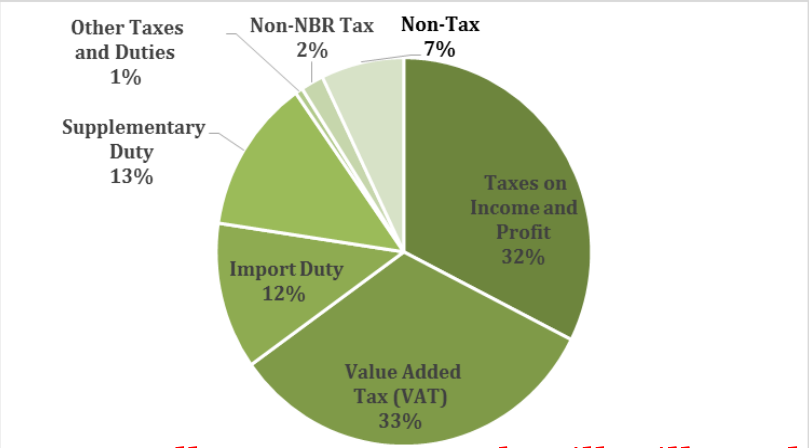
What would be the plan to achieve a double than trend revenue growth?

REVENUE MOBILISATION

Share of Revenue FY18



Incremental Share of Revenue FY18



Revenue Mobilisation

- Revenue target: Tk. 2,87,991 crore (31.8% growth)
- NBR to take the lead role (**accounting for 90.9% of incremental revenue**) with 34.2% growth
  - Incremental revenue from income tax: 32.3%
  - 67.9% of total income tax will be collected from companies
- Incremental revenue from VAT: 32.5%
- More reliance on indirect tax at domestic level
  - VAT on import to grow by 32.5%, while on domestic by 33.1%
  - SD on import to grow by 21.5%, while on domestic by 32.9%
- Import duty collection growth target is 39.2%
- Non-NBR revenue growth set at a very modest level (18.8%)

Overall revenue growth will still need to be double than the trend growth rate (FY09-FY17)

Does Public Expenditure maintain inter-sectoral balance?

Public Expenditure

Economic Classification

- Two major areas of revenue expenditure: **Pay and Allowances (22.0%)** and **Subsidies and Transfers (34.2%)** comprise over 50% of revenue budget
  - Significant rise in payment of **Pension and Gratuities** has been observed since FY16 (Tk. 22,940 crore for FY18 which is 9.4% of non-development expenditure)
- Tk. 6,500 crore has been allocated for funding PPP and export incentives
- Total Block Allocation for repairs: Tk. 4,798 crore (Tk. 2,499 crore in BFY17)
  - Tk. 3,327 crore has been kept as block allocations (non-development budget)
  - Planning Division receives lump allocation to the tune of Tk.1,065.83 crore as development assistance to different ministries/divisions on *special ground*
- Tk. 10,145 crore allocation for **Investments in Shares**
- Tk. 2,000 crore has been for Investment for Recapitalisation (for state-owned banks!)
- For fertiliser & other agricultural incentives Tk. 9,000 crore has been allocated

Sectoral Analysis

- More emphasis to physical infrastructure – **Transport and Communication** and **Fuel and Energy**
- Share of Defense Services (Tk. 25,756 crore) in total public expenditure (6.4%) crosses that of Agriculture (6.1%)

PUBLIC EXPENDITURE

Total Public Expenditure (Sectoral Analysis)

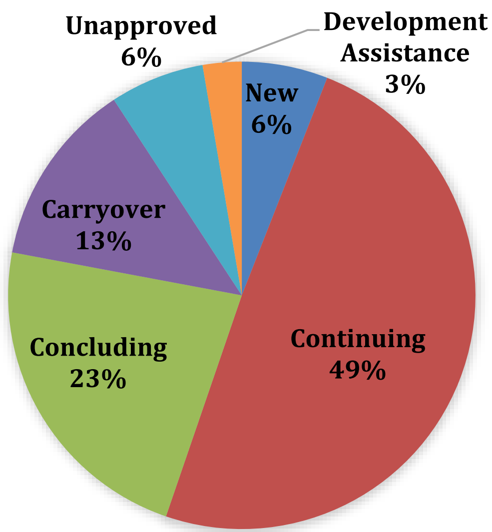
Sector	Share in BFY18	Share in RBFY17	Change in FY18B over FY17R		
	%		Crore Tk	%	Rank (Growth)
Education and Technology	16.4	15.9	15,152.0	30.1	7
Public Service	13.6	10.7	20,633.0	61.0	1
Transport and Communication	12.5	11.4	13,815.0	38.1	5
Interest	10.4	11.1	6,099.0	17.2	10
LGRD	6.9	7.0	5,451.0	24.5	8
Defence Services	6.4	7.3	2,544.0	11.0	12
Agriculture	6.1	6.3	4,397.0	21.9	9
Social Security and Welfare	6.0	6.7	2,944.0	13.9	11
Public Order and Safety	5.7	6.5	2,124.0	10.2	13
Fuel and Energy	5.3	4.6	6,557.0	45.0	2
Health	5.2	4.7	5,823.0	39.3	4
Others (Memorandum Item)	2.7	4.4	-3,082.0	-22.3	14
Industrial and Economic Services	1.0	0.9	1,232.0	43.3	3
Housing	0.9	1.6	-1,441.0	-27.9	6
Recreation, Culture and Religious Affairs	0.9	0.9	844.0	30.5	15
Total Expenditure	100.0	100.0	83,092.0	26.2	-

Is there any change in the trend of ADP Expenditure?

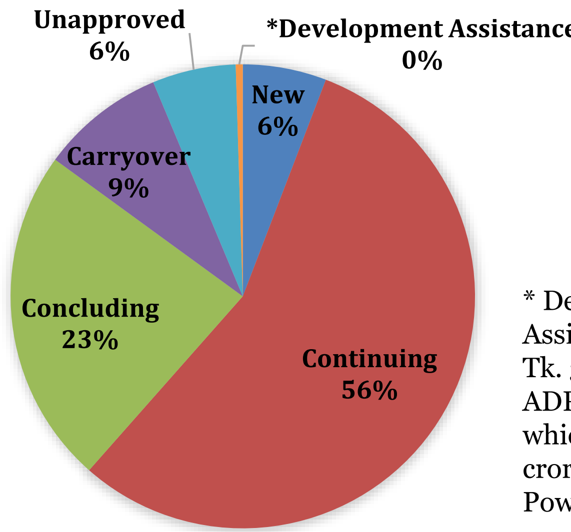
Annual Development Programme

- ADP of Tk. 1,53,331 crore has been proposed for FY18 (**38.5% higher than ADP/RADP FY17**; RADP was unchanged for FY17)
  - *It is likely to be around 70% higher (CPD projection)*
- **Project Aid component** share increased to **37.2% of total** ADP FY18 (29.8% in RADP of FY17)
  - Project Aid for FY18 has increased significantly by 42.5% compared to original ADP for FY17
- Tk. 3,346 crore was provided to Development Assistance (12.4% higher than ADP FY17)
- The **top 5 sectors** have received **69.1%** of total ADP allocation – concentration ratio to increase further. **Transport Sector** once again has received the highest amount of allocation (26.8%) followed by **Power (12.3%)**, **Education (10.9%)**, **Physical Planning** and **ICT**
- In FY18, **ICT Sector has received a substantial amount** in ADP allocation (nearly 2.6 times compared to RADP FY17)
  - This is **an impact of Rooppur Nuclear Power Project** which has received 75.5% of the incremental allocation

Annual Development Programme



FY17 Number of Projects: 1,123



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

FY18 Number of Projects: 1,195

- Similar trend in the structure of ADP continues
- **90 new projects** are included (in FY17: 75) – 5.7% of total ADP allocation
  - 272 new projects were included in the RADP for FY17
- More allocation for continuing projects and inadequate allocation for concluding projects!
- Allocation for carryover projects has declined
- Unapproved project allocation has also decreased to 5.8% of total from 6.5% in FY17 – most unapproved projects are from Education Sector

Annual Development Programme

- A total of **415 projects** are scheduled to be concluded in FY18- according to project completion timeline
  - **221 carryover projects** consist of **8.67%** of the total allocation
  - Thus total number of projects which should be concluded: **690**
  - However, the Planning Commission identified **411** projects which may be **completed in FY18**
  - Many of these are unlikely to be completed by FY18
- Too many projects are listed without allocation

Project Status	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**
Unapproved projects without Allocation	720	662	624	857	1,172	1,315
Projects listed to seek Foreign Funds	327	346	338	382	349	360
Total Number of Projects in the ADP	**1,037**	**1,046**	**1,034**	**999**	**1,141**	**1,195**
Unapproved projects as % share of Total Projects	*69.4*	*63.3*	*60.3*	*85.8*	*102.7*	*110.0*
PPP	13	44	40	40	32	36
Possible completion	330	305	324	324	354	411

Annual Development Programme

- Practice of **providing symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive and increasing**
  - **26 projects under ADP received only Tk. 1 lakh** for FY18 (18 projects received such allocation in FY17)
  - **48 'investment' projects under ADP received only Tk. 1 crore or less** for FY18 (31 'investment' projects received such allocation in FY17)
    - Average allocation per project: only Tk. 10.3 lakh; most of the projects are carryover projects

- **515 projects are at least 2 years old (47.7% of 1,079 investment projects)**
  - Average age of these 515 projects are 5.6 years
  - 39.42% of such projects have already been revised one or more times to approve 'cost revision' or 'time extension'
  - 119 of these projects are aided projects

How fast are the Fast Track projects?

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Fast Track Projects

Fast Track Projects

- Total Allocation: Tk.30,614 crore is allocated for FY18
  - 19.9% of total ADP of FY18. (Tk.18,727 crore and 16.9% in FY17)
- Most of the projects have not made considerable progress except that of Padma Bridge
  - Unable to utilise allocated budget (unutilised resources in FY17 was Tk.3,560 crore or 19% of allocation)
- Given the progress of work of Padma bridge, it would be difficult to complete the remaining works of main bridge, river training and rail links by December 2018

Progress of Fast Track Projects

Project Name	Project Period	Progress till June 2017
Planning the preservation and construction of boundary wall and land development of Rampal Electricity Centre 2nd Block	Jun-17	56.3%
Rooppur Nuclear Power Plant (1st Phase)	**Jun-18**	**95.1%**
Payra Sea Port Infrastructure Development	Jun-18	23.2%
Padma Multipurpose Bridge	**Dec-18**	**52.6%**
Padma Bridge Rail Link	Jun-20	13.8%
Dohazari-Cox's Bazar Rail line	Jun-22	12.7%
Materbari 1200MW Coal Fired Power Plant	Jun-23	3.0%
Dhaka Mass Rapid Transit Development	Jun-24	7.8%

Resource Unspent in Mega Projects (Tk. In crore)

Project Name	FY13	FY14	FY15	FY16	FY17
Materbari 1200MW Coal Fired Power Plant				-96	1,875
Padma Multipurpose Bridge	103	4,809	235	3,808	1,352
Dhaka Mass Rapid Transit Development		101		45	1,044
Rooppur Nuclear Power Plant (1 phase)			-1,477	434	399
Dohazari-Cox's Bazar Rail line Project	1			-279	-400
Padma Bridge Rail Link					-711
Total	**104**	**4,911**	**-1,242**	**3,911**	**3,560**

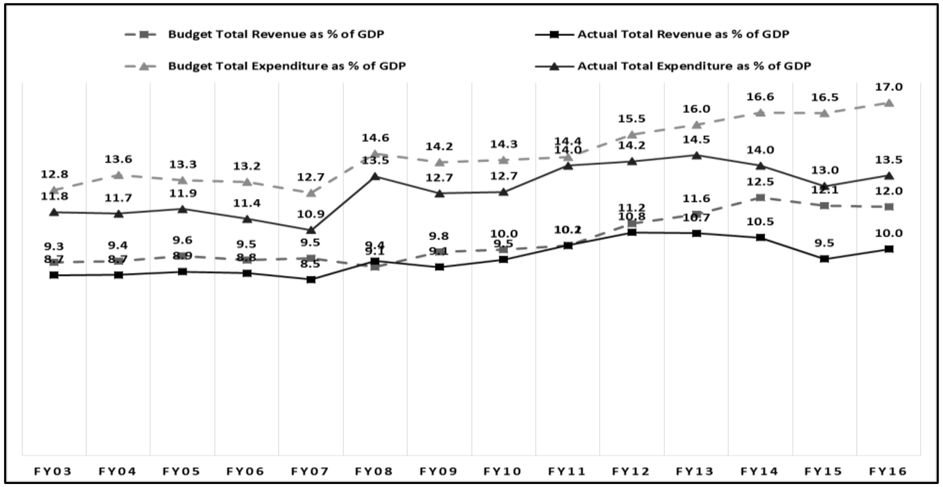
Is the Budget FY2018 capable of overcoming the embedded weaknesses?

STYLISED WEAKNESSES

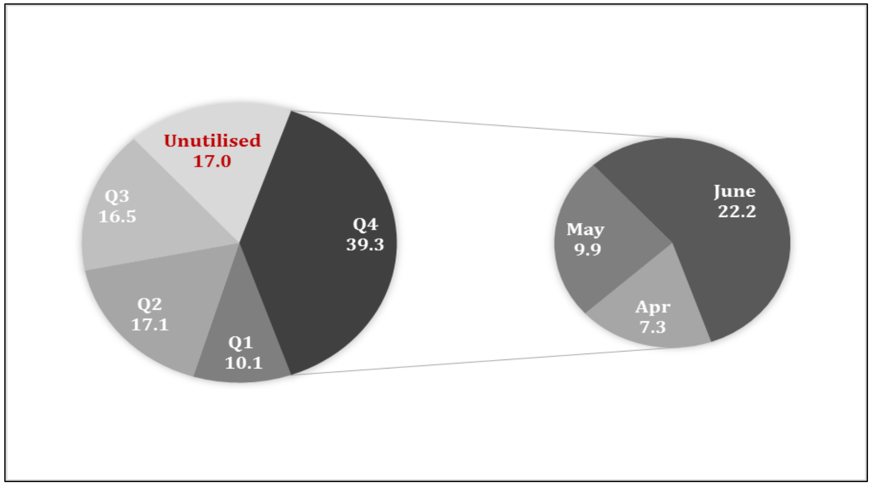
Stylised weakness

- ❑ Widening gap between planned and realised budget
- ❑ Last quarter syndrome in ADP hurts quality of public investment

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



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



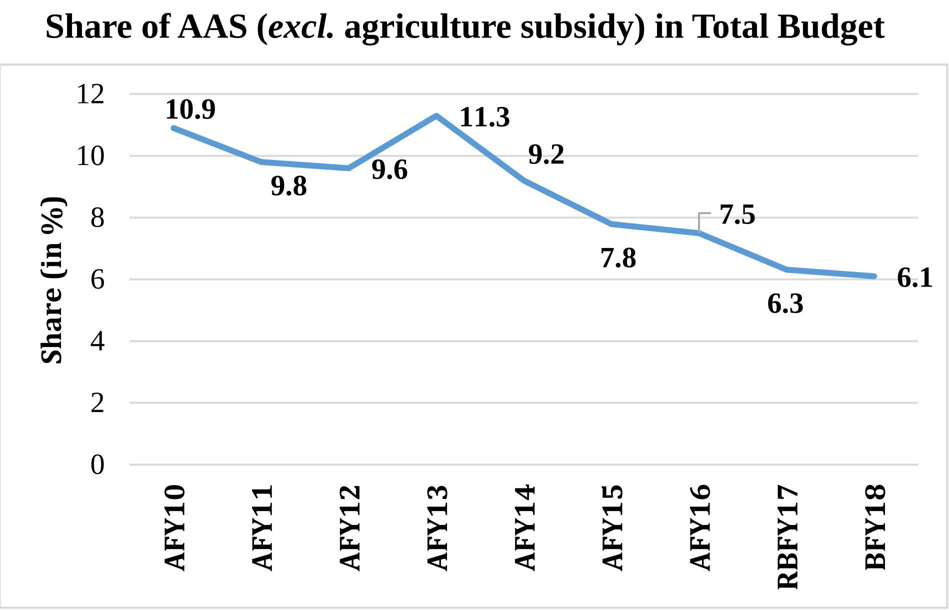
Other stylized weaknesses

- ❑ Leakage in taxes in form of tax evasion, trade mispricing etc.
- ❑ Limited participation of local government in budget implementation
- ❑ Failure to incentivise private investment

How much is there for Agriculture and Social Sectors?

Agriculture

- ❑ Allocation: Tk. 24,430 crore (increased by 22% compared to that in RBFY17)
  - ➢ However, sectotral allocation as share of budget has been decreasing over time
- ❑ A number of measures announced to promote mechanisation of agriculture
- ❑ Continuation of the current duty tax concessional facility for the existing raw materials and components of agricultural machineries along with some more equipment in the agricultural sector (gasket, spindle, helical springs, cutting device, moisture meter, machinery parts)
- ❑ **Tk. 9,000 crore has been kept as subsidy for Agriculture Sector in FY18** (same in FY17; Tk. 6,000 crore in RBFY17)



SOCIAL SAFETY NET PROGRAMMES (SSNP)

Social Safety Net Programme (SSNP)

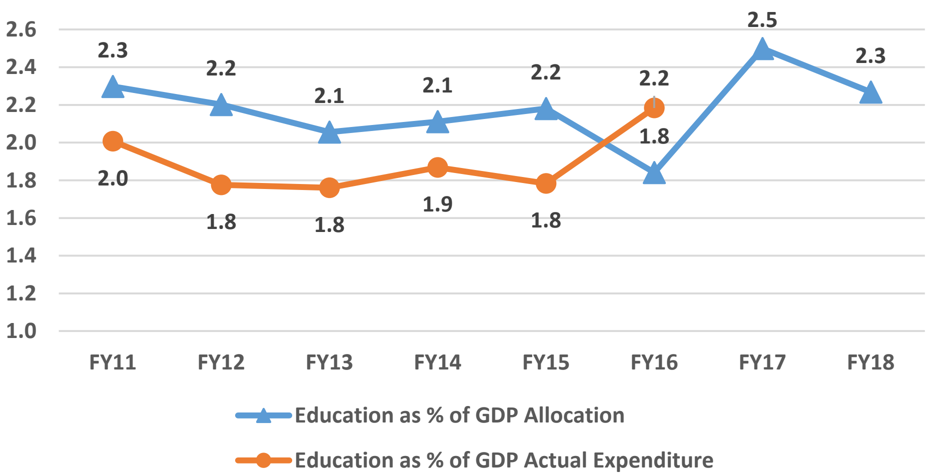
SSN allocation	BFY17	RBFY17	BFY18	Growth (over BFY17)	Growth (over RBFY17)
Total Allocation in SSN (A)	45230.0	40857.0	54206.0	19.8	32.7
Pension for Government Employees (B)	16915.4	12667.0	22392.2	32.4	76.8
Total SSN amount minus (-) pension amount (C)	28314.6	28190.0	31813.8	12.4	12.9
A as % of GDP	2.3	2.1	2.4	-	-
C as % of GDP	1.4	1.4	1.4	-	-

- Special social protection scheme for Haor areas-
  - Tk. 57 crore to provide cash-assistance on a monthly basis
  - Tk 82.1 crore has been allocated for 91,447 beneficiaries under Employment Generation Programme for the Poorest (EGPP)

Education

- ❑ Allocation: Tk. 50,432 crore (2.9% higher than BFY17 and 12.2% higher than RBFY17)
- ❑ As share of GDP: Decline to 2.3% in FY18 from 2.5% in FY17
    - ➢ **UNESCO recommended allocation: at least 6.0% of GDP**

Education Budget and Expenditure as % of GDP



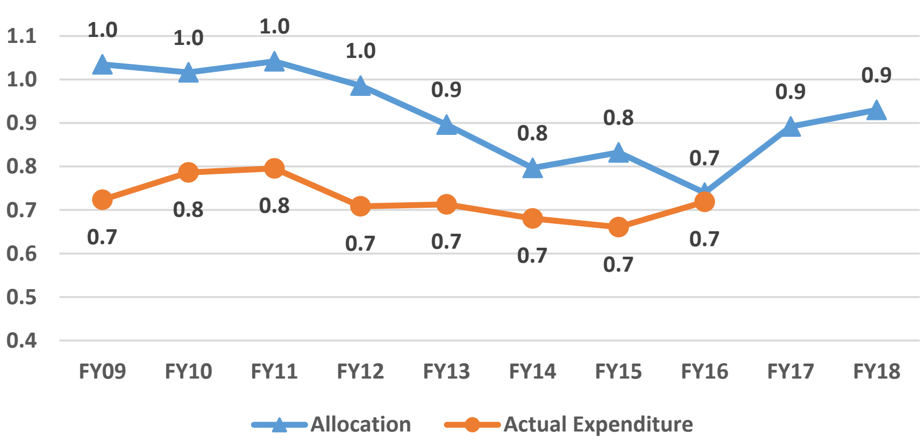
- ❑ Number of national projects are behind schedule *Primary Education Development Program (PEDPIII), Secondary Education Quality and Access Enhancement Project (SEQAEP) and Skills for Employment Investment Program (SEIP)*

- ❑ A number of initiatives have been announced in the budget speech
    - ➢ Nationalisation of 26,193 primary school
    - ➢ Establishment of 3,550 computer lab and 23,331 multimedia classrooms
    - ➢ Formation of National Skills Development Committee (NSDA), National Human Resource Development Fund (NHRDF), Executive Development Programme (EDP)
    - ➢ Establishment of one technical school in each of the two hundred upazilas
- ❑ *Proper and timely implementation of these initiatives will help to improve skill deficits*

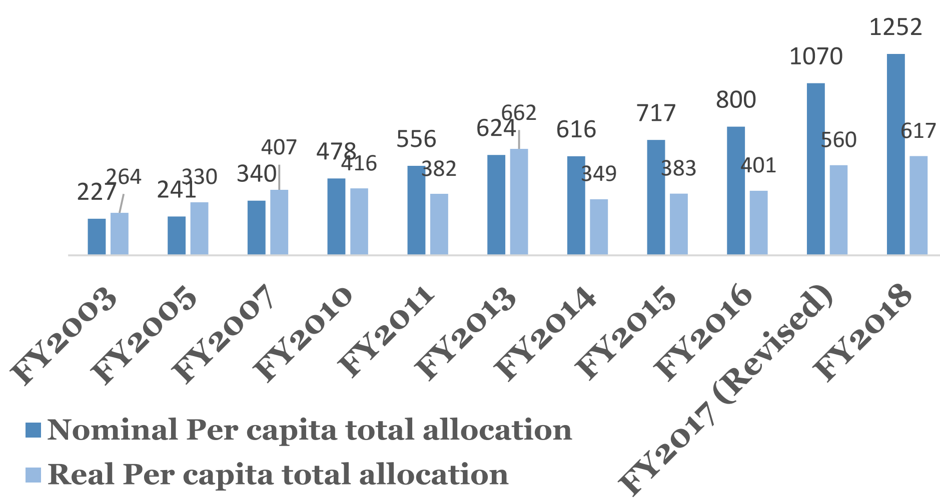
Health

- ❑ Allocation: Tk. 20,652 crore (Increased by 39.3% over RBFY17 and 18.1% over BFY17)
  - ➢ 54.0% are on non-development sector
- ❑ Allocation for the health sector still remains below 1.0% as share of GDP
  - ➢ Actual expenditure is rather low (0.7% in FY16)
  - ➢ **WHO recommendation: 5.0% of GDP**
- ❑ Per capita allocation has increased to Tk. 617 in FY18 from Tk. 561 in RBFY17
  - ➢ Allocation as share of GDP: 0.92% in FY18 vis-à-vis 0.75% in RBFY17

Health Allocation and Expenditure as % of GDP



Per Capita Allocation for Health (in taka)



Are fiscal measures biased toward revenue generation?

Direct Tax Measures

No notable change proposed in BFY18 : Income Tax, Corporate Tax and Wealth Surcharge

Personal Income Tax

- Inflation-adjusted PIT exemption threshold: Tk. 2.8 lac (*current threshold Tk. 2.5 lac since FY16*)
- Persons/families with disability: Tk. 4 lac (from 3.75 lac) - *welcome move from the perspective of better social equity*
- Tax Exemption:
  - Government allowances (freedom fighter allowances, destitute allowance, and welfare allowances)
  - incomes from national award, honorary received from Freedom Fighter Welfare Trust, and incomes of Elderly Care Home [*These are good initiatives in terms of promoting social responsibility*]
- No change mentioned about the minimum amount of tax or the structure of tax credit on investment

Wealth Surcharge

- Rates and slabs of net wealth surcharge for individual taxpayers will remain same *(Minimum surcharge Tk. 3,000; Maximum net wealth exemption limit Tk. 2.25 crore)*
- *The process of wealth surcharge assessment needs to be upgraded with valuation of properties using the market prices instead of current method of using purchase prices*
- Surcharge on cigarette, bidi, zarda, gul and other tobacco items procurers: **2.5% on their income** - *welcome move considering health concerns*

Corporate Tax

- RMG corporate tax **reduced to 15%** from 20%.
    - For factories with internationally recognised green building certification: 14% - *encouraging and time-appropriate initiative, considering environmental welfare*
- *However, the estimated foregone revenue should have been mentioned*
- *This reduction is discriminatory against other sectors and not in line with government's export diversification policy 2015-18*

FISCAL MEASURES

- **Changes in Excise and Salt Act, 1944**
  - **Higher Excise Duty on Bank Account -** *Disincentive for those (including remitters) using banking channel at a time of falling interest rate on savings*
  - **Doubled Excise Duty on International Airline Tickets:** Double the existing rates except travel to SAARC countries
  - *Soft areas have been targeted in view of collecting more revenue without having strong economic justification*

Undisclosed Money

- Existing provisions: Real Estate, Bangladesh Infrastructure Finance Fund and Voluntary Disclosure
- *The existing provision of whitening the black money: Morally unethical for honest taxpayers and might encourage people to evade tax*
- *The need for a predictable legal framework including a new law on undisclosed money and benami property is exigent now*

Are we ready to operationalise the VAT and SD Act 2012?

IMPLEMENTATION OF VAT AND SD ACT 2012

VAT and SD Act 2012

- Uniform VAT rate: **15%** *(fixed for next 3 years)* - *FM did not clearly mention whether rate will be changed/brought down after 3 years*
- *SD is kept on most products in the name of domestic industry protection. However:*
  - *Consumers' interest has been sacrificed. Attempt to collect revenue from all 'low-hanging fruits' is observed*
  - *It may prove to be an impediment for NBR to improve its efficiency to collect revenue by proper implementation of the new ACT*
  - *CPD proposal: Considering the South and East Asian LMICs the VAT rate should be reduced to 12%*

Global VAT Rates (%)

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

Source: Collecting Taxes Database. Retrieved from: https://www.usaid.gov/data/dataset/cdeb8a1b-3440-4e88-b6cb-81b2428f8cea (accessed on 5 April 2017)

IMPLEMENTATION OF VAT AND SD ACT 2012

- Tax-free annual turnover threshold: Up to **Tk. 36 lakh -** *This measure will benefit small businesses*
- Threshold for 4% turnover tax: **Tk. 36 lakh and Tk. 1.5 crore -** *Raising the ceiling will keep higher number of SMEs out of VAT net*
- To avail VAT credit, businesses have to procure inputs from VAT registered entities-
  - Many small businesses remained outside the VAT net and were informal in nature
  - SRO has been issued to promote procurement from various VAT registered manufacturing industries (SRO no 135-ain/2017/21 Customs)
- VAT officials have been given discretionary power through amendment of the law (Article 129A, VAT and SD Act 2012)
- **What were not mentioned in the BFY18**
  - *Number of completed BIN registration and VAT registration*
  - *Plan as regards increasing the number of VAT registration in next two years*
  - *No assessment of additional revenue generation from implementation of the Act*
  - *Effective implementation of the Act has remained uncertain and challenging*

IMPLEMENTATION OF VAT AND SD ACT 2012

VAT Exemptions

- Proposed VAT exemption (both at import and supply stage): 1,043 HS items including existing 536 HS primary food items

VAT remained exempted (both import and supply stage)	VAT newly waived (at import stage)
• Agriculture, livestock and fisheries products • Public transport • Life-saving drugs • Medical services • General education and training • Charity services • Export services etc.	Rice items; Soya bean flours & meals-*consumers should enjoy the benefit of having rice at lower market price*

- Supply of non-stemmed tobacco (all 24.01 HS codes): VAT exempted; other cigarette and Bidi items are significantly levied at different stages
- Supply of refined palm oil and soybean oil; Supply of LPG cylinder [till 30 June 2019] – *welcome news for consumers*
- Local manufacturing of air conditioner and import of its machinery parts [till 30 June 2019]– *this move will help for the growth of the industry*
- Natural gas (at gaseous state) to be zero rated from exploration to distribution stage

IMPLEMENTATION OF VAT AND SD ACT 2012

VAT on major items- may lead to higher inflation

Supply Stage

- Electricity Services (from 5% to 15%): *Consumers will have to pay higher utility fee for electricity consumption unless unit price is adjusted*
- Supply of Gas: *Gas price has just increased and it will further exacerbate consumers burden*
- Internet Services: *Conflicting as regards government's digital economy vision*
- Restaurant (Food consumption): *Food expense will be increased*
- Branded (local) clothing: *Discouraging for local designers and fashion houses as consumers will face higher price*
- Education (English medium school): *Unjust for middle-income families who have started to send their children to these schools; besides NO clear distinction has been made between English Medium and English Version schools*

IMPLEMENTATION OF VAT AND SD ACT 2012

Import Stage

- Petroleum products (along with 10% CD; overall TTI: 34-37%): *Cost of production will increase for producers which will be ultimately roll on to consumers*
- Solar module or panels: *Will discourage potential users and conflicting as regards promoting the use of renewable energy*

Both Stage

- Necessary commodities (Soap, Tooth-brush and pest, bottled water etc.): *Health hygiene were not considered; consumers will suffer*
- Spices (turmeric, Chili, Coriander, mustard etc.): *Consumers will be hurt*
- Furniture: *Cost of improving living standard will be higher*
- Iron & Steel products: *Construction cost will be higher (disincentive for investors as well)*

Is there any economic philosophy behind duty restructuring?

CHANGES IN DUTY STRUCTURE

Changes in the Duty Rates at Import Stage in FY18

Types of Duty	Increased	Decreased	Newly Imposed	Waived	Total number of changed items
VAT at Import Stage	22	8	22	8	30
Customs Duty	111	79	14	26	190
SD at Import Stage	1,243	170	26	54	1,413
Regulatory Duty	72	2,992	58	38	3,064
Advance Trade VAT	0	9	0	9	9
Advance Income Tax	1	8	1	6	9
Export Duty	7	0	7	0	7

- Number of SD slabs has been reduced to 8 from existing 11 slabs
  - 20% and 30% merged to 25%; 45% and 60% merged to 50%
  - The other rates are 100%, 150%, 200%, 250%, 350% and 500%
- Export duty has been imposed on 7 tobacco products
- *Policy implications and rationale behind this large restructuring in various duty rates are hard to understand*

CHANGES IN DUTY STRUCTURE

Contrasting Duty Structure

Conditions	# items	TTI	Remarks in the BFY18
CD decreased but SD increased *(pepper, cinnamon, cardamoms, sulphuric acid etc.)*	9	Mostly increased	To offset revenue forgone
CD decreased but RD increased (Rubber, Iron & steel etc.)	40	Mostly decreased	Not mentioned
SD increased but RD decreased (shrimp, knitwear, woven, yarn, plastic products etc.)	1,203	All increased	Not mentioned
SD waived from 10% but CD remained at 25% (wood & articles of wood, lamps, sunglasses etc.)	45	All Decreased	To rationalise duty structure (??)-Unclear

- Out of these **1,203 products 685 products** are from the cluster of **23 major imported commodities**. It reveals that *SD were not proposed to increase on majority of these products in view of protecting the domestic industry only*
- *Does aforementioned adjustment follow any economic rationale ?– clarification is needed about economic justification of using* different duty measures (CD. SD, RD)

CHANGES IN DUTY STRUCTURE

- Rice (import stage): CD remained at 25%, no SD has been levied, 15% VAT has been waived but 3% RD has been imposed – *as a result, total tax incident on rice will be come down to 28% from 54.02% in FY17*
  - *Why VAT has been waived but RD imposed : No clear policy stance*
  - *Considering the estimated Boro production loss of 1.6 million MT in Haor wetlands earlier this year- to stabilise the rice market 25% CD should be withdrawn for a certain period*
- ATV has been imposed on rice products, LP Gas cylinder, Ingots Of Iron And Non-Alloy Steel etc.

REFORM IN REVENUE ADMINISTRATION

Administrative Improvements of NBR

- Finance Bill 2017 is highly focused on administrative improvements
  - The provisions have been upgraded to allow the submission of accounts, statements, documents and data by a taxpayer via electronic media [Section 79]
  - The existing procedure of Universal Self-Assessment has been revised and updated [82BB]
  - The provisions for inclusion of taxable income escaping assessment has been updated in a more specified manner [93]
  - New provision has been introduced for imposing penalty for being unable to verify Tax Identification Number (TIN) [124AA]
  - The provisions for system-generated order [178A] and online submission of petitions [178B] have been modernised
  - The provision on requirement of 12-digit TIN now includes 31 cases in which TIN is required [184A]
  - Initiative to adopt Electronic Fiscal Device (EFD) is a welcome move-development and launching for public uses is expected within the FY18
  - *These developments and modernisations are promising and will enhance the efficiency of NBR's operations*
- e-TDS system has been introduced under central Withholding Tax Unit – *CPD has flagged this reform for quite a long time*

Reform measures: Unsung agenda?

REFORM MEASURES

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

REFORM MEASURES

CPD Recommendations: Yet to be implemented

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

CONCLUDING REMARKS

CONCLUDING REMARKS

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

Independent Review of Bangladesh's Development

Thank You