Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2015-16 and An Analysis of the National Budget for FY2016-17

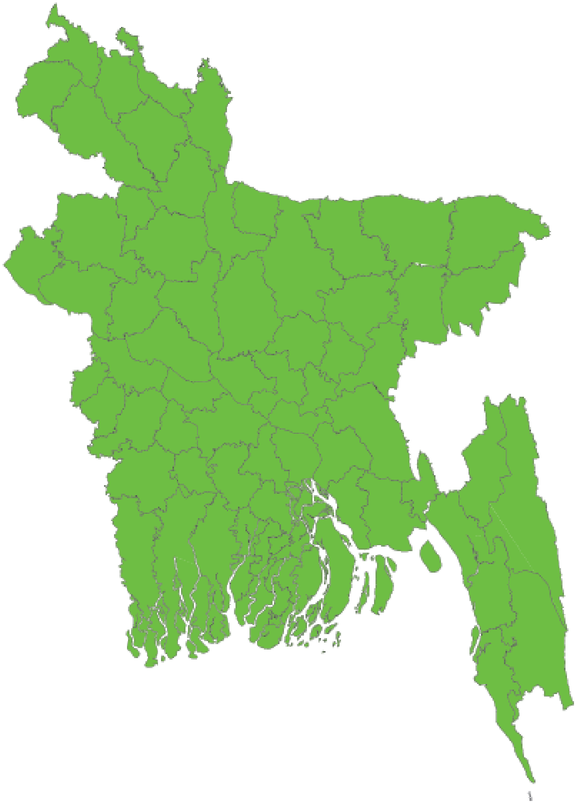
Towfiqul Islam Khan
Research Fellow, CPD
<towfiq.khan@gmail.com>

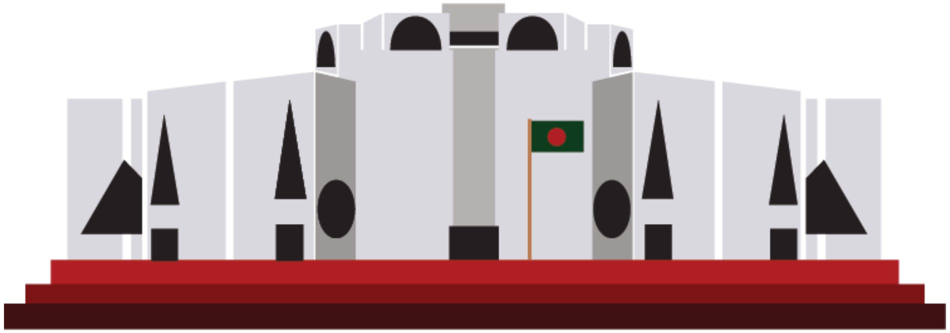
Dhaka: 6 June 2016

CENTRE FOR POLICY DIALOGUE (CPD)
BANGLADESH
a civil society think tank

www.cpd.org.bd

Contents

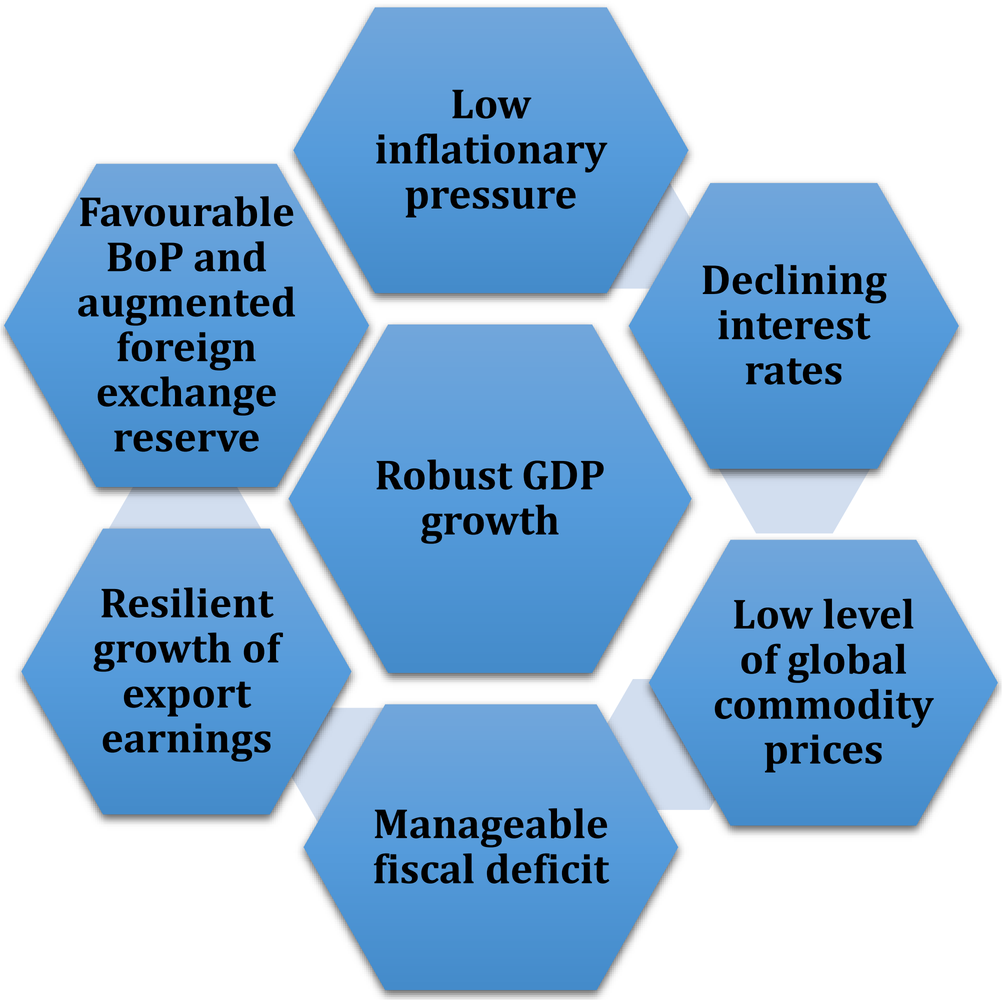


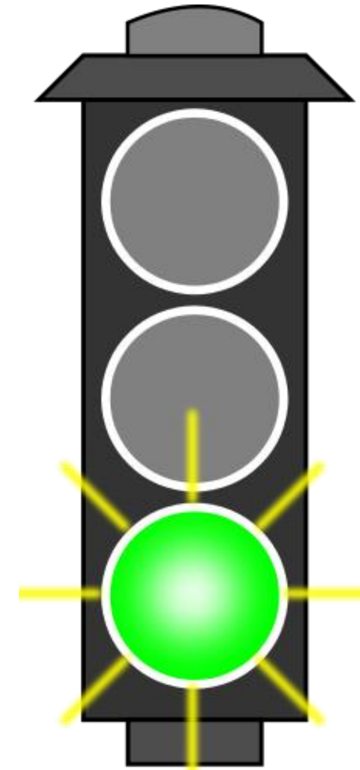


I. STATE OF THE BANGLADESH ECONOMY IN FY2015-16

CONTEXT OF THE BUDGET FY2016-17

I. CONTEXT OF THE BUDGET





Comfortable macroeconomic environment

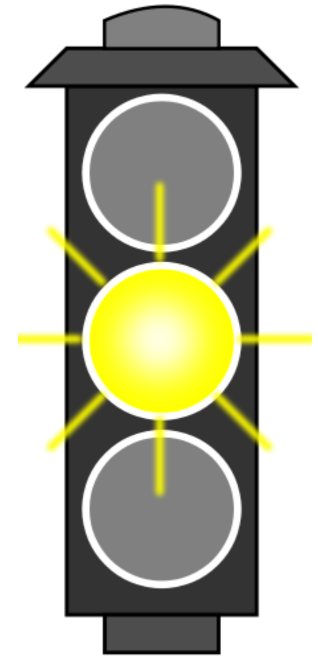
I. CONTEXT OF THE BUDGET

Nominal exchange rate remained stable but made gains against currencies of Bangladesh's major competitors which led to some erosion of export competitiveness

Rising non-food inflation has led to some discomfort

Rice output may decline albeit only marginally, but low returns from cultivation remain a concern, while delayed delivery of policy support did not help much

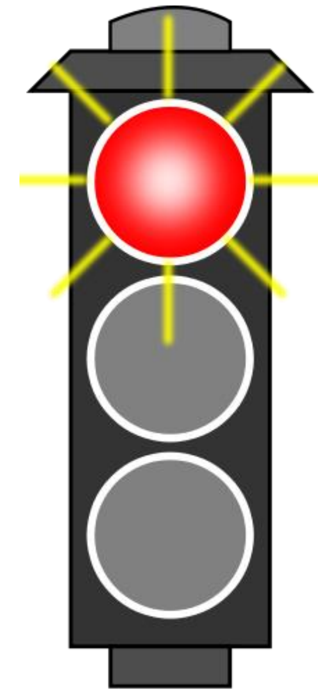
Overdue rationalisation of oil prices favoured the richer sections – a surprise!



Mixed performance evinced through a number of macroeconomic correlates

I. CONTEXT OF THE BUDGET

- Sluggish private investment
- Low job creation including reduction in employment in manufacturing sector
- Poor fiscal planning creating credibility gap
- Domestic borrowing biased financing mix of the budget deficit
- Unachieved tax revenue target and overall poor revenue generation
- Weak ADP implementation including project aid
- Persistent weakness in establishing good governance in the financial sector



Inability to take advantage of current macroeconomic stability in favour of investment-employment friendly GDP growth

I. CONTEXT OF THE BUDGET

❑ **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

I. CONTEXT OF THE BUDGET

- Five criteria for assessing a budget

1. **Alignment with medium-term priorities**- Was the budget closely aligned with the medium-term strategic priorities of government?
2. **Clarity and credibility** - Was the budget designed within clear and credible limits of fiscal policy?
3. **Effectiveness of development budget framework-** Does the **development budget** framework meet the national development needs in a cost-effective and coherent manner?
4. **Justifying the allocations-** Did the budget present a comprehensive, accurate and reliable account of public finances?
5. **Quality of prospective management and monitoring plan-** Is there a concrete plan to manage and monitor commitments made in the budget?

II. MEDIUM TERM OUTLOOK

II. MEDIUM TERM OUTLOOK

- ❑ The GDP growth target for FY17 has been set at 7.2% (7.05% in FY16, provisional)
- ❑ Moderate improvement in GDP growth and public investment forecasted
  - ➢ 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 private investment will be required in FY17
- ❑ 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**

- ❑ Budget speech mentions that during 2010-2015, 47 lakh people joined the labour market of which 98% found jobs in the domestic market
- ❑ However, it has not been mentioned that between 2013 and 2015 pace of additional jobs creation slowed down considerably – from about 13 lakh per annum between 2010-2013 to about 3 lakh between 2013-2015 (Jul-Sep)

II. MEDIUM TERM OUTLOOK

- ❑ Both revenue and total expenditure (as % of GDP) to grow in FY17 by about 2.1 percentage points
- ❑ Reliance on domestic sources in financing budget deficit – led by bank borrowing
    - ➢ after small reduction in FY17, is expected to be maintained in FY18 and FY19

Fiscal Framework (as % of GDP)

Indicator	FY15 (A)	FY16 (B)	FY16 (R)	FY17 (B)	FY18 (T)	FY19 (T)
Revenue	**9.6**	**12.1**	**10.3**	**12.4**	**12.7**	**13.1**
NBR Revenue	8.2	10.3	8.7	10.4	10.6	10.9
Non-NBR Revenue	0.3	0.3	0.3	0.4	0.4	0.4
Non-Tax Revenue	1.1	1.5	1.3	1.6	1.7	1.8
Expenditure	**13.5**	**17.2**	**15.3**	**17.4**	**17.6**	**18.0**
of which, ADP	4.0	5.7	5.3	5.6	5.9	6.1
Budget Deficit	**3.9**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**
Domestic Financing	3.4	3.3	3.6	3.1	3.4	3.4
of which, Banking	0.0	2.2	1.8	2.0	2.2	2.2
Foreign Financing	0.5	1.8	1.4	1.9	1.5	1.5

II. MEDIUM TERM OUTLOOK

- Public debt as % of GDP is at a reasonable state for Bangladesh – may increase insignificantly in FY17 largely due to rise in domestic debt
  - Currently about 57% of the public debt is attributable to domestic source and 43% to foreign finance
  - The composition is expected to change further – by FY19 about 63% of the total debt will be incurred from domestic sources
- Government needs to use low-cost borrowings – this is not the case in recent years
- Interest payment for domestic debt has already risen substantially
- Debt servicing for borrowing for large infrastructure projects may put further pressure in future

Public Debt (as % of GDP)

Indicators	Actual			Budget	Revised	Projection		
	FY13	FY14	FY15	FY16	FY16	FY17	FY18	FY19
Total Debt	36.6	35.9	31.9	35.0	33.9	34.5	35.0	35.6
Domestic	20.0	20.3	18.2	20.2	19.2	20.4	21.3	22.3
External	16.6	15.6	13.6	14.8	14.7	14.2	13.6	13.3

II. MEDIUM TERM OUTLOOK

- A stable monetary and external outlook is expected over the next three years
- Growth of credit to private sector is moderate compared to the target for private investment growth (21%) for FY17
- Export growth is projected to be same as FY16 (10%) – a reasonable target!
- Remittance inflow is expected to bounce back and grow at 10% in FY17 – some recovery from stagnant performance is expected in view the recent upsurge in outflow of Bangladeshi migrant workers.
  - However, attainment of the projected growth may be challenging

Monetary and External Sector (% growth)

Indicator	FY15 (A)	FY16 (B)	FY16 (R)	FY17 (B)	FY18 (T)	FY19 (T)
Money Supply (M2)	12.4	16.5	15.0	15.6	15.6	15.7
Domestic Credit	10.0	17.9	15.5	15.6	16.1	16.1
Private Sector Credit	13.2	16.0	14.8	15.0	15.0	15.0
Export (growth in %)	3.3	12.0	10.0	10.0	12.0	12.0
Import (growth in %)	4.5	11.5	9.0	11.0	12.0	12.0
Remittances (growth, %)	7.5	10.0	3.0	10.0	11.0	11.0

III. PUBLIC FINANCE FRAMEWORK

III. PUBLIC FINANCE FRAMEWORK

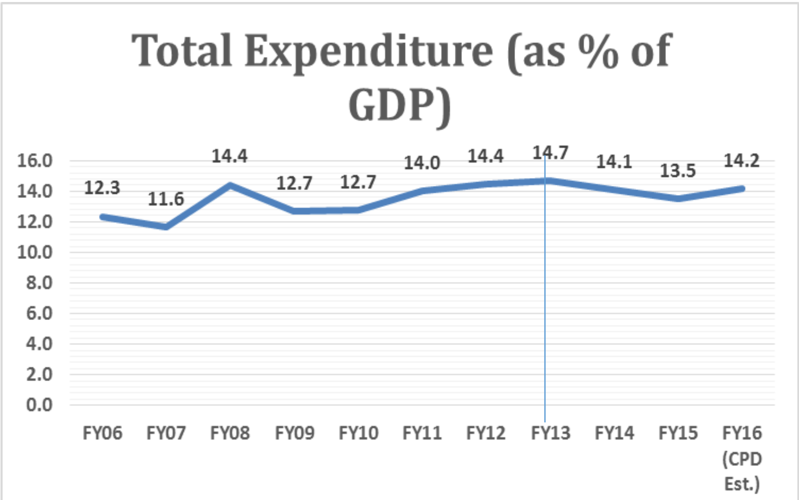
- The quality of fiscal planning remained weak over the last four years - the weakest programming among all the indicators is net foreign borrowing

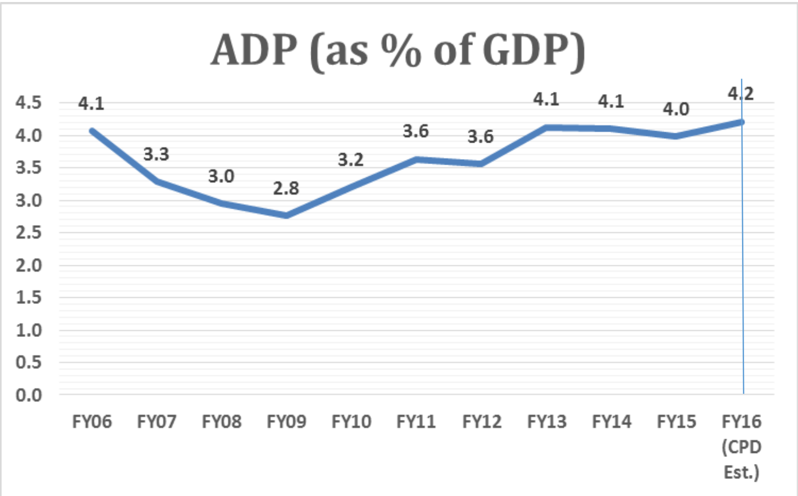
Fiscal projection gap as percentage of budget (%)

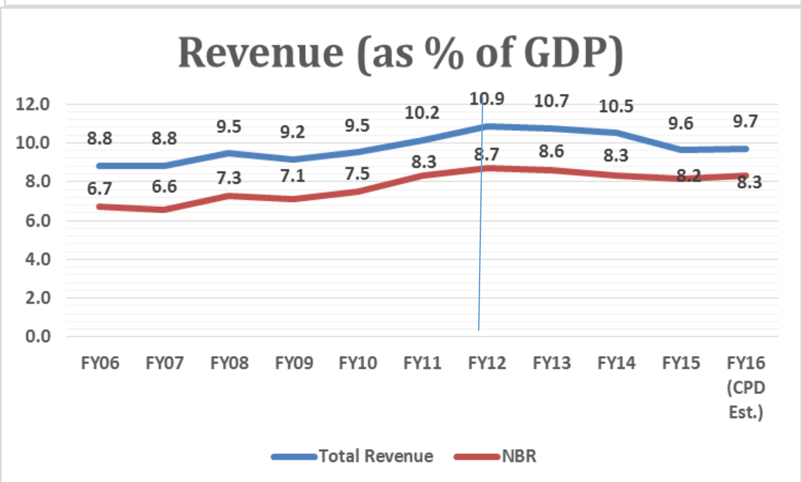
Indicators	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Total Expenditure	**10.6**	**10.7**	**3.0**	**8.3**	**9.1**	**14.6**	**18.7**
ADP	24.1	16.2	13.6	22.8	10.8	22.0	25.8
Total Revenue	**6.9**	**4.5**	**-0.2**	**3.9**	**7.8**	**15.4**	**20.2**
NBR Revenue	7.9	2.6	-5.4	0.3	7.9	17.7	17.2
Deficit	**19.1**	**25.2**	**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

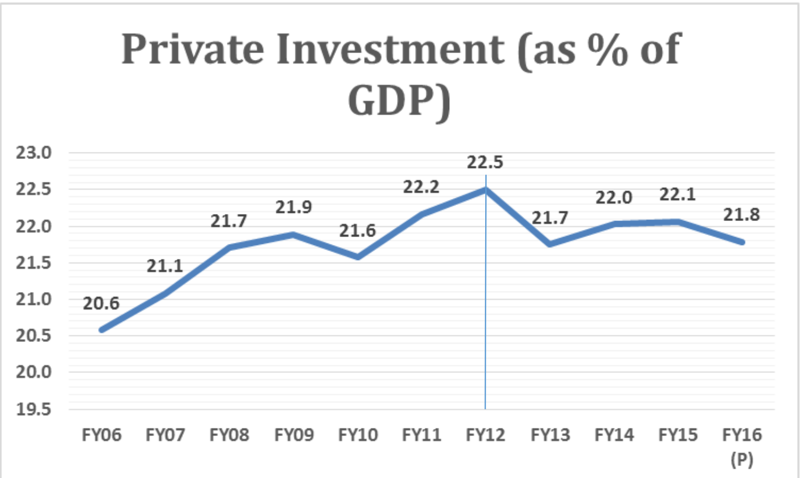
III. PUBLIC FINANCE FRAMEWORK

- 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%





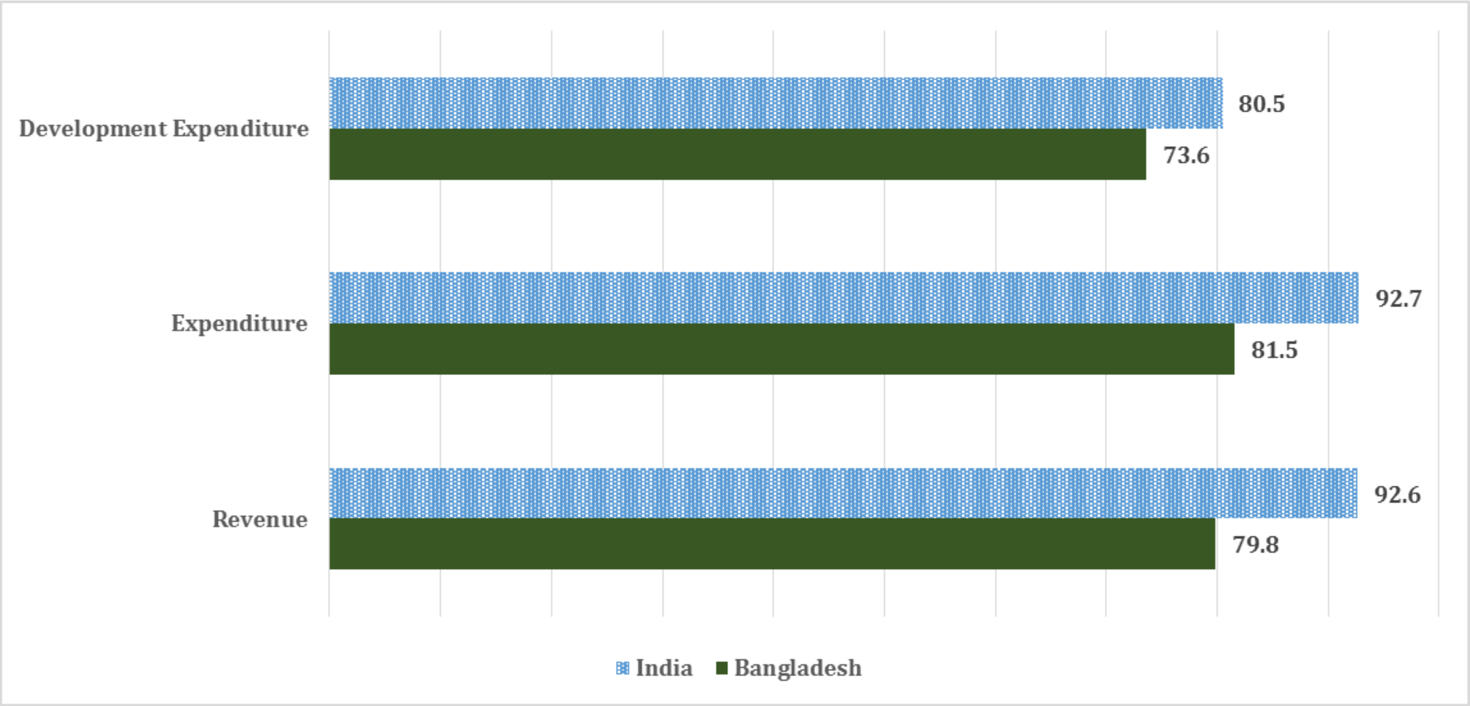




III. PUBLIC FINANCE FRAMEWORK

- ❑ Compared to India, in Bangladesh's quality of fiscal projection is much weaker!

Fiscal projection gap as percentage of budget in FY15 (%)



III. PUBLIC FINANCE FRAMEWORK

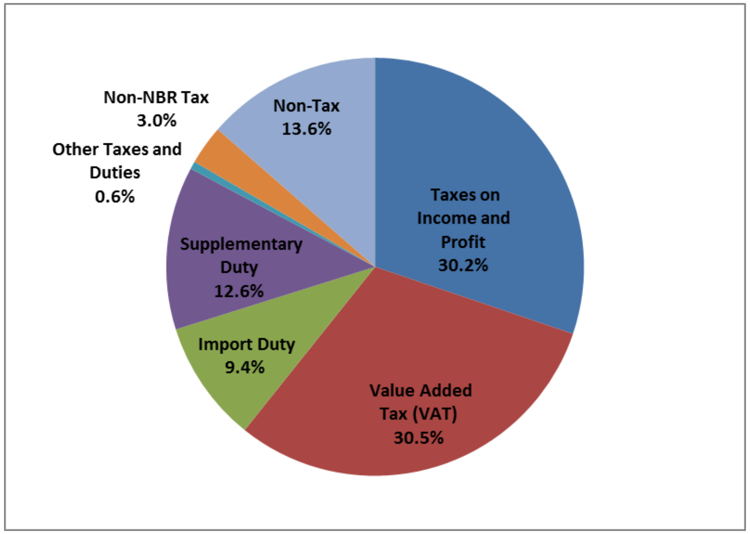
- According to CPD projections, all major parameters of fiscal framework will need to register higher growth rates to attain the targets compared to those planned in the budget FY17. Because the budget targets take revised budget figures for FY16 as its base which in reality will be lesser.
- This is structural problem of budgetary projections

Trend Growth Rates: Budget and Reality (%)

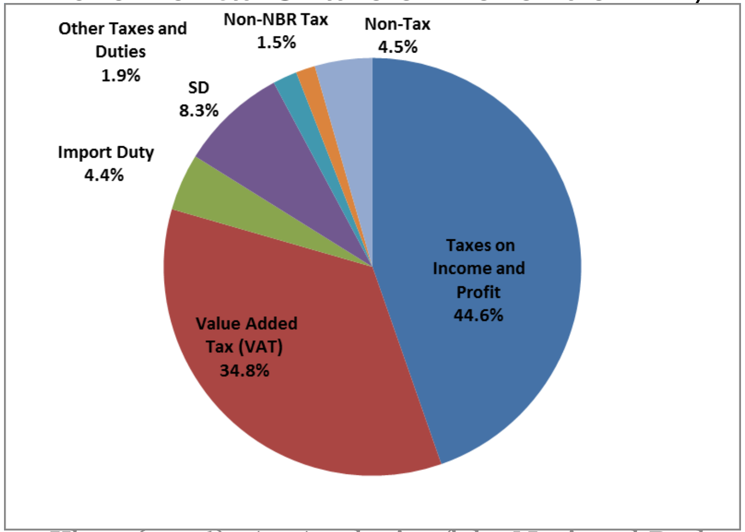
Items	FY02-07	FY08	FY09	FY10-FY13	FY14-FY15	FY17 (B)	FY17_CPD Ext.
Total Expenditure	**8.5**	**41.5**	**5.3**	**18.3**	**8.3**	**28.7**	**39.0**
ADP	1.3	1.3	14.0	26.6	11.1	21.6	52.2
Non-ADP	13.0	57.2	3.1	15.9	7.3	32.5	33.5
Total revenue	**12.0**	**24.3**	**11.0**	**18.9**	**6.5**	**36.8**	**44.5**
NBR 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**

III. PUBLIC FINANCE FRAMEWORK

Share of Revenue FY17



Incremental Share of Revenue FY17



Revenue Mobilisation

- FY17 budget targets an additional Tk. 65,351 crore revenue with a 35.4% growth over RBFY15
  - 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-third of total income tax will be collected from companies
  - Belated implementation of new VAT act will pose serious challenge
- Import duty collection growth target is set at 31.1%

III. PUBLIC FINANCE FRAMEWORK

Revenue Mobilisation

- Non-NBR revenue (non-tax plus non-NBR tax) growth for FY17 is at a very ambitious level (44.5%)
  - Much will depend on mobile spectrum fee
  - Actual required growth could be as high as 65.0%
- Overall revenue collection may fall short of Tk. 9,500 crore from the target of RBFY16
- Under such a scenario required growth rate for revenue in FY17 may shoot up to around **44.5% (from 36.8%),** while for NBR the actual target may stand around **41.1% (from 35.4%)**
- **Such a high growth rates were never achieved before!**
- **Major setback for collecting such an ambitious target –**
  - *Deferred implementation of VAT and SD Act 2012*
  - *Major rescheduling of SD rates*

III. PUBLIC FINANCE FRAMEWORK

Total Public Expenditure

Sector	Share in BFY17	Share in RBFY16	Change in FY17B over FY16R	
	%		Crore Tk	%
Education and Technology	15.5	14.9	13588.0	34.6
Public Service	13.9	9.0	23523.0	99.0
Interest	11.7	12.0	8282.0	26.2
Transport and Communication	10.9	10.1	10467.0	39.1
LGRD	6.9	8.1	2075.0	9.7
Agriculture	6.7	7.0	4207.0	22.7
Defence Services	6.5	7.8	1436.0	6.9
Public Order and Safety	6.2	6.6	3643.0	20.9
Social Security and Welfare	5.8	6.4	3004.0	17.8
Health	5.1	5.6		18.1
Fuel and Energy	4.4	6.3	-1579.0	-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	4388.0	57.8
Total Expenditure	100.0	100.0	76040.0	28.7

III. PUBLIC FINANCE FRAMEWORK

- 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)
- Tk. 2,000 crore has been for Investment for Recapitalisation (for state-owned banks!) – in FY16 budget Tk. 5,000 crore was allocated
- 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!

III. PUBLIC FINANCE FRAMEWORK

Subsidy (loans, subsidies and fiscal incentives)

- Total subsidy allocation is 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, allocation is Tk. 3,000 crore
- A comprehensive subsidy policy for Bangladesh has to be formulated!

Annual Development Programme

- ADP of Tk. 110,700 crore has been proposed for FY17
  - 45,163 crore (46.6% of original ADP FY16) was implemented upto April 2016 (last year it was 51.8%)
- 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 to development assistance programmes

Project Status	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Unapproved projects without Allocation	492	800	702	720	662	624	857	1,172
Projects listed to seek Foreign Funds	227	292	259	327	346	338	382	349
Total Number of Projects in the ADP	**886**	**916**	**1,039**	**1,037**	**1,046**	**1,034**	**999**	**1,141**
PPP	0	23	16	13	44	40	40	32
Possible Completion	346	287	305	330	305	324	324	354

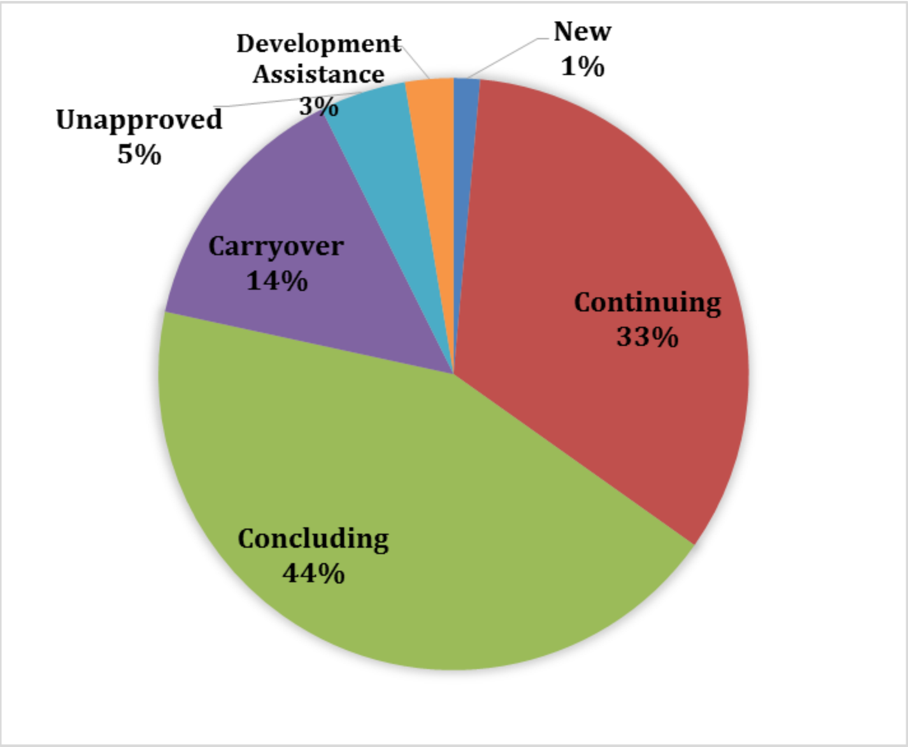
III. PUBLIC FINANCE FRAMEWORK

Top Five Sectors in ADP FY17

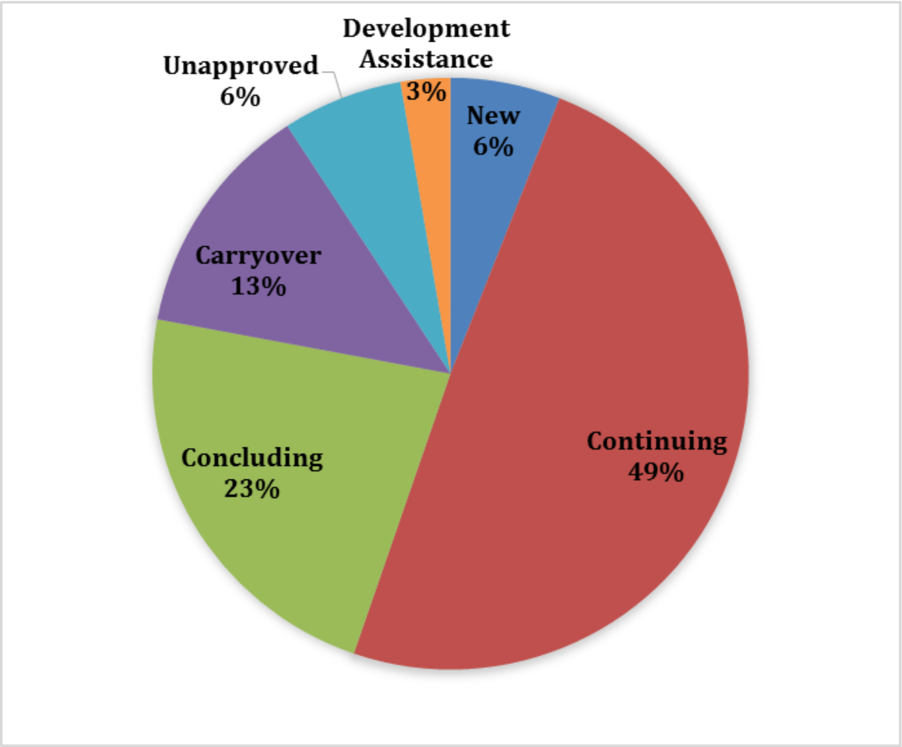
Sector	No of Projects ADP FY17	Share (%) ADP FY17	Share (%) RADP FY16	Share (%) ADP FY16	Growth (%) ADP FY17 over RADP FY16
Total Five Sectors	**636**	**71.0**	**71.4**	**70.6**	**21.1**
Transport	188	25.8	21.1	22.4	48.9
Education & Religious Affairs	95	13.1	11.1	10.7	43.1
Physical Planning, Water Supply &Housing	170	12.1	12.2	11.5	20.7
Power	69	11.8	17.0	17.0	-15.6
Rural Development & Institutions	114	8.2	9.9	8.9	0.7
Other 12 Sectors	**505**	**29.0**	**28.6**	**29.4**	**23.0**
Development Assistance	**NA**	**2.7**	**4.3**	**2.6**	**-24.0**
Total	**1,141**	**100.0**	**100.0**	**100.0**	**21.6**

- The **top 5 sectors** have received **71%** of total ADP allocation – concentration ratio increased
  - Transport Sector once again has received the highest amount of allocation (25.8% of total allocation) for the highest number of projects – 48.9% growth over RADP FY16
  - With in transport sector, railway received 10.1% of total allocation
  - Allocation for power sector was reduced by 15.6% in FY17 over RADP FY16

III. PUBLIC FINANCE FRAMEWORK



FY16 Number of Projects: 999



FY17 Number of Projects: 1,123

- More projects
- Lower share to carryover
- More for continuing and new
- Less for concluding

III. PUBLIC FINANCE FRAMEWORK

- It appears that, number of new projects in ADP FY17 was limited - however, the 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** for FY17; 14 projects received such allocation in FY16
    - 15 of those are investment projects (12 in FY16)
    - 10 of those are carryover from ADP FY16
    - 8 of the 14 projects are from Transport sector (9 projects were in transport sector in FY16)
- **31 'investment' projects under ADP received only Tk. 1 crore or less** for FY17; 32 'investment' projects received such allocation in FY16
    - 15 of the projects are carryover (21 of those were carryover in FY16)
    - As a whole these 31 projects received only Tk. 7.2 crore allocation in ADP FY17 (averaged Tk. 23.1 lakh per project)
    - Projects from 12 different sectors shared this allocation

III. PUBLIC FINANCE FRAMEWORK

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 (16.9% of total ADP) in ADP for FY17
- Apart from the Padma Bridge project, which is expected to be completed by 2018, a number of other projects are expected to be completed around 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

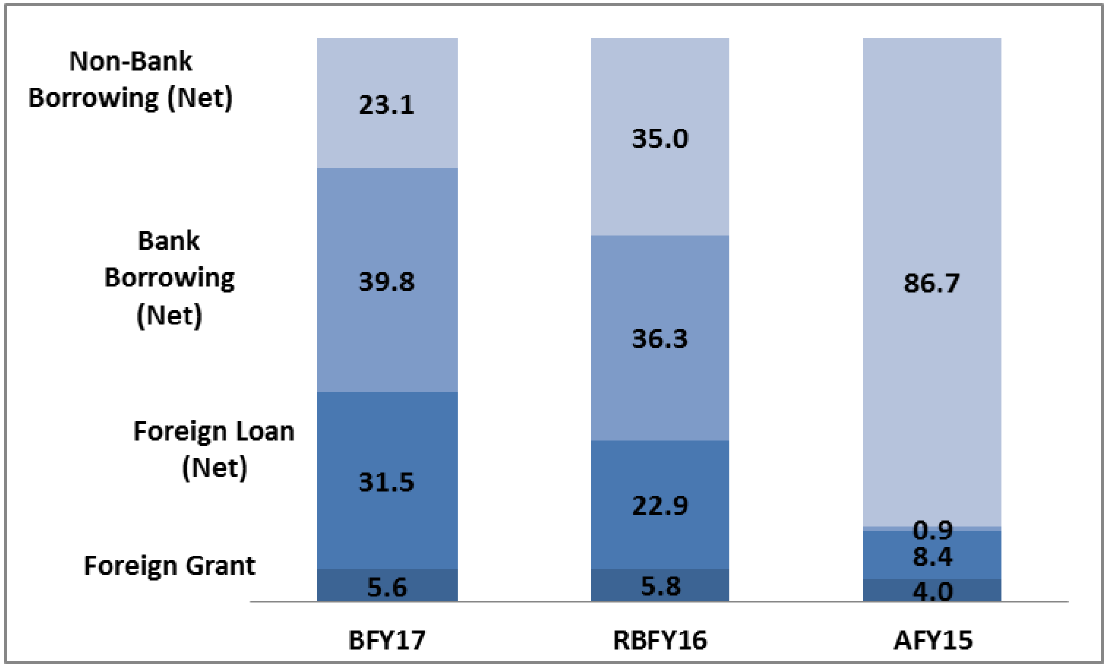
III. PUBLIC FINANCE FRAMEWORK

- **The business as usual as regards ADP continues -**
  - Large number of projects with stagnating implementation capacity
  - Rising number of unfunded projects
  - Absence of prioritisation framework
  - Inadequate fund for concluding projects and persistence of carry-over projects
  - Cost and time-overrun continue
    - Only 14.2% of the total to be completed projects (233) were completed within the stipulated time and planned allocation in FY14 (lowest since FY01)
    - 51.1% projects experienced cost overrun which is the highest in last eight years
  - No reform or follow up mechanism mentioned to bring discipline in the ADP and monitor government initiatives
  - No result-based monitoring
    - Low quality of the PCRs submitted (around 60% of completed projects) every year
    - Lack of needed human resources (as per IMED organizational structure) often do not allow proper evaluation of completed projects

III. PUBLIC FINANCE FRAMEWORK

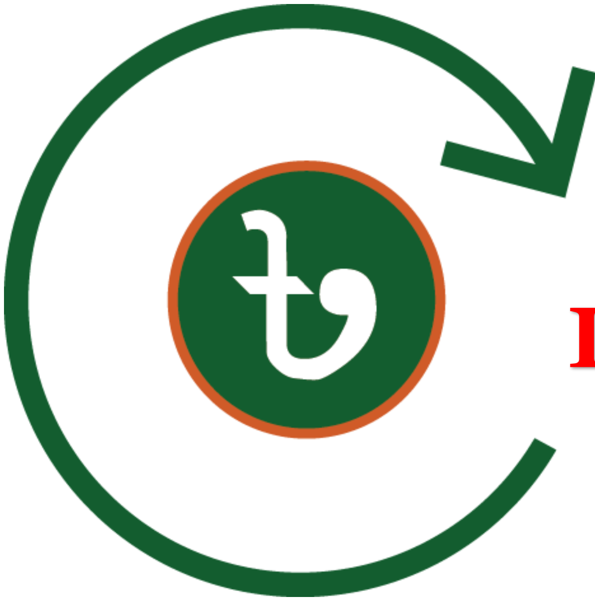
- Share of **domestic financing 62.9%** (71.3% in RBFY16)
- **Tk 38,938 crore** (39.4%) will come from the **bank borrowing** (36.3% in RBFY16)
- Tk 22,610 crore (23.1%) will come from non-bank sources (35.0% in RBFY16)
- Share of foreign financing will be 37.1% in FY17 (28.7% in RB of FY16)
- **Gross 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 utilization of ADP – 89.4% of total foreign resources are for ADP projects**

Sources of Deficit Financing



III. PUBLIC FINANCE FRAMEWORK

- **Revenue** (36.8%) projected to grow **faster** (to collect additional Tk. 65,351 crore) than **public expenditure** (28.7%) which will spend additional Tk. 76,040 crore -
  - Total budget expenditure is set at 17.4% of GDP (15.3% in RBFY16)
  - Revenue income will be 12.4% of GDP (10.3% in RBFY16)
- **Development expenditure** (22.0%) programmed to **grow slower** than non-development revenue expenditure (25.7%) – impact of full implementation of pay scale!
- **ADP**: 32.5% of total public expenditure (34.4% in the RBFY16)
- **Budget deficit** has been projected at **5.0%** of GDP (same in RBFY16, actual may be about 4.5% of GDP)
- Balance in financing budget deficit will be corrected, if implemented –
  - **High foreign financing** target (45.3% growth over the RBFY16) has been set with anticipated **gross foreign aid flow** of **USD 5.7 billion (highest in history – USD 3.1 billion in FY15)**
  - Government's **net bank borrowing** will **increase** by only 22.9%
- **Implementation of the proposed fiscal framework is challenging!**



IV. FISCAL MEASURES

IV. FISCAL MEASURES

- **Personal Income Tax**
  - No change was seen in tax-exempted personal income threshold or slabs
  - Tax-free income will be Tk. 25,000 higher for parents or legal guardians of persons with disabilities – *promoting social equity*
  - Perquisite ceiling has been raised to Tk. 4.75 lakh from Tk. 4.50 lakh – *will benefit the salaried employees*
- **Tax credit on investment**
  - An assessee can invest 20% (previously 30%) of total personal income
  - *Additional tax burden as a share of income will be higher for lower income groups*
  - Tax liability will be **higher** for the current tax payers – *individuals within the net are being taxed **more***

Total Taxable Income	Tax Liability Increased by
When an assessee's income will be Tk. 10 lakh	32%
When an assessee's income will be Tk. 11.5 lakh	29%
When an assessee's income will be Tk. 17.5 lakh	20%
When an assessee's income will be Tk. 47.5 lakh	13%

Independent Review of iRBD Bangladesh's Development

IV. FISCAL MEASURES

- **Wealth Surcharge**
  - Minimum net wealth exemption limit remains the same at Tk. 2.25 crore
  - 5 slabs have been changed, now 6 in total
  - 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*
- **Corporate Tax**
  - All tobacco products (cigarette, bidi, zarda, chewing tobacco, gul, and other smokeless tobacco) manufacturers will be charged tax at 45%, which was 25% & 35% - *tax revenue will be higher*
- **Minimum corporate tax at source** revised from uniform rate of 0.3%
  - 1% for tobacco manufacturers - *welcome move considering health issues*
  - 0.75% for mobile phone operators – *revenue will increase; may get passed on to the consumers*
  - 0.60% for others – *will increase the revenue*
- **Tax deduction rates** on receipts from **international calls** has been raised from 1% to 1.5% – *any implication for illegal VoIP?*

IV. FISCAL MEASURES

- **Tax deduction at source (TDS)**
  - **RMG and accessories, terry towel, jute goods, frozen food, vegetables, leather goods and packed food exporters** have to pay advance income tax **at the rate of 1.5%** (increased from 0.6%) [53BBBB]
  - Interest payments on approved savings instruments, superannuation fund, pension fund, gratuity fund, recognised provident fund or workers' profit participation fund will be taxed at 5% [52D]
  - 5% will be deducted from **interest income from pensioners' savings certificates** exceeding Tk. 5 lakh of investment [52D]
  - **Payments to contractors** will be taxed at a fixed rate of 10% (15% if not eTIN-registered) [52]

IV. FISCAL MEASURES

- 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 (50% higher if not eTIN-registered) [52A, 52AA] –*a good move*
- 15% TDS for non-resident courier businesses – *will generate more revenue*

- **Reduced costs of buying small apartments** [53FF] – *low-income earners will be benefited*
  - Rate of source tax will be 20% lower for 70 sq.m (750 sft) apartments, & 40% lower for 60 sq.m (645 sft) apartments
  - Tk. 70,000 worth apartments will now cost Tk. 14,000 less & Tk. 60,000 worth apartments will now cost Tk. 24,000 less (in Dhaka north & south & Chittagong city corporations (excluding rich areas))
- Advance tax on motor vehicles is no longer refundable

IV. FISCAL MEASURES

Undisclosed Money

- Once again the Finance Minister remained silent about black money in this speech. It means continuation of earlier facilities to whiten black money-
- ***CPD therefore reiterated such provision is morally unethical for honest tax payers and might encourage people to evade tax***
- a) *Special tax treatment* [19c]*:* Opportunity continues for invest in government Treasury bond by paying only 10% tax; b) *Voluntary disclosure of income* [19e] through payment of 10% penalty alongside the regular tax and c) investing undisclosed money in real estate sectors under *Special tax treatment* [19BBBBB]:
- *Considering the increasing flow of illicit financing, which once again disclosed through* ***Panama Paper scandal,*** *CPD once again emphasising on the* need for a predictable legal framework including a new law on **undisclosed money and benami property**

Value Added Tax (VAT) at Local Level

- The new VAT and SD Act 2012 has been deferred to 1 July 2017 – finalisation of necessary *preparatory works for full implementation of the Act will remain as a challenge*
- **Tax-exempted turnover limit for SMEs** has been proposed to increase from **Tk. 30 lakh to Tk. 36 lakh** – *the change will support business growth and encourage entrepreneurship*
- Increase the rate of **SD on SIM card related services** from 3% to 5%
- **Package VAT** has been significantly revised!

Location	**Existing VAT**	**Proposed VAT**
	(Tk. to be paid annually)	
Dhaka and Chittagong city corporation area	14,000	28,000
Other city corporations	10,000	20,000
Municipalities in district towns	7,200	14,000
Other areas	3,600	7,000

IV. FISCAL MEASURES

- Govt. will gradually move out of the **truncated value** system. Truncated value rates for a number of services has been increased (5 out of 14 services). Those are garage and workshops, dockyard, construction, transport contractor, branded RMG seller etc.
- **Price declaration** provision has been abolished - *This will play a pivotal role in reducing the harassment of the taxpayers by the tax people*
- **Electronic Cash Register (ECR) and Point of Sale (POS) system** have been proposed to make compulsory for the shops, hotels and resorts – *will ensure depository of the tax to govt. treasury; however, needs proper monitoring*
- Provisions to reduce **discretionary power of the VAT authority** were articulated – *will safeguard taxpayers' interest*
- **ADR mechanisms** have been further strengthen – *will recover disputed revenues and increase efficiency of the system*
- **Unlocking of fully automated new VAT and SD system will still remain a challenge! It needs institutional capacity and mass awareness building and training**

IV. FISCAL MEASURES

Duty Structure

- CPD has analysed operative tariff schedule of FY10 and compared it with OTS of FY15, FY16 and FY17
  - CD on capital machinery products decreased from 3% in FY10 to 2% in FY15 and further to 1% in FY16. In FY17, the rates remained to be same
  - About 1,000 products have CD of 5% for last 6 years
  - CD on about 1,500 items remained at 10% for last few years which were 12% in FY10. these products include food/agricultural products, petroleum bi-products, chemical products for pharmaceuticals industries, rubber, wood and paper products etc.
  - About 3,000 products still have CD at higher slab of 25%
- About 22.2% products (1,482 products) are having SD in FY17
  - 10% slab has abolished and 15% slab is introduced in FY17
  - Maximum number of products (926 products) have SD at the rate of 20%
  - Some liquor products and cars over 2,700cc have high SD of 350%
- RD was reduced from 5% to 4% in outgoing fiscal (FY16)

IV. FISCAL MEASURES

Changes in the Rate of Duty at Import Stage in FY17

Types of Duty	Increased	Decreased	Newly Imposed	Waived	Total number of changed items
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

- Government has continued policy incentives to safeguard the interest of the farmers.
- Custom duty has increased for 208 items (including rice, starch etc.) while decreased for 52 items (chemical items, Iron steels etc).
- As also VAT imposed at import stage on all types of rice imports significantly
- Among the fifteen items on which VAT is imposed at import stage includes maize (flour), other flours, Semi-product of iron steel, and modulator etc.

Khan (2016): An Analysis of the National Budget for FY2016-17

IV. FISCAL MEASURES

❑ Major rises in Customs Duty

Items	FY16	FY17	Comment
Rice (all), Maize (flour)	10	25	Higher protection for farmers
Wheat, Maize and Potato starch	10	15	More protection for farmers
Textbooks for primary and secondary level	10	25	Goes against students' interest
Tubes, pipes and hallow profiles	10	15	Local industry protection
Refined copper wire and plates of coils	10	25	Helpful for domestic firms
Finger/ Biometric scanner	2	5	Contradicts safety/security concerns
Machinery for preparing tobacco	1	10	Helpful from healthy revenue perspectives
Evaporative air coolers	10	25	Revenue generation
Transformer, USP/IPS (capacity up to 2,000 MV)	5	10	Consumers will be hurt
Optical fibers	10	15	Access to internet will be costlier
Patient monitor, medical instruments	1-5	5-10	Will make health service costlier
Dietary foods (Soya cakes, Inulin etc.)	5	10	Helpful for Local industry

IV. FISCAL MEASURES

❑ Major declines in Customs Duty

Items	FY16	FY17	Comment
Lubricating oil, petroleum jelly, dextrin, glues, stripping chemical gum rosin, poly salt, organotin compounds	25	15	Will reduce industrial cost
Plastic products (Urea resins, thiourea resins, polyester paper, PVC sheet etc)	25	10-15	Likely to be harmful for local industry
LP gas cylinder capacity below 5000 liters	25	10	Helpful for consumers
Pharmaceutical (Stability/Humidity camber, Laboratory refrigerator):	25	1	Will help the industry
For Vat registered importers, several equipments under HS code 73; 83; 84; 85;94	25	0-15	Should encourage VAT registration

Tax Incidence

- 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 found that, changes in the proposed duty structure did not commensurate with fiscal framework's tax growth. The estimated growth based on the changes in the duty structure diverges significantly from the budgetary plans

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

V. SECTORAL MEASURES

AGRICULTURE

Agriculture

- Agricultural subsidy remains constant at Tk. 9,000 crore
    - It constitutes 39.6% of total budget allocation for agriculture in FY17
    - Around Tk. 2,000 crore remain unutilized 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

EDUCATION and Health

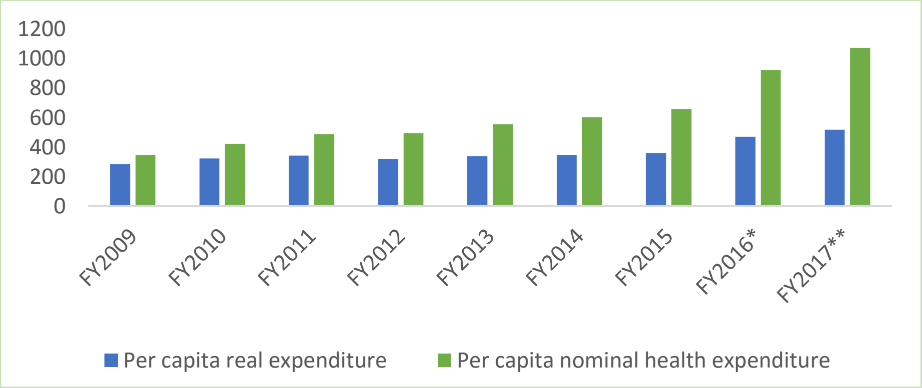
Education

- 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 teacher 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.

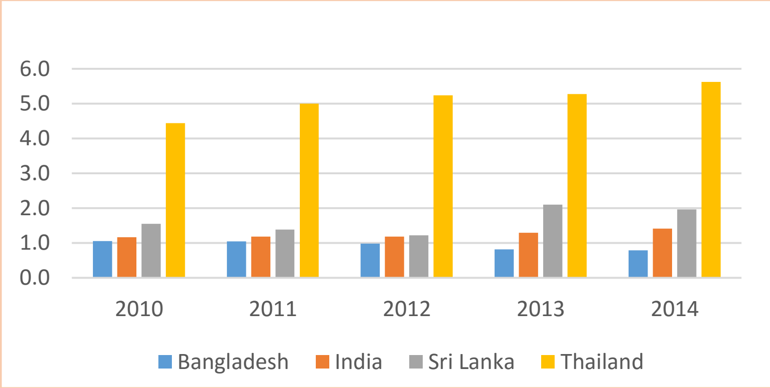
Health

- Allocation for the health sector (Tk. 17,487 cr) has increased by 18.1% over RBFY16 (37.7 % higher than BFY16)
- 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"
- Health sector has remained squeezed in overall expenditure: from 6.1% in FY10 to 5.1% in FY15)
- Despite the rise in public health expenditure, Bangladesh is still behind other comparable countries
- 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 BD, as % of GDP is much lower than other developing countries

Per capita real & nominal expenditure for health



Health expenditure, public (% of GDP)



Source: World Development Indicator

SOCIAL SECURITY

Social Security

- Budget for social security increases 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 portion 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

Social Security

Allocation for major SSNPs for FY17 vs. NSSS targets (crore Tk.)

Programmes	Budget				NSSS target	Projection vs Target			
	FY14	FY15	FY16	FY17	FY17	MTBF FY18	NSSS FY18	MTBF FY19	NSSS FY19
Old Age Allowance	980	1,307	1,440	1,890	3,530	1,840	3,740	1,840	3,960
Child School (Primary and Secondary) Stipend	1,000	971	1,159	1,550	6,830	1,550	7,240	0	8,140
Allowances for the Widowed, Deserted and Destitute Women	364	486	534	701	2,040	834	2,160	834	2,420
Programmes for people with disabilities	132	240	360	540	1,910	578	2,020	761	2,270

Programmes	Growth in FY17 over BFY16	Budget allocation in FY17 as % of NSSS Plan	Required growth in allocation in FY18 to meet the NSSS target (%)
Old Age Allowance	31.3	53.5	97.9
Child School (Primary and Secondary) Stipend	33.7	22.7	367.1
Allowances for the Widowed, Deserted and Destitute Women	31.2	34.4	208.2
Programmes for people with disabilities	50.0	28.3	274.1

VI. REFORM MEASURES

Independent Review of IRBD Bangladesh's Development

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 on reforms measures

Area of Reform	Implemented	Ongoing	Lack of Progress/ No Update
Reforms concerning Development Administration	1.“Digital Executive Committee on National Economic Council (ECNEC) 2.Digital Land Management System 3.Merger of Privatisation Commission with BOI	1. Online Public Procurement 2. 30 Centres	1. Authoritative Land Records (ALR) 2. Pension Fund Management Authority
Reforms related to Development Supporting Institutions	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)	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	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 on reforms measures

Area of Reform	Implemented	Ongoing	Lack of Progress/ No Update
Reforms as regards Development Facilitating Policies and Acts	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	1. Issuance of land ownership certificate 2. VAT Rules, 2014	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 established and 36% are either lacking progress as of FY17 budget speech or any update on their progress are unavailable
  - The 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 FY 17 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.

VII. CONCLUDING REMARKS

VIII. CONCLUDING REMARKS

- Implementation of budget for 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 -
    - Inability to mobilise the targeted domestic resources
    - Inability to spend the earmarked allocation
    - Failing to use foreign aid in the pipeline and opting for non-concessional foreign loans
    - Quality of public expenditure will continue to remain suspected
- Structural and institutional weaknesses continue to stand between the nation and its potential achievements. The vision is not supported by courage and innovation in this regard

VIII. CONCLUDING REMARKS

What can be done to improve budget utilisation performance?

- Ensure greater involvement of parliamentary standing committees in formulating and overseeing implementation of the budget
- Develop a detailed work plan to implement the budget
- Provide quarterly reports on budget implementation in Parliament (The Finance Minister missed out 11 out of 21)
- Establish an effective result-based-monitoring system to ensure high quality delivery
- Make closing fiscal framework figures of elapsing fiscal year (FY16) available at the earliest and revise budget for FY17 at an early stage

VIII. CONCLUDING REMARKS

- 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 in defence economy
  - Introduce separate but integrated budget for local government
  - Integrate NGO financing in the public expenditure structure

Independent Review of
iRBD
Bangladesh's Development

Thank You

cpd.org.bd

facebook.com/cpd.org.bd

twitter.com/cpdbd

youtube.com/user/CPDBangladesh

Centre for Policy Dialogue (CPD)
House - 6/2 (7th & 8th floors), Block - F, Kazi Nazrul Islam Road
Lalmatia Housing Estate, Dhaka - 1207, Bangladesh
Telephone: (+88 02) 9141734, 9141703, 9126402, 9143326 & 8124770
Fax: (+88 02) 8130951; E-mail: info@cpd.org.bd