



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD Budget Dialogue 2016
**An Analysis of the
National Budget for FY2016-17**

Dhaka: 19 June 2016



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

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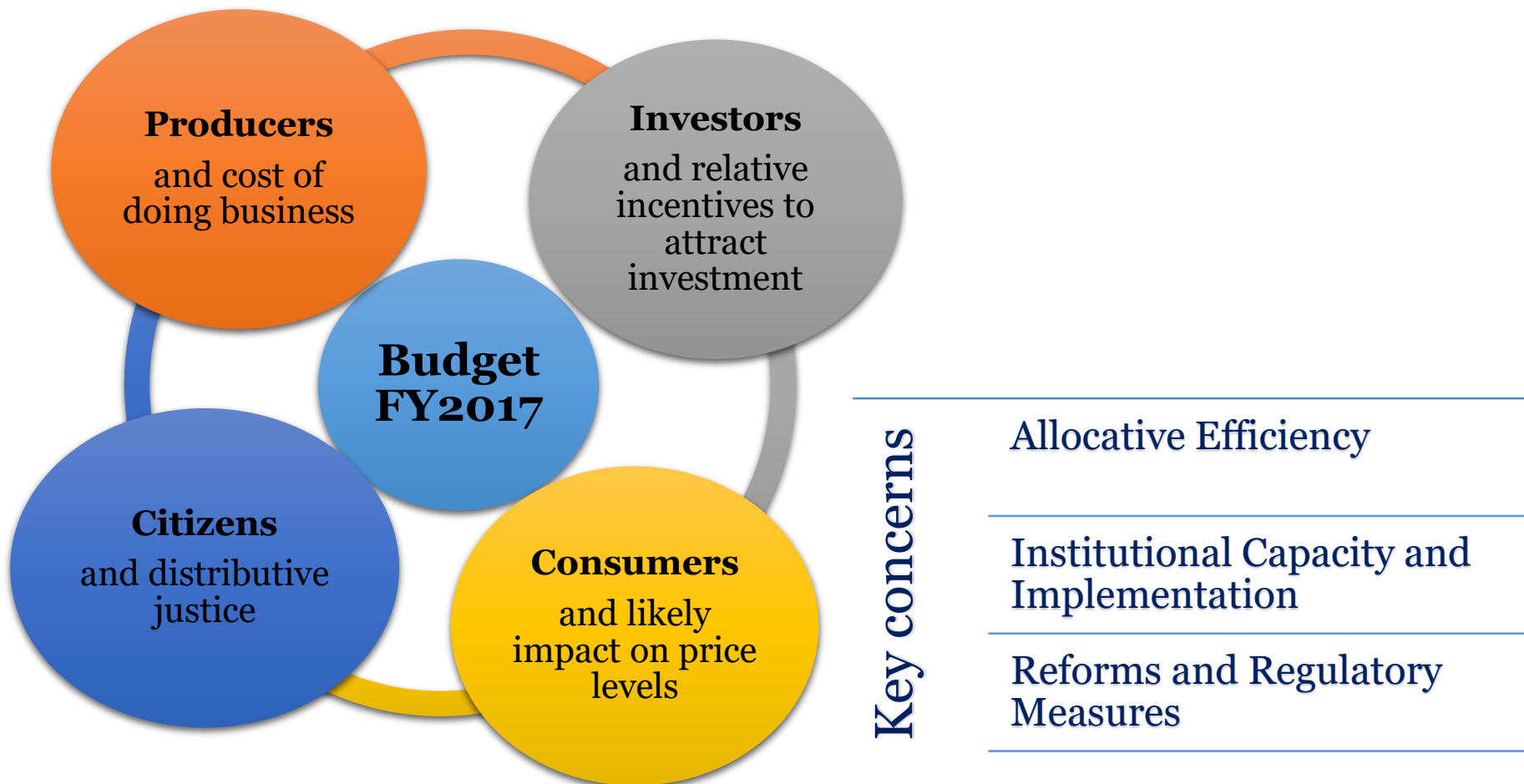
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Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2016 Team.

- The presentation examines **FY17 Budget** from the lens of its impact on **Four key constituencies** and **Three overarching concerns**



- In which context was the budget for FY2017 formulated?
- How Budget FY2017 portrays investment outlook?
- Can Budget FY2017 overcome the weakness as regards large fiscal projection gap?
- Will the revenue targets be achieved by defying recent trends?
- Will non-development expenditure growth exceed development expenditure growth in FY2017?
- Will the ADP implementation remain as business as usual?
- How challenging will it be for the government to attain the 'optimal mix' in budget deficit financing?
- Budget has put emphasis on agriculture and social sectors, but will that be adequate?
- How just and distribution-sensitive are the proposed tax measures in Budget FY2017?
- VAT and SD Act 2012 – in need of a revised implementation plan?
- Who are the beneficiaries of the revised duty structure?
- How investment and production-friendly is the Budget FY2017? How will the consumers be affected?
- 'Silence is consent' – true for undisclosed money measures?
- How much progress has been made in the area of implementing reform measures?
- What is next for ensuring quality of implementation of Budget FY2017?

In which context was the budget for FY2017 formulated?

❑ **Budget FY17 has been presented at a time when:**

- ❖ Accelerating economic growth, reducing poverty, and creating higher employment opportunities are required to **implement the 7th Five Year Plan**
- ❖ Formulation of **action plan to implement the SDGs** is underway and this would call for reflections from the national budget perspective
- ❖ A need for **formulating LDC graduation strategy** as Bangladesh is well positioned to graduate from the group in next eight years or so

❑ **The objectives of the budget for FY17 appear to be:**

High growth of revenue targeted for underwriting overreaching expenditure

Harmonisation of taxes and tariff in line with the new VAT and SD Act 2012

Higher allocation for building physical infrastructure to enhance capacities

Enhanced allocation for social sector

Comfortable macroeconomic environment

- Low **inflationary** pressure
- Declining **interest rates**
- Low **global commodity prices**
- Manageable **fiscal deficit**
- Resilient growth of **export earnings**
- Favourable **BoP** and augmented **forex reserve**
- Robust **GDP growth**

Mixed performance

- Erosion of **export competitiveness** due to gain in **nominal exchange rate**
- Rising **non-food inflation**
- Delayed delivery of **policy support to rice output** and low returns from cultivation
- Overdue **rationalisation of oil prices** favoured the richer sections – a surprise!

Areas of concerns

- Sluggish **private investment**
- Low rate of job creation - **decline in manufacturing jobs!**
- Credibility gap due to **poor fiscal planning**
- **Domestic borrowing** based financing mix of the budget deficit
- Unachieved **tax revenue target**
- Weak **ADP implementation** including project aid
- Persistent weakness in establishing good governance in the financial sector

How Budget FY2017 portrays investment outlook?

- ❑ **GDP growth target** for FY17 has been set at **7.2%** (7.05% in FY16, provisional)
- ❑ **Private investment as a share of GDP (23.3%)** is expected to rise by 1.5 percentage points - **an additional (approx.) Tk. 80,000 crore**
- ❑ **Efficiency: ICOR** is expected to rise (decline in capital productivity) in FY17
- ❑ **Inflation** is expected to decline to 5.8%

Growth, Investment and Inflation

Indicators	FY15 (A)	FY16 (B)	FY16 (R)	FY17 (B)	FY18 (T)	FY19 (T)
GDP growth (%)	6.6	7.0	7.1	7.2	7.4	7.6
Investment (as % of GDP)	28.9	30.1	29.4	31.0	31.8	32.7
Private (as % of GDP)	22.1	22.8	21.8	23.3	24.0	24.7
Public (as % of GDP)	6.8	7.3	7.6	7.7	7.8	8.0
ICOR	4.4	4.3	4.1	4.3	4.3	4.3
CPI inflation (%)	6.4	6.2	6.2	5.8	5.6	5.5

- ❑ Pace of additional jobs creation slowed down considerably – from about **13 lakh per annum (2010-2013)** to about **3 lakh (2013-Jul-Sep 2015)**
- ❑ Public debt is at a reasonable state (31.9% of GDP in FY15) – may increase insignificantly in FY17 largely due to rise in domestic debt
 - Currently about 57% of the public debt is attributable to domestic source **(Plan: 63% in FY19) - needs to use low-cost borrowings**

Can Budget FY2017 overcome the weakness as regards large fiscal projection gap?

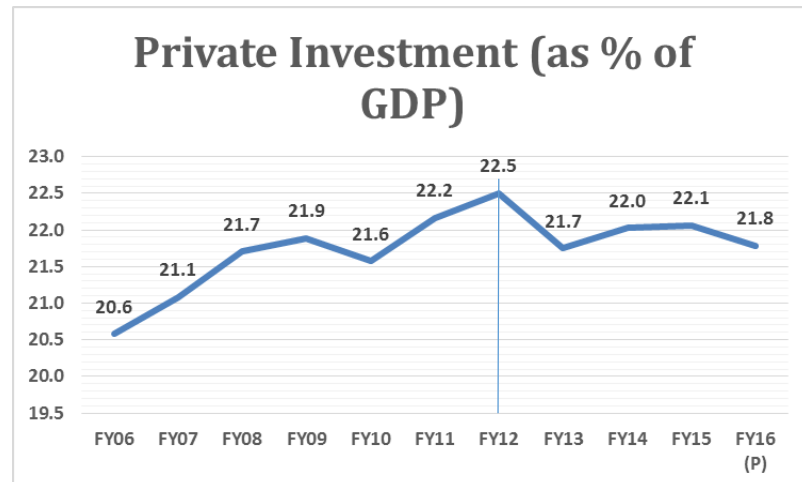
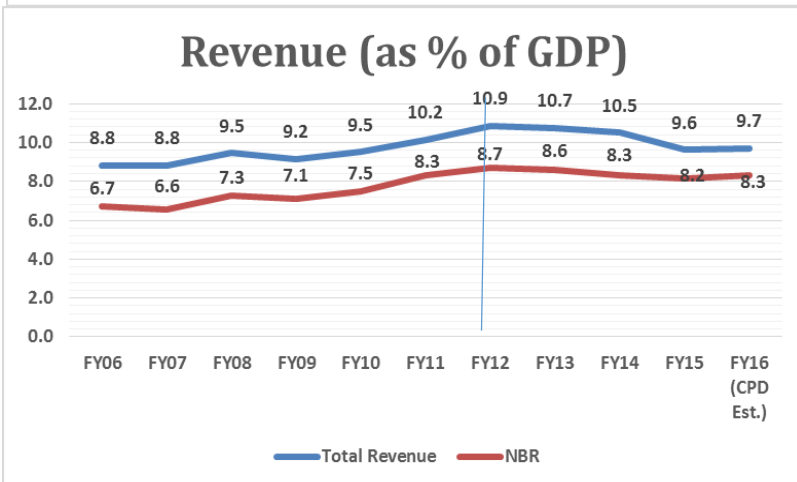
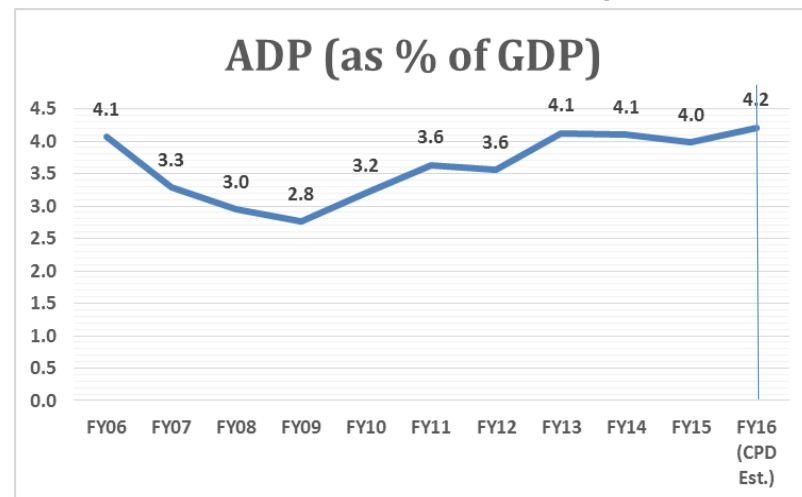
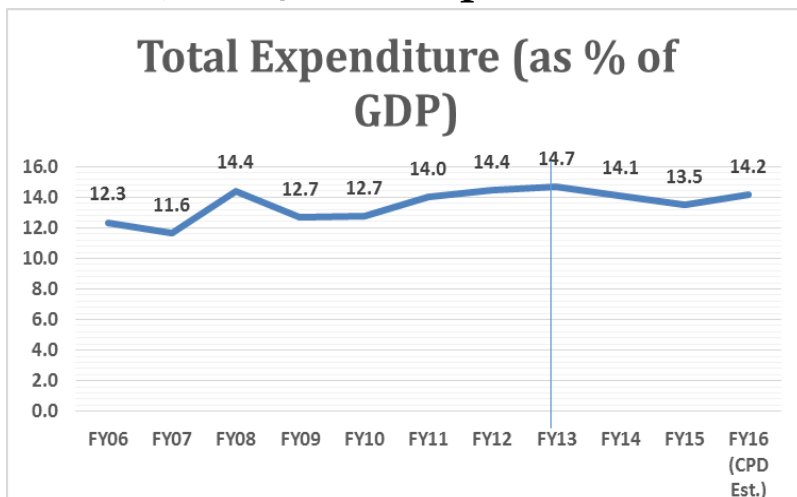
- ❑ The quality of fiscal planning remained weak over the last four years
 - Revenue target was not achieved for the last four years and rate of shortfall is increasing
 - The weakest programming among all the indicators is **net foreign borrowing: about 3/4th of the target remained unattended**

Fiscal projection gaps as percentage of budget (%) (Actual vs. Original)

Indicators	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Total Expenditure	10.6	10.7	3.0	8.3	9.1	14.6	18.7
ADP	24.1	16.2	13.6	22.8	10.8	22.0	25.8
Total Revenue	6.9	4.5	-0.2	3.9	7.8	15.4	20.2
NBR Revenue	7.9	2.6	-5.4	0.3	7.9	17.7	17.2
Deficit	19.1	25.2	10.3	19.8	12.8	12.1	14.6
Net Foreign Borrowing	64.0	30.4	75.7	89.8	50.4	77.3	75.6
Net Domestic Borrowing	-17.8	23.0	-29.2	-13.3	4.4	-25.2	-18.0

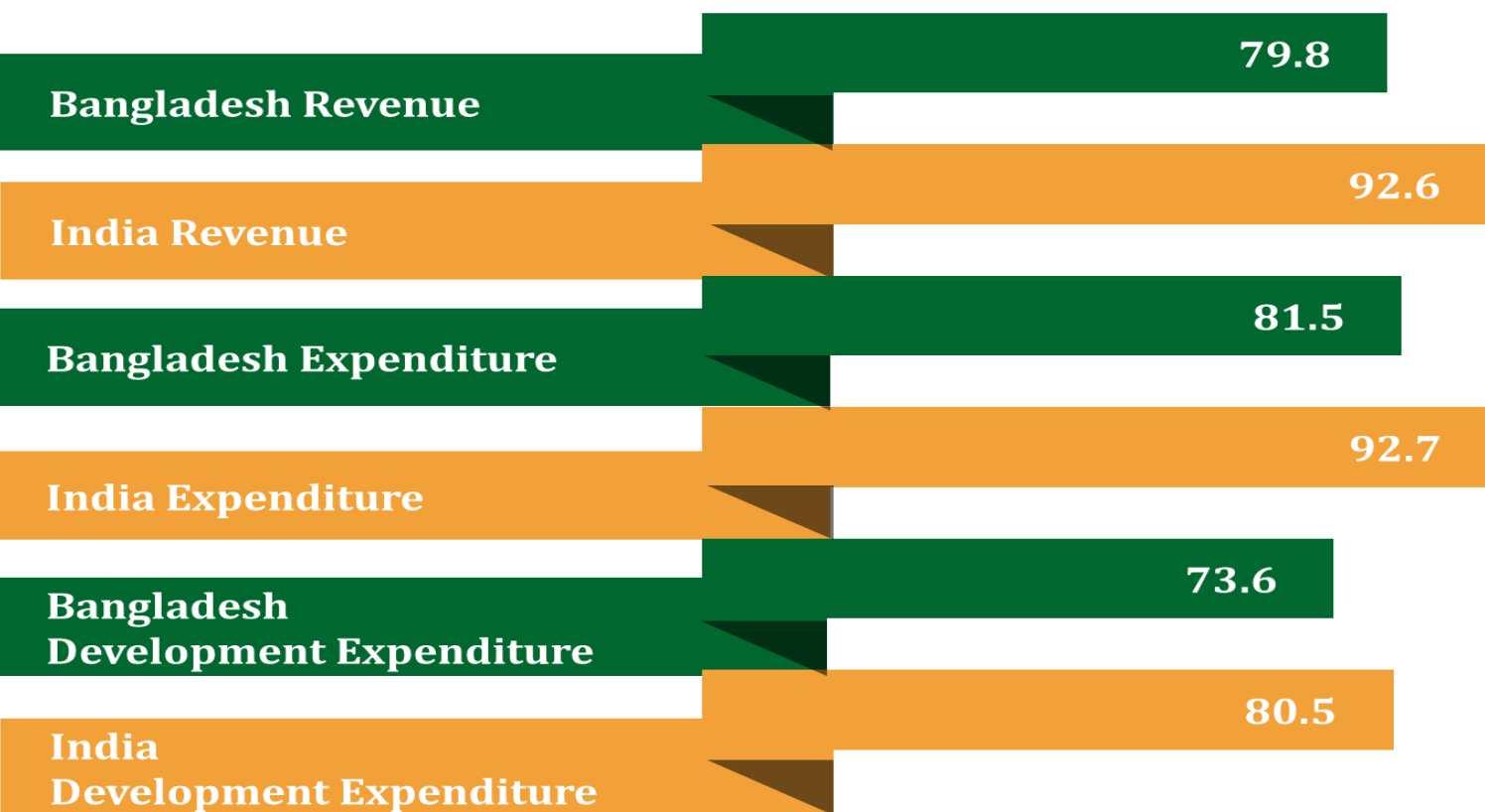
FISCAL PROJECTIONS AND IMPLEMENTATION CAPACITY

- Since, FY12 revenue as % of GDP declined – when it was 10.9%
- Since, FY13 expenditure as % of GDP declined – when it was 14.7%
- Since, FY14 ADP expenditure as % of GDP declined – when it was 4.1%



- ❑ Compared to India, quality of Bangladesh fiscal projection is weak

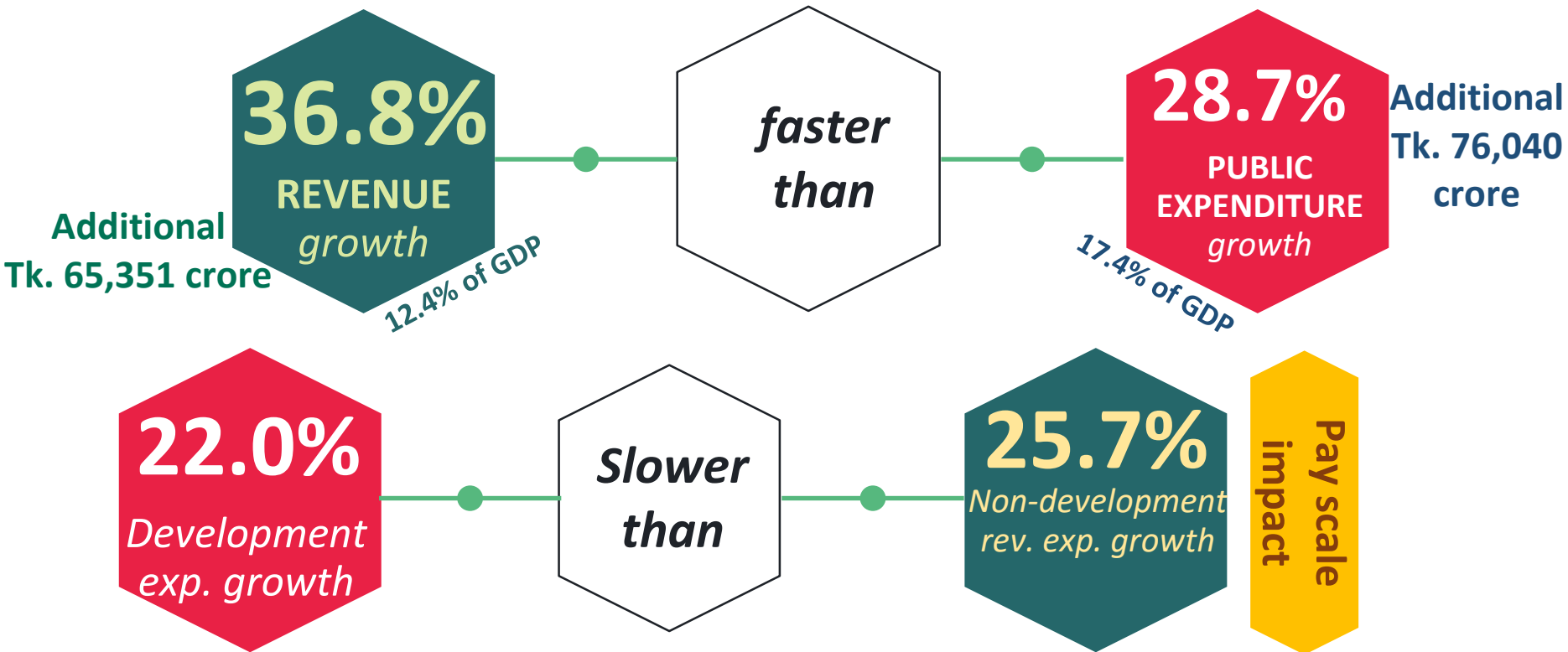
Implementation as percentage of budget in FY15



- ❑ High level of budgetary targets likely to undermine the implementation of the overall budgetary process

FISCAL PROJECTIONS AND IMPLEMENTATION CAPACITY

Structure of the Framework



Tk. 110,700 crore

ADP 32.5%
 OF TOTAL PUB. EXP
 was 34.4% in RBFY16

**TARGET
 USD
 5.7 bln**

Foreign financing

HIGHEST IN HISTORY
 USD 3.1 bln in FY15
 (83.9% higher in FY17)

- ❑ **According to CPD projections, all major parameters of fiscal framework will need to register higher growth rates** to attain the targets compared to those planned in the Budget FY17. Because the budget targets take revised budget figures for FY16 as its base which in reality turns out to be lower
- ❑ Overall **revenue collection in FY16 may fall short of Tk. 9,500 crore** from the target of RBFY16
- ❑ Gap is rising between NBR and MoF Revenue Earning Figures!

Trend Growth Rates: Budget and Reality (%)

Items	FY02-07	FY08	FY09	FY10-FY13	FY14-FY15	FY17 (B)	FY17_CPD Ext.
Total Expenditure	8.5	41.5	5.3	18.3	8.3	28.7	39.0
ADP	1.3	1.3	14.0	26.6	11.1	21.6	52.2
Non-ADP	13.0	57.2	3.1	15.9	7.3	32.5	33.5
Total Revenue	12.0	24.3	11.0	18.9	6.5	36.8	44.5
NBR Revenue	12.3	26.6	9.7	19.9	9.5	35.4	41.1
Non-NBR Revenue	12.5	16.5	15.8	16.0	-4.8	44.5	65.0
Deficit	0.6	103.0	-7.1	17.3	13.7	12.3	27.1

- ❑ **Such a high growth rate was never achieved before**
- ❑ **Structural weakness in budgetary projections**

Consistency between fiscal measures and public finance framework

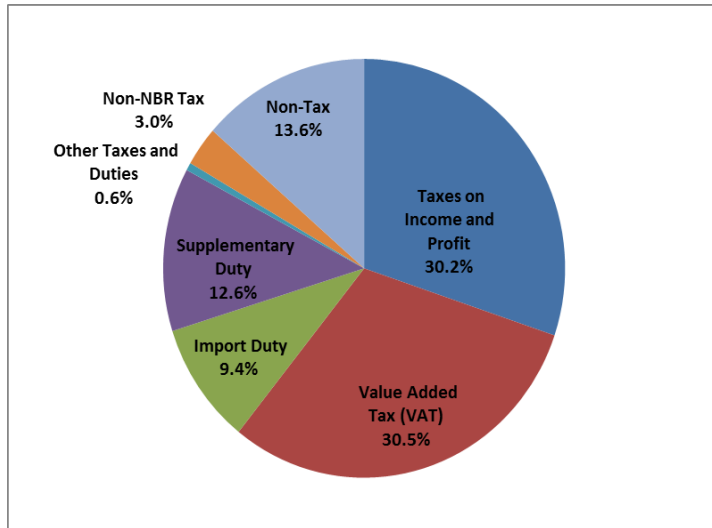
- ❑ According to the budget documents, CD, SD and VAT at import stage was planned to grow at more than 30% in FY17
- ❑ CPD has analysed the duty structure for FY17 (operative tariff schedule at 8-digit level) to assess the viability of the public finance framework at import stage
- ❑ MTMPS assumes that import will grow at 11% in FY17
- ❑ CPD analysis shows that, changes in the proposed duty structure was not aligned with fiscal framework's tax growth. The estimated growth based on the changes in the duty structure departs significantly from the budgetary plans

Budgetary targeting and changes in the duty structure

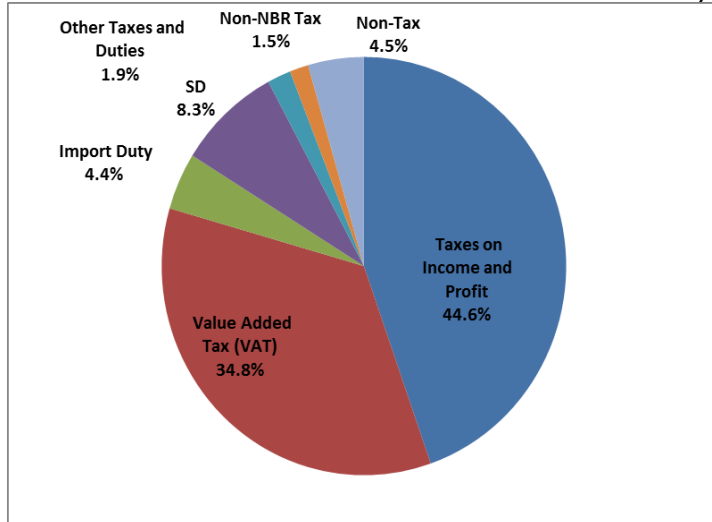
Duties	Growth (%) planned for BFY17 over RBFY16	Growth (%) from changes in duty structure
VAT (Import stage)	31.2	10.5
Customs Duty	31.1	13.3
Supplementary Duty (Import stage)	31.0	12.7

Will the revenue targets be achieved by defying recent trends?

Share of Revenue FY17



Incremental Share of Revenue FY17



Revenue Mobilisation

- ❑ FY17 Budget targets an additional Tk. 65,351 crore revenue with a 36.8% growth over RBFY16
 - CPD Projection: (approx. Tk. 75,000 crore)
- ❑ NBR to take the lead role (accounting for 81.3% of incremental revenue) with 35.4% growth
 - LTU is expected to account for 37.1% of incremental NBR revenue
- ❑ 30.8% of incremental revenue from income tax; while 28.8% from VAT
 - Two-thirds of total income tax will be collected from companies
 - Deferred implementation of new VAT act will pose serious challenge
- ❑ **Import duty collection growth target is set at 31.1%**
- ❑ **Non-NBR revenue (non-tax and non-NBR tax) growth for FY17 is at a very ambitious level (44.5%)**
- ❑ **Needed:** Broadening Tax Base, Reducing Tax Evasion and Tax Avoidance, Institutional Strengthening

Will non-development expenditure growth exceed development expenditure growth in FY2017?

Total Public Expenditure

Sector	Share in BFY17	Share in RBFY16	Change in FY17B over FY16R	
	%	%	Crore Tk	%
Education and Technology	15.5	14.9	13,588.0	34.6
Public Service	13.9	9.0	23,523.0	99.0
Interest	11.7	12.0	8,282.0	26.2
Transport and Communication	10.9	10.1	10,467.0	39.1
LGRD	6.9	8.1	2,075.0	9.7
Agriculture	6.7	7.0	4,207.0	22.7
Defence Services	6.5	7.8	1,436.0	6.9
Public Order and Safety	6.2	6.6	3,643.0	20.9
Social Security and Welfare	5.8	6.4	3,004.0	17.8
Health	5.1	5.6		18.1
Fuel and Energy	4.4	6.3	-1,579.0	-9.5
Industrial and Economic Services	1.0	1.0	823.0	30.1
Housing	0.9	1.5	-817.0	-20.8
Recreation, Culture and Religious Affairs	0.8	0.9	325.0	13.7
Others(Memorandum Item)	3.5	2.9	4,388.0	57.8
Total Expenditure	100.0	100.0	76,040.0	28.7

- ❑ Allocation for *Public Services* is set to be double of RBFY15 (Tk. 23,523 crore)
 - Tk. 22,491 crore additional allocation for Finance Division! - **mostly to be paid for allowances**
 - Tk. 6,500 crore have been allocated for funding PPP and export incentives
 - **Additional Tk. 13,121 crore allocation for *Investments in Shares* (Tk. 1,023 crore in RBFY16) – *not clear***
 - Tk. 2,000 crore has been allocated for *Investment for Recapitalisation (of state-owned banks)* – in FY16 Budget Tk. 5,000 crore was allocated
- ❑ Highest incremental share to *Subsidies and Current Transfers* (48.7% or Tk. 18,647 crore more), followed by Pay and Allowances (21.6% or additional Tk. 8,286 crore)
- ❑ ***Interest Payment* remains the sector with third highest allocation**
 - Domestic interest payments will increase by 21.4% in FY17– about 19.2% of total augmented non-development revenue expenditure – effect of domestic borrowing based deficit financing

Subsidy (loans, subsidies and fiscal incentives)

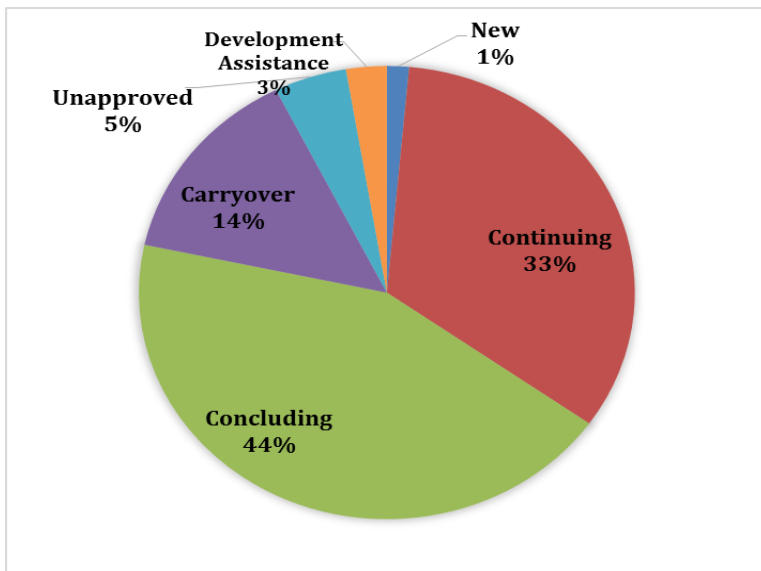
- ❑ Expected to be about 1.2% of GDP in FY17 (1.1% in RBFY16)
- ❑ About 6.8% of total public expenditure
- ❑ These are reflected in loans and advances ((-) 19.5% reduction)
- ❑ **Agriculture subsidy will be Tk. 9,000 crore for FY17– same as the previous year**
 - with unchanged subsidy structure agriculture may not need the full amount
 - In RBFY16 subsidy budget for agriculture was reduced to Tk. 7,000 crore – it may be similar in FY17
- ❑ For export sector, incentives amount Tk. 4,500 crore
- ❑ **Needed: Design of a comprehensive subsidy policy**

Will the ADP implementation remain as business as usual?

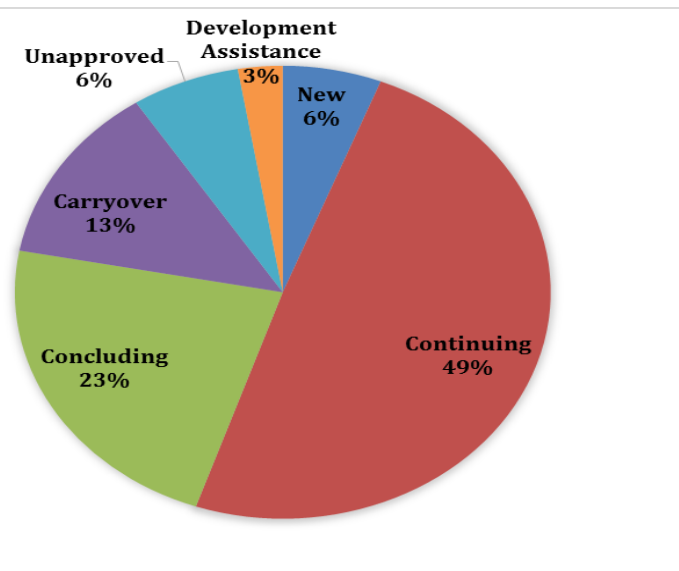
Annual Development Programme

- ❑ ADP of Tk. 110,700 crore has been proposed for FY17
 - Tk. 58,076 crore (61.9% of RADP FY16) was implemented up to May 2016 (last year it was 66.8%)
- ❑ 14.1% higher than RADP for FY16 and 21.6% higher than ADP for FY16
 - In reality it will be 28.1% higher (CPD projection)
 - Project aid component is 36.1% of total ADP (32% in RADP of FY16 and 35.6% in original ADP of FY16)
 - Tk. 2,977 crore has been provided for development assistance programmes
- ❑ **Top 5 sectors** have received **71%** of total ADP allocation – concentration ratio increased
 - Transport Sector has once again received the highest amount of allocation (25.8% of total allocation) for the highest number of projects – 48.9% growth over RADP FY16
 - Within transport sector, railway received 10.1% of total allocation
 - **Allocation for power sector was reduced by 15.6% in FY17 over RADP FY16**

ANNUAL DEVELOPMENT PROGRAMME



FY16 Number of Projects: 999



FY17 Number of Projects: 1,123

- ❑ Pretty similar trend in the ADP structure
- ❑ **Inadequate allocation for concluding projects!**
- ❑ **75 new projects** are included (in FY16: 41) – 6% of total ADP allocation;
 - ✓ 307 new projects were included in the RADP for FY16 - business as usual, no breakthrough
- ❑ No. of unapproved projects without allocation has increased significantly **(1,172 in FY17 from 857 in FY16)**

- ❑ Practice of **allocating symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive and increasing**
 - **18 projects under ADP received only Tk. 1 lakh, while 31 'investment' projects received only Tk. 1 crore or less**

- ❑ **Separate roadmap for the first time for 10 'fast track' projects**
- ❑ 8 among these 10 projects received a total allocation of Tk. 18,745 crore in ADP for FY17 (16.9% of total ADP)
 - Apart from the Padma Bridge project, which is expected to be completed by 2018
 - Several other projects are expected to be completed by FY2022-23
 - At least three projects – Rampal (thermal power plant co-financed by India), Ruppur (nuclear power plant co-financed by Russia) and Padma Rail link (co-financed by China) – involves substantial debt servicing with relatively higher rate of interest rate and/or shorter repayment period
 - **Repayments of these loans may put pressure on debt servicing**
- ❑ **Needed: Forward looking debt servicing plan**
: Budgetary allocation for maintenance

□ The business as usual scenario as regards ADP continues -

Challenges of completion of concluding and carryover projects

Cost and timeoverrun continue

Large number of projects but implementation capacity of line ministries not improved accordingly

Rising number of unfunded projects

No reform or policy mentioned to bring discipline in the ADP

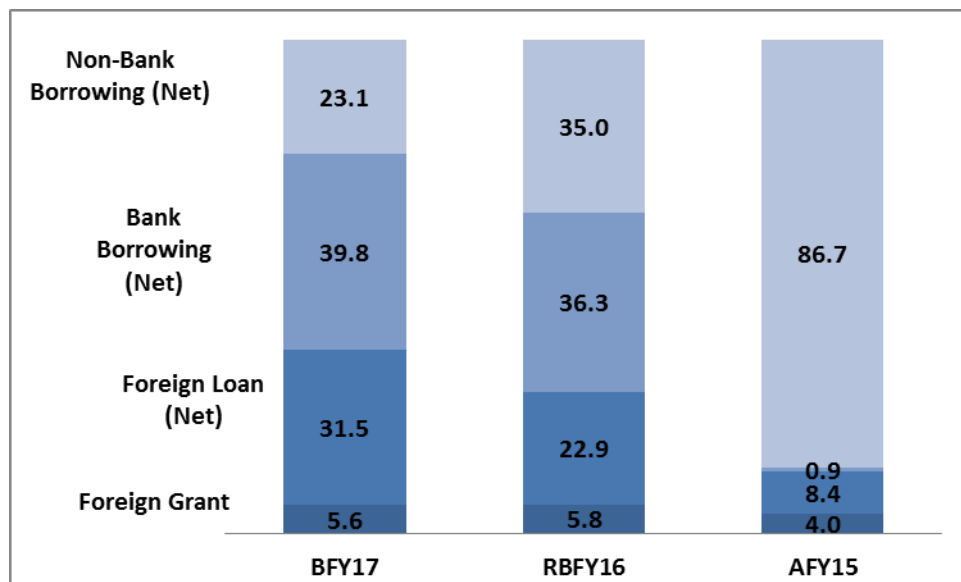
No result-based monitoring

How challenging will it be for the government to attain the 'optimal mix' in budget deficit financing?

BUDGET DEFICIT FINANCING

- ▶ Share of **domestic financing is 62.9%** (71.3% in RBFY16)
- ▶ **Tk. 38,938 crore** (39.4%) will come from the **bank borrowing** (36.3% in RBFY16)
- ▶ Tk. 22,610 crore (23.1%) will come from non-bank sources (35% in RBFY16)
- ▶ Share of foreign financing will be 37.1% in FY17 (28.7% in RB of FY16)
- ▶ **Gross foreign aid** requirement will be around **USD 5.7 bln (USD 3.2 bln in RBFY16)** – an almost impossible target in view of **only USD 2.1 billion** being received during **Jul-Feb FY16**
- ▶ **Much will depend on project aid utilisation of ADP: 89.4% of total foreign resources are for ADP projects**
- ▶ **Government should take more advantage of low cost funding**

Sources of Deficit Financing



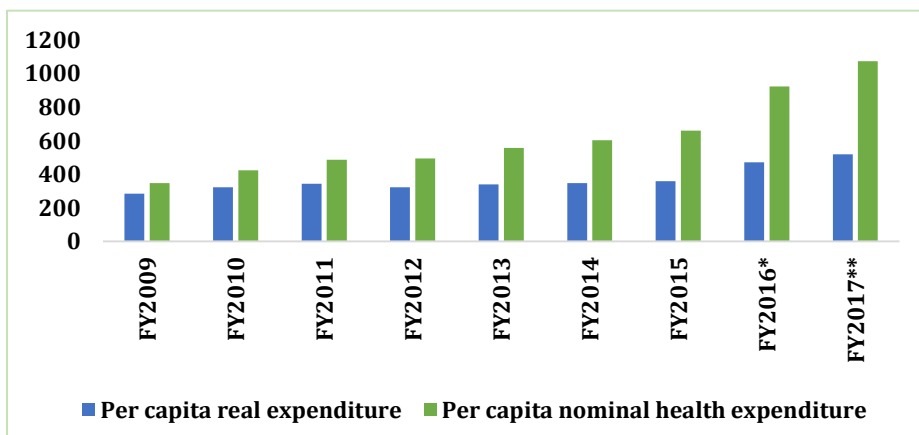
Budget has put emphasis on agriculture and social sectors, but will that be adequate?

- ❑ Agricultural subsidy remains constant at Tk. 9,000 crore
 - It constitutes 39.6% of total budget allocation for agriculture in FY17
 - About Tk. 2,000 crore remained unutilised in FY16 providing the government some fiscal space
 - The fiscal space will also be available for FY17
- ❑ **The available fiscal space from lower demand for subsidy could be utilised to incentivise Aus and Aman cultivation further**
- ❑ Public procurement prices have been declared earlier; however, no guideline as to how farmers will benefit from this
- ❑ **The issue of crop insurance, mooted earlier has not been followed up**
- ❑ To ensure fair prices for agricultural commodities, and for farmers to benefit from this, CPD proposes setting up of a **Permanent Agricultural Price Commission** on an urgent basis to ensure incentive price for the producers while maintaining market stability

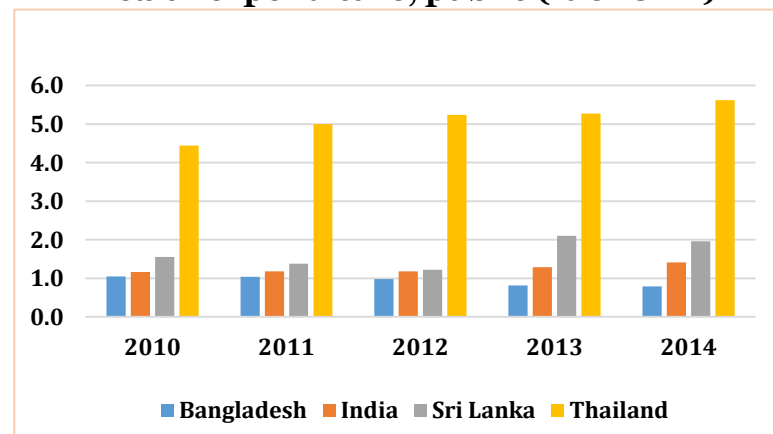
- ❑ Allocation for the 'Education and technology' sub-sector (Tk.52914 cr.) has jumped up by **35% during FY17** - *this is a welcome development*
 - However, gap between allocation and expenditure has widened over time
 - Significant increases in non-development allocation (rise in pays and allowances)
- ❑ Allocation for the education sector is 2.7% of GDP and 15.5% of the total FY17 Budget: **remains short of UNESCO's suggested share of 3.8% of GDP and 20% of total budget**
- ❑ Ministry of Primary and Mass Education (MoPME) — massive overhaul as plans to expand primary education to grades 6-8 by 2018 requires increased expenditure
 - Allocation in FY17 will increase by 32% over FY16: Salaries (7.6%), construction (85%), training facilities (22%) and allowances (85%)
 - Concerns remain that **MoPME budget allocation has not risen sufficiently to ensure adequate and timely payments of primary school teachers under the new pay scale**, as teachers number is projected to rise significantly when implementation of **National Education Policy begins**
 - There is urgent need to pay attention to **quality enhancement** in primary education

- ❑ Allocation for the health sector (Tk. 17,487 crore) has increased by 18.1% over RBFY16
- ❑ Proposed allocation is far behind the strategic financing target: 5.1% of total budget against 10% target set for FY16 (12% for FY21) in **“Health Care Financing Strategy 2012-2032”**
- ❑ Despite the rise in public health expenditure, Bangladesh is still behind from other comparable countries in a number of indices (e.g. nutrition status)
- ❑ Figures show that growth in real per capita expenditure on health is much lower than is shown by the nominal figures
- ❑ **Public health expenditure in Bangladesh, as % of GDP is much lower than other developing countries**

Per capita real & nominal expenditure for health



Health expenditure, public (% of GDP)



- ❑ Budget for social security rose to 2.3% of GDP in FY17 (2.2% of GDP in FY16)
- ❑ CPD has been advocating for increasing the SSNP allocation and coverage using the fiscal space and unutilised budgets – target to raise to 3% of GDP by FY20
- ❑ **Large part will go to government pension (37.4%) – if excluded, social security budget reduces to 1.4% of GDP (1.5% of GDP in FY16)**
- ❑ Government has increased both allocation and coverage of a number of important programmes under the **SSNPs for FY17 - *a welcome initiative***
- ❑ **Still inadequate to attain respective NSSS targets**
- ❑ Budget FY17 proposes increase in allowance and number of female beneficiaries for 4 social safety net programmes - Programme for the Widow, Deserted and Destitute Women, VGD, Maternity allowances, Working Lactating Mother Assistance programme
- ❑ Improvement in Old Age Allowances (OAA) (31.3% increase over FY16): both in number and coverage (20% increase in amount, Tk. 500/month, and 5% increase in no. of beneficiaries)
- ❑ **Needed: Rationalisation of programmes, Better Targeting, Less Leakage**

How just and distribution-sensitive are the proposed tax measures in Budget FY2017?

Burdensome Measures

- ❑ An assessee can take **tax credit on investment** by investing (reduced) 20% (previously 30%) of his total taxable income - *tax liability will be higher for lower income group;*
 - ✓ at the same time, tax deducted at source will be higher – *will reduce disposable monthly income*
- ❑ Interest income on savings instruments against approved **superannuation fund, pension fund, gratuity fund** or **recognised provident fund** will be taxed at 5% – *taxing on future income*
- ❑ 5% will be deducted from **interest income from pensioners' savings certificates** exceeding Tk. 5 lakh of investment – *pensioners' savings should not be taxed*

Tax liabilities due to proposed tax credit on investment

Total Taxable Income	Tax liability to be increased by
When an assessee's income is Tk. 10.0 lakh	32%
When an assessee's income is Tk. 11.5 lakh	29%
When an assessee's income is Tk. 17.5 lakh	20%
When an assessee's income is Tk. 47.5 lakh	13%

Social and Distributive Justice

- ❑ Tax on **net wealth** above Tk. 20 crore has been raised to 30% (from 20%) - *progressive taxing for Tk. 5 crore and above net assets, higher revenue collection*
- ❑ Additional benefits for **persons with disabilities** - *promoting social equity*
 - Tax-free income will be Tk. 25,000 higher for parents or legal guardians
 - Additional benefits for employers
- ❑ **e-TIN registration** has been made mandatory for all salaried employees – *will help broadening the tax net*
- ❑ Corporate tax on all tobacco products (including bidi, zarda, chewing tobacco, gul, and other smokeless tobacco) at 45% rate
- ❑ **Reduced costs for registering small apartments** – *will help marginalised group*

VAT and SD Act 2012 – in need of a revised implementation plan?

Value Added Tax (VAT) at Local Level

- ❑ The new VAT and SD Act 2012 has been deferred to 1 July 2017 – *yet not prepared for implementation*
 - **Package VAT** rates have been significantly revised! – *will put pressure on small traders*
 - **Truncated value rates** for garage and workshops, dockyard, construction, transport contractor, branded RMG seller has been increased (5 out of 14 services) – *will increase VAT liability of concerned sectors*
 - **Tax-exempted turnover limit for SMEs** has been proposed to increase from **Tk. 36 lakh (At present: 30 lakh)** – *will support small businesses*
 - **ECR and POS system** proposed as mandatory – *good initiative*
 - **Price declaration** provision has been abolished and **discretionary power of the VAT authority** has been reduced – *will safeguard taxpayers' interest*

Suggestions for Implementation

- ❑ The Act may be implemented in a staggered way
- ❑ No mention in the budget on implementation of NBR-FBCCI Joint Committee resolution – should be clarified
- ❑ Particular attention needed for certain sectors with mass appeal
- ❑ Wide ranging awareness-building campaign needed
- ❑ Appropriate plan for preparedness (online VAT submission) and training of VAT administration

Who are the beneficiaries of the revised duty structure?

Analysis of successive OTSs evinced a systematic gradual shift in the duty rates

Customs Duty				
Rate	FY10	FY15	FY16	FY17
0%	251	317	325	309
1%			686	687
2%		714	19	
3%	728			
5%	999	1068	1066	1050
6%	2	2	2	3
10%		1578	1594	1553
12%	1594			
15%				70
25%	2718	2913	2913	2969
Value	28	29	27	44
Total CD items	6069	6304	6307	6376
Total products	6320	6621	6632	6685
CD items as % of total	96.0	95.2	95.1	95.4

Supplementary Duty				
Rate	FY10	FY15	FY16	FY17
0%	5217	5152	5166	5195
10%		9	56	
15%		426		60
20%	878	425	908	926
30%	41	157	67	64
45%	37	105	302	294
60%	80	263	57	58
100-2000%	67	84	76	80
Total SD items	1103	1469	1466	1482
Total products	6320	6621	6632	6677
SD items as % of total	17.5	22.2	22.1	22.2

- ❑ A large number of products have CD rate of 10% and 25%. For SD, the rate is 20%
- ❑ 10% CD imposed on food/agricultural products, petroleum bi-products, chemical products for pharmaceuticals industries, rubber, wood and paper products etc.
- ❑ SD rate of 100-2000% is for products such as liquor, cigarettes, airconditioner, refrigerator, motor bikes and cars

Changes in the Duty Rates in FY17 (at Import Stage)

Types of Duty	Increased	Decreased	Newly Imposed	Waived	Total number of changes
Customs Duty	208	52	21	8	289
Supplementary Duty	12	0	30	2	44
Regulatory Duty	0	10	78	4	92
VAT on Import	0	0	15	0	15

- ❑ SD was not decreased on any product; SD on only 2 products were waived
- ❑ Policy incentives have been continued to safeguard farmers' interests by raising various duties on food grains including rice, maize (flour) and potato starch
- ❑ Proposed duty structure may likely to have positive impact on domestic industries - duty is reduced on inputs used in plastic, poultry and dairy food, construction, chemical, electrical, CKD motorcycle for transport sector, laboratory refrigerators, LP gas cylinder
- ❑ Increase in duties on a number of products may hurt consumers' interest
- ❑ VAT registered importers will get differential treatment – will encourage VAT registration

How investment and production-friendly is the Budget FY2017? How will the consumers be affected?

- ❑ About 50 changes were made in the Income Tax Ordinance through Finance Bill 2016

What remained unchanged?

- ❑ **Corporate income tax** remained the same (last year corporate tax rate for listed companies/banks were reduced by 2.5 percentage points. **No new bank was listed in the stock market, only 10 IPOs were floated in FY16 (till date)**)

Measures to generate additional revenue

- ❑ **Minimum corporate tax at source** revised to **0.60%** from uniform rate of 0.3% (for tobacco manufacturers: 1%; for mobile phone operators: 0.75%)
- ❑ Payments from **royalties** and certain **services (such as professional services, consultancy, event-management, supply of manpower, etc.)** will be taxed at 10% if base amount is below Tk. 25 lakh, and at 12% for exceeding amount
- ❑ **Payments to contractors** will be taxed at a fixed rate of 10%
- ❑ **ADR advance to be deposited will be 50% of total dispute (10% was earlier provision) - will discourage recourse to this window**
- ❑ **SD on mobile talk time and internet use has been raised from 3% to 5% - will be passed on to consumers**

- ❑ **RMG and accessories, terry towel, jute goods, frozen food, vegetables, leather goods and packed food exporters** have to pay AIT at the rate of **1.5%** (increased from 0.6%) – *should be reconsidered*
 - ✓ Corporate tax for RMG exporters were reduced from 35% to 20% - *balancing mechanism*
- ❑ Exemption from VAT has been withdrawn for a number of locally produced products and services such as handmade breads, cake and biscuits (of Tk. 100 or less), plastic and rubber sandal (of Tk. 120 or less), hardboard, fabrics produced from power looms, electric generator, e-commerce and online shopping, etc. – *will escalate cost of those products and services for consumers*
- ❑ VAT on rent of commercial space has been raised from 9% to 15%. VAT at 15% rate has been newly imposed on commercial spaces of less than or equal to 150 sft – *this may adversely affect small traders*
- ❑ SD has been increased for finger/biometric scanner, imported textbooks for primary and secondary education, optical fibers, medical instruments, computer accessories – *will undermine consumer interests*

- ❑ Creating an enabling environment for attracting more private investment is one of the major challenges in Budget FY17
- ❑ Proposed **fiscal measures will contribute positively for development of domestic market-oriented industries** – rationalisation of duties on some inputs used by toiletries, ceramic, paper and rubber industries, electrical equipment, IT, gas and power
- ❑ A number of **policies and laws have been drafted** and awaiting approval
- ❑ Cash incentives to continue for 19 sectors (3 to 20%) including three recently included sectors (furniture, plastic goods and potato starch)
 - Tk. 4,500 crore incentive was proposed for export-oriented industries
- ❑ **Allocation for Industrial and Economic Services (Tk. 3,558 Crore) has increased** by 30.1% over the RBFY16 - share remained the same at 1%
- ❑ **'Crowd-in effect' of public investment** in attracting private investment will be tested through implementation of **'mega projects'**
- ❑ Prospect of **positive changes in global and local demand for industrial products** in FY17 will directly influence investors' decision to invest
- ❑ Adequate power and energy supply remains challenging and constrain the investment
 - **Transmission and distribution of power is a growing concern** for the power sector

‘Silence is consent’ – true for undisclosed money measures?

Undisclosed Money

- ❑ Once again, the Finance Minister has remained silent about black money in his speech. This virtually means continuation of earlier facilities to whiten the black money –
- ❑ **CPD has repeatedly observed that this type of provision creates moral hazard, is a disincentive for honest taxpayers and may encourage tax evasion**
- ❑ Existing provisions are:
 - Investing undisclosed money in real estate sectors under *Special tax treatment* [19BBBBB]:
 - *Special tax treatment* [19c]: Opportunity continues for invest in government Treasury bond by paying only 10% tax;
 - *Voluntary disclosure of income* [19e] through payment of 10% penalty alongside the regular tax
- ❑ Considering the increasing outflow of illicit financing, once again exposed through **Panama Paper scandal**, CPD emphasised the need for a predictable legal framework including **a new law on undisclosed money and Benami Property Act**

How much progress has been made in the area of implementing reform measures?

Reform measures mentioned in Budget FY17

Administration

- Public Financial Management Reform Strategy 2016-21 which includes Budget and Accounts Classification System (BACS) and Integrated Budget and Accounting System (iBAS ++)
- Authorized Economic Operator (AEO) System in NBR
- Tax Deduction at-source Zones
- Electronic at-source tax management system
- Automated Tax Information Unit
- Separate unit in NBR for dealing with transfer mispricing, taxation of foreign nations and combating money laundering
- Complete automation of VAT System under the VAT online Project (VoP)
- Establishment of new land management system

Institutions

- Real Time Gross Settlement (RTGS) System has been introduced
- National Strategy for Development of Statistics (NSDS) has been formulated
- Minimum Tax System proposed
- Machine Readable Returns, Forms and Certificates introduced
- Initiatives taken to establish Land Information Service Centres
- Financial Reporting Council to be constituted in FY17

Policies

- VAT and SD Act, 2012 “will gradually be implemented”
- Direct Tax Act, 2018 declared
- Contributory Pension Scheme introduced in public sector
- National Integrity Strategy has been formulated
- ‘Guidelines for Preparing Voluntary Information Disclosure Manual’ will be formulated for all office in public sector

Progress of Reform Measures

Area of Reform	Implemented	Ongoing	Lack of Progress/ No Update
Reforms concerning Development Administration	<ol style="list-style-type: none"> 1. “Digital Executive Committee on National Economic Council (ECNEC) 2. Digital Land Management System 3. Merger of Privatisation Commission with the BOI 	<ol style="list-style-type: none"> 1. Online Public Procurement 2. 30 centres 	<ol style="list-style-type: none"> 1. Authoritative Land Records (ALR) 2. Pension Fund Management Authority
Reforms related to Development Supporting Institutions	<ol style="list-style-type: none"> 1. Insurance Development and Regulatory Authority 2. Bangladesh Infrastructure Finance Fund Limited 3. Fast Track Project Monitoring Committee 4. National Human Resource Development Fund (NHRDF) 	<ol style="list-style-type: none"> 1. Pension Fund Management Authority 2. Palli Sanchay Bank 3. Special Economic Zones 4. Financial Reporting Council 5. Accreditation Council 6. Tannery Industry City 7. Competition Commission 	<ol style="list-style-type: none"> 1. Road Maintenance Fund Board 2. Banking Commission 3. National Tax Tribunal 4. Reserve for Reward and Financial Incentives Fund 5. Tax Information Management and Research Centre 6. ICT Capacity Development Company 7. Technology Park in every divisional headquarter 8. Shammridhi Shopan Bank

Progress of Reform Measures

Area of Reform	Implemented	Ongoing	Lack of Progress/ No Update
Reforms as regards Development Facilitating Policies and Acts	<ol style="list-style-type: none"> 1. Amendment of loan rescheduling policy 2. Rajshahi Krishi Unyan Bank Act, 2014 3. 10 Per cent rebate on accrual interest/ profit to borrowers who repay loans 4. Bank Companies Act, 2013 5. Exchanges (Demutualization) Act, 2013 6. PPP Act, 2015 	<ol style="list-style-type: none"> 1. Issuance of land ownership certificate 2. VAT Rules, 2014 	<ol style="list-style-type: none"> 1. Insurance Corporation Act 2. National Insurance Policy, 2014 3. Agricultural Land Protection and Land Use Act 4. National Training Policy

Summary of Status

- ❑ Of the reforms proposed in FY15-FY16 (based on budget speeches):
 - There are 39 priority reform measures considered for the present analysis
 - Of these 39 reforms, 33% had been implemented, 31% are in the process of being implemented, and 36% are either lacking progress (as of FY17 Budget speech) or any update on their progress is not available
 - Highest proportion of unimplemented reforms belongs to the category of “development supporting institutions”
 - Proportion of committed reforms that has not been implemented (as of Budget FY17) is higher than implementation ratio
- ❑ CPD Recommendations reflected in the Budget FY17:

CPD Recommendation	Budget FY17
Enactment of Financial Reporting Act	Financial Reporting Act has been enacted in 2015. There is a commitment to set up the Financial Reporting Council in FY2016-17
Amendment and update of Customs Act, 1969	Amendment of Customs Act, 1969: Sections 2, 6, 9, 18, 115, 129, 156, 193A, 196A, 219 & 219A have been amended to make assessment process easier

What is next for ensuring the quality of implementation of Budget FY2017?

- ❑ Implementation of Budget FY17 will continue to face a number of familiar challenges –
 - Attaining the proposed fiscal framework for FY17 is going to be an uphill task
 - Because of challenges in the following areas:
 - Mobilisation of the targeted domestic resources
 - Capacity to spend the earmarked allocations
 - Ballooning foreign aid in the pipeline and growing predominance of non-concessional foreign loans
 - Quality of public expenditure
- ❑ Structural and institutional weaknesses continue to stand between the nation and its potential achievements. Realisation of development vision calls for a departure from business as usual

Bring more transparency in budget formulation, implementation and assessment procedures:

- ✓ Establish a **Public Expenditure Review Commission**
- ✓ Formulate appropriate follow-up mechanisms for monitoring government **tax incentives**
- ✓ **Disclose financial accounts of state-owned enterprises** including BPC and contingent liabilities in detail
- ✓ Establish **transparency in government's asset acquisition**
- ✓ Formulate an **appropriate foreign aid policy** in view of the changed global aid architecture and Bangladesh becoming the (lower) middle-income country
- ✓ More sunshine on **defence economy**
- ✓ Introduce **separate but integrated budget for local government**
- ✓ Integrate **NGO financing** in the public expenditure structure



What can be done to improve budget utilisation performance?

Promote greater involvement of **parliamentary standing committees**

Detailed work plan to implement the budget

Revise budget for FY17 at an early stage to ensure prudent formulation of budget for FY18

Ensure **quarterly reporting on budget implementation** in the parliament

Establish an effective **result-based monitoring system**

Thank You