Independent Review of

IRBD

Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD Budget Dialogue 2018

An Analysis of the National Budget for FY2018-19

Dhaka: 24 June 2018

CENTRE FOR POLICY DIALOGUE

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The CPD IRBD 2018 Team alone remains responsible for the analyses, interpretations and conclusions of this presentation.

INTRODUCTION

- ***The budget for FY19 is being brought out in the context of –***
  - An election year – an opportunity for the incumbent government
  - The penultimate year of Seventh Five Year Plan (FY16-FY20)
  - 1000 days of SDGs implementation (FY19)
  - Double transition – recent entry to the LMIC group (2015), forthcoming graduation from the LDC group (2024)
  - One million Rohingya influx
  - The global economy picking up, commodity prices going up as well
  - Inflationary pressure in China and India, looming trade war in the West, paralysis of multilateral system
- ***Our budget assessment approach***

  Two core objectives based on review of the state of the economy –

  1. Counteracting the emerging stresses on macroeconomic stability
  2. Making economic growth and other achievements more inclusive

INTRODUCTION

❑ *The budget is being brought out in the backdrop of*

Short term strengths

- Stability in growth
- Increased public investment
- Increased export and remittance growth
- Inflation within target
- Expansion of social protection
- Increased flow of foreign assistance

Medium to long term strengths

- Upturn of manufacturing share
- Increased investment in infrastructure
- Improvement in human assets
- Improved food security

Short term stresses

- Weak revenue mobilisation
- Weak ADP implementation
- Weak price incentives for farmers
- Imbalance in the external sector – increasing current account deficits, pressure on exchange rate and falling terms of trade
- Pressure on food inflation building up
- Banking sector in doldrums
- Volatile capital market

Medium to long term stresses

- Stagnant private investments
- Inadequate employment growth and informalisation of employment
- Skills and productivity deficits
- Entrenched regional imbalances including unplanned urbanisation
- Slowing down of poverty alleviation rates
- Increasing consumption, income and assets inequality

TEN KEY OBSERVATIONS

1. Envisioned macroeconomic framework is not in line with the current economic reality of Bangladesh
2. Fiscal framework aims at lofty targets but few appropriate tools geared to achieving these
3. Revenue mobilisation will hinge on collection from individuals, from indirect sources, and at domestic level
4. Non-development expenditures to consume major part of the increased budget
5. Annual Development Programme (ADP) did not break free from its traditional mould
6. Proposed fiscal measures will disproportionately affect the rising middle-income segment of the society
7. Stagnating shares of education and health are anti-equity and will be a drag on future development
8. Enhanced safety net allocation is appreciable but implementation of NSSS was ignored
9. A number of priority sectors received business as usual attention
10. The budget lacked broader discussion on economic reforms and failed to take a forward-looking approach as regards raising the overall efficacy of institutional performance and governance

Envisioned macroeconomic framework is not in line with the current economic reality of Bangladesh

MACROECONOMIC FRAMEWORK

- **GDP growth** target for FY19: **7.80**%, FY18 (provisional): 7.65%, FY17: 7.28%
- Marginal increase (0.2 percentage point) in **public investment** has been considered. **Private investment** has been estimated to be **25.1**% of GDP: a **1.9** percentage point **increase** from FY18
  - In FY19, (approx.) **Tk. 117,000 crore** will be additionally required for private investment (22.7% increase in nominal terms)
  - In FY19, (approx.) **Tk. 30,000 crore** will be additionally required for public investment (16.1% increase in nominal terms)
- Expected **ICOR** in FY19: **4.3** – productivity of capital to decline (4.1 in FY18)
- **Inflation** is assumed to be stable at **5.6**%
  - Upward trends observed in general, food and non-food inflation in the closing months of FY18 [general, food and non-food inflation was 5.82%, 7.25% and 3.63% respectively on May 2018 (on an annual average basis)]
  - Global inflation is predicted to increase (as stated in the MTMPS) in the backdrop of rising prices of key commodities including oil, food, etc.

MACROECONOMIC FRAMEWORK

- Poverty and employment estimates pose questions regarding the **quality of attained growth** in recent years (2010-16)
  - Pace of poverty reduction and employment growth slowed down when the economy was growing at an average annual rate of 6.5% - perplexing!
- The **East-West divide** in Bangladesh poverty scenario have resurfaced between 2010 and 2016, contrasting the 2005-10 dynamics (East: Chittagong, Dhaka, Sylhet; West: Barisal, Khulna, Rajshahi)
- During the 2010-16 period, **income inequality** in Bangladesh was on the **rise** at national, rural and urban levels
- Between 2013 and 2016-17, average real monthly income per worker had declined
  - Observed at a time when wages of formal labour force had been adjusted, particularly for those working in the public sector
- In recent years, the larger share of economic growth may have been disproportionately distributed in favour of capital and asset owners, compared to the labour

MACROECONOMIC FRAMEWORK

- **Growth** target for **export** has been set at **10.0%** in FY19
  - Up to May FY18, total export growth was 6.7% - mainly driven by RMG export (9.8% growth), but **non-RMG** export remains a **concern** [(-) 6.6% growth]
- **Growth** target for **import** has been set at **12.0%** in FY19
  - Up to April FY18, total import growth was 25.2% which MTMPS expects to come down to 20% by the end of the year. The **FY19 target** appears to be on the **lower side** given the **high import demand** of ongoing and upcoming large infrastructure projects
- **Remittance** growth target for FY19: **15.0%**. On the basis of "quite significant growth in overseas employment (**not true** – negative (-) 0.2% up to May FY18)"
  - Up to May FY18, remittance inflow grew at 17.7% – but this was on top of the dismal performance in FY17 (and also FY16)
- **Exchange rate** is expected to be **stable** – reaching Tk. 82/USD on an average in FY19, but **pressure** on Taka **may increase** if **current account falters** further
- It appears that **weakness in external sector** is either **not recognised** or **projected to recover**
  - Currently Tk. 83.7/USD - predicted BDT to appreciate against USD

Fiscal framework aims at lofty targets but few appropriate tools geared to achieving these

FISCAL FRAMEWORK

Medium Term Outlook

- Compared to RBFY18, both revenue and total expenditure (as share of GDP) is expected to grow by about 1.8 percentage points in FY19
- No reflection on implication of revenue mobilisation related reforms (e.g. VAT and SD Act 2012 to be implemented in FY20 according to the revised timeline)!
- Foreign assistance to finance budget deficit in FY19 is expected to be 2.1% of GDP – same as RBFY18
  - To decline gradually till FY21 with higher dependence on domestic sources

Fiscal framework as share of GDP (%)

Indicators	FY15	FY16	FY17	FY18 (B)	FY18 (RB)	FY19 (T)	FY20 (T)	FY21 (T)
a. Revenue	**9.5**	**10.0**	**10.3**	**13.0**	**11.6**	**13.4**	**13.8**	**14.2**
a.1 Tax revenue	8.5	8.7	9.1	11.6	10.4	12.2	12.5	12.9
a.1.1 NBR tax	8.2	8.4	8.8	11.2	10.1	11.7	11.9	12.3
a.1.2 Non NBR tax	0.3	0.3	0.3	0.4	0.3	0.5	0.6	0.6
a.2 Non-tax revenue	1.0	1.2	1.2	1.4	1.2	1.3	1.3	1.3
b. Expenditure	**13.0**	**13.5**	**13.7**	**18.0**	**16.6**	**18.3**	**18.8**	**19.2**
b.1 ADP	4.0	4.3	4.2	6.9	6.6	6.8	7.0	7.2
c. Budget deficit	**-3.5**	**-3.5**	**-3.4**	**-5.0**	**-5.0**	**-4.9**	**-5.0**	**-5.0**
c.1 Domestic financing	2.8	3.0	2.8	2.7	2.9	2.8	3.2	3.4
c.1.1 Banking	0.3	0.6	-0.4	1.3	0.9	1.7	2.4	2.6
c.2 Foreign financing	0.6	0.5	0.4	2.3	2.1	2.1	1.8	1.6

FISCAL FRAMEWORK

Broad fiscal framework

- **Revenue** (30.8% against trend growth rate of 16%) projected to grow **faster** than **public expenditure** (25.1% against trend growth rate of 14.7%)
  - Total budget expenditure is set at 18.3% of GDP (16.6% in RBFY18)
  - Revenue income will be 13.4% of GDP (11.6% in RBFY18)
- **Development expenditure** (16.9%) programmed to grow **slower** than **operating expenditure** (29.8%): **77% of total incremental budget allocation for operating expenditure** (earlier known as non-development expenditure)!
- **ADP**: 37.2% of total public expenditure (39.9% in the RBFY18)
- **Budget deficit** projected at 4.9%of GDP [5.0% of GDP in RBFY18, 3.1% of GDP in FY17 (actual)]
- Balance in financing the budget deficit is likely to be restored through limited foreign financing and increased bank borrowing
  - NSD sales is programmed to be reduced – contradicting ongoing trend and with no evident measure
- Gross foreign aid requirement will be around USD 7.9 bln (USD 6.8 bln in RBFY18) – USD 4.0 bln being received during Jul-Mar FY18
- Much will depend on project aid utilisation of ADP – about 93% of total foreign resources are for ADP projects

Revenue mobilisation will hinge on collection from individuals, from indirect sources, and at domestic level

REVENUE MOBILISATION

- Budget FY19 targets an additional Tk. 79,826 cr. revenue with a 30.8% growth over RBFY18
  - **CPD projection: more than 40% growth will be required to meet the target**
- NBR takes the lead role (accounting for 89.2% of incremental revenue) with 31.6% growth
  - Targeted Non-NBR revenue growth for FY19 is relatively lower (25.0%)
  - Import duty collection growth target is 22.7%
- **More reliance on VAT** (to grow by 33.7%) compared to income tax (29.6%)
- **More reliance on individual income tax** (to grow by 58.4%) compared to corporate tax (15.9%)
  - **LTU to collect Tk. 2,370 crore less** compared to RBFY18!
- More reliance on VAT at domestic level – opposite for SD
  - VAT on import to grow by 31.2%, while on domestic by 35.1%
  - SD on import to grow by 51.4%, while on domestic by 37.1%
- Overall **revenue growth** will still **need to be triple** than the trend growth rate (FY10-FY17)

Non-development expenditures to consume major part of the increased budget

PUBLIC EXPENDITURE

- Public services and interest payments account for about 59% of total incremental expenditure
- Public Services Sector receives incremental Tk. 41,777 crore of which Tk. 41,172 crore is for Finance Division
  - Subsidy and Incentives increases incrementally to Tk. 11,001 crore (Total allocation - Tk. 19,601 crore)
  - Pension and Gratuities increases incrementally to Tk. 12,431 crore (Total allocation - Tk. 22,439 crore) – kept for retired government employees
  - **Investments in Equities** increases incrementally to Tk. 22,491 crore (Total allocation - Tk. 24,556 crore)??!!
  - Curiously, of the total incremental allocation of Finance Division, about Tk. 39,391 crore increased for operating expenditure (Tk. 25,501 crore for recurrent and Tk. 13,890 crore for capital)
  - Historically, Finance Division is known for being the custodian of all lump allocations
  - Surprisingly, **no explanation has been given** for keeping such a large amount for investment in equities!

PUBLIC EXPENDITURE

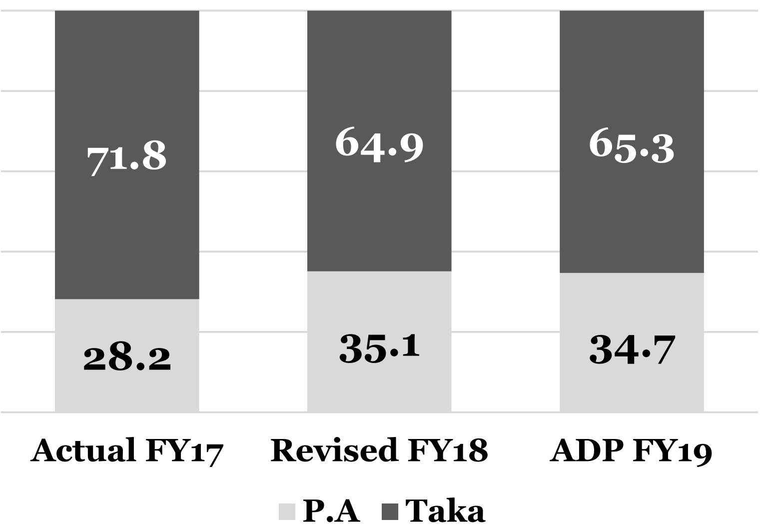
- Total incremental allocation for Interest Payments – Tk. 13,420 crore
  - Of which, domestic - Tk. 12,973 crore
  - Incremental allocation for interest on national savings (NSD) - Tk. 13,154 crore
- In FY19, **no subsidy (loans)** was allocated to BPDB or BPC whereas Tk. 13,700 crore **(43.2%) was given to 'others**'
- The **composition of allocation** appears **way off the mark** given that BPDB and BPC is expected to make a loss of Tk. 1,247 crore and Tk. 1,111 crore respectively in FY19 (BPC's profit making for three years may help)
  - Power generation with imported LNG and upward trend in global oil price may create added demand for subsidy
- Industry sector which includes BTMC, BSFTI, BCIC, BJMC had been in consecutive loss – a major concern! – Whither privatisation agenda!

Annual Development Programme (ADP) did not break free from its traditional mould

ANNUAL DEVELOPMENT PROGRAMME

- ADP of Tk. 1,73,000 crore has been proposed for FY19
  - 6.8% of GDP in FY19 (same in FY18)
- Project Aid to finance 34.7% of total ADP in FY19 (35.1% in RADP of FY18)
  - Rooppur Power Plant accounts for 14.2% of project aid allocated for overall ADP for FY19
- Revenue surplus to finance 24.1% (Tk. 41,773 crore) of total ADP in FY19: 20.4% (Tk. 30,315 crore) in RADP of FY18

ADP Financing Structure (% of total)



- The **top 5 sectors** have received **69.1%** of total ADP allocation – concentration ratio to increase marginally from FY18. The sectors are: Transport; Power; Physical Planning, Water Supply & Housing; Rural Development & Institutions; Education & Religious Affairs
  - Transport Sector once again has received the highest allocation (26.3% of total) for the second highest number of projects (225)
  - Physical Planning, Water Supply & Housing has received third highest share in ADP allocation – with the highest number of projects (231)

ANNUAL DEVELOPMENT PROGRAMME

- Majority of the 'to be completed' projects (by FY19) in the priority sectors are unlikely to be completed even if entire allocation for FY19 is spent
  - About 69% of all to be completed **Roads and Infrastructure** projects (88) will achieve less than 90% progress
  - In **power and energy** sector, only 21.7% of its 46 to be completed projects will achieve more than 90% progress
  - The situation is **relatively better** for Local Government projects

Maximum possible completion of projects in priority sectors by FY2019

Sectors	No. of Projects to be completed by FY19	Possible completion in FY19 (%)		
		<50	(50-90)	>90
Roads and Infrastructure	88	26.1	43.2	30.7
Power and Energy	46	28.3	50.0	21.7
Education and Health	71	9.9	43.7	46.5
Local Government	46	13.0	23.9	63.0

- Few mega projects that are scheduled to be completed in FY19 but will not be completed include **Padma multipurpose Bridge project**, Providing Electricity Connection to 15 lakh clients through Rural Electricity extension, Installation of Single Mooring with Double Pipe Line etc.

ANNUAL DEVELOPMENT PROGRAMME

- Most of the **Fast Track projects did not make considerable progress** except Padma Bridge project
- Practice of **providing symbolic allocation** (the minimum to keep the project in the ADP list) is still pervasive and increasing
  - 64 projects received only Tk. 1 lakh for FY19; 26 projects received such allocation in FY18: 2.5 time more
  - 90 'investment' projects received only Tk. 1 crore or less for FY19; (48 in FY18)
- **Prevalence of ageing projects** (Zombies!) persists
  - Out of 1,225 investment projects, **586 (47.8%)** are at least 2 years old with an average age of 4.6 years
  - **11** of these 586 projects are 10-16 years old while **4** of them are more than 15 years old
    - Average implementation rate of these four projects was about 69% up to Feb 2018
  - Number of revisions of projects: 1st (146), 2nd (52), 3rd (16), 4th (1)
  - Revised unapproved projects: 71
- **Cost escalation and time extension** is observed for flagship infrastructure projects – reducing the efficacy of public investment
  - For example, the timeline of Padma Multipurpose Bridge increased by 42.9% due to successive revisions which led to an increase in cost by 183.3% - further extension of time and allocation of additional resources is inevitable!

Proposed fiscal measures will disproportionately affect the rising middle-income segment of the society

FISCAL MEASURES

In summary, CPD welcomes the following measures:

1. Expansion of wealth surcharge coverage
2. Tax exemption for income from the operation of an educational or training institution run exclusively for persons with disability; for remittance earning from proceeds of sales of software and services to a foreigner (individual or company)
3. Waiver of income tax return for NRBs having no permanent establishment or fixed base in Bangladesh
4. New provisions to expedite and monitor tax collection using ICT facilities
5. Expansion of on-line return submission coverage
6. Mandatory installation of Electronic Fiscal Device (EFD) instead of ECR and POS in all hotels, restaurants, resorts and shops across the country from FY20
7. VAT exemption for cheap loaf, handmade biscuits, sandals, slippers, import of millet seed, motorcycle parts etc.

FISCAL MEASURES

In summary, CPD welcomes the following measures:

8. Exemptions and concessionary rate of import duties for some pharmaceutical raw materials including cancer medicines and Active Pharmaceutical Ingredients
9. Increase of Advanced Trade VAT rate across the board (both at import and trade stages) from 4% to 5%
10. Duty imposed on semi-milled and wholly milled rice alongside VAT imposed at import stage on all types of rice
11. Increased duty on luxury goods, on production of all kinds of polythene and plastic bags, and on energy drinks
12. Imposition of 2% surcharge on imports of mobile handsets
13. VAT and surcharge exemption on local manufacture of mobile phone
14. VAT exemption on motorcycle parts

FISCAL MEASURES

CPD urges reconsideration of the following measures

1. No change in tax-free income threshold
   - No consideration of the added pressure of the rising food inflation and decreasing average monthly real wage
2. Increase of 'perquisites ceiling' for personal income tax
   - Will benefit the higher income people rather than the low-income ones
3. Reduction in corporate tax rate for selected entities
   - Reduction may lead to loss of revenues worth about Tk. 1000 crore;
   - Wrong signal will be given as no distinction made based on performance
   - Hardly likely to increase liquidity
4. Existing provisions about undisclosed money remaining the same
   - These provisions should be discarded to disincentivise tax avoidance/tax evasion
5. 5% VAT on provider (e.g. Uber, Pathao) of popular app-based services
   - The burden will be passed on the consumer

FISCAL MEASURES

CPD urges reconsideration of the following measures

6. 2% flat VAT proposed to impose on the sale of flats of size 1,000-1,600 sft –
   - Upper middle-class buyers to benefit; however, rate for lower income groups increased
7. 2% new VAT on resale of all sizes of flats
   - Will increase the cost for limited income buyers
8. 1 percentage point increase of VAT on selling and manufacturing of furniture
   - Will raise price for the middle class
9. Increased duty rates for local clothing brands
   - Will discourage the promising local brands
10. 5% VAT (instead of 4.5%) on information technology enabled services that include digital content development, animation, geographical information services (GIS), website services, data entry
    - May discourage employment for the educated young labour force

FISCAL MEASURES

CPD urges reconsideration of the following measures

11. 25% CD has been withdrawn on tobacco exports
    - Contradictory to consumption related measures and international commitments of the country
12. CD on filled milk powder imported by VAT registered milk products manufacturing industries reduced from 25% to 10%
    - Will put the local milk farmers into competition

FISCAL MEASURES

- In terms of personal income tax the expected relief to lower income group taxpayers did not materialise
- Corporate taxation changes were geared not to stimulate investment but to succumb to pressure from the banking lobby
- Without commensurate institutional strengthening and the much-needed reforms the significant gap between high ambitions and actual achievement in revenue mobilisation will continue to persist
- CPD analysis found that, changes in the proposed duty structure did not conform with fiscal framework targets for growth of import duties. **Revenue at import level may fall short of target!**

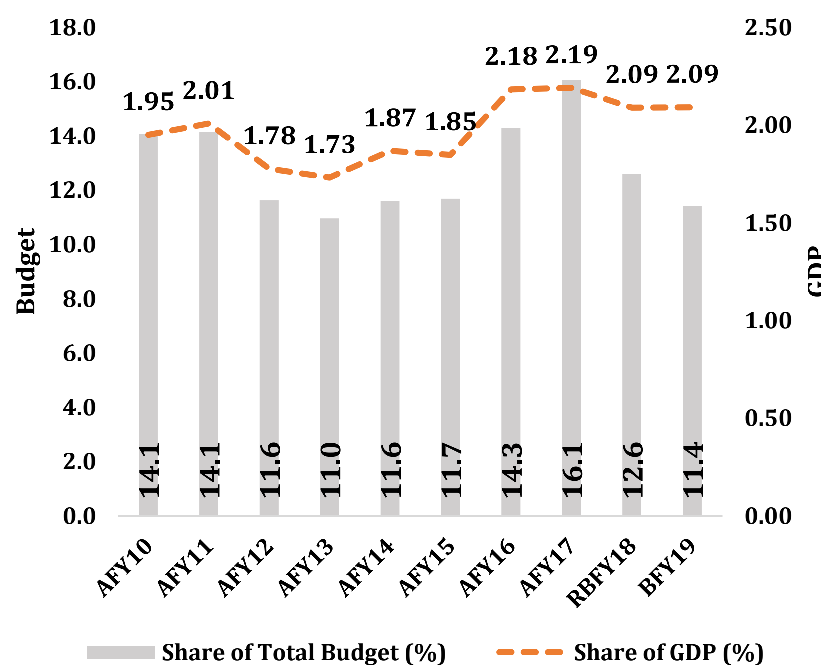
Duties	Growth (%) planned for BFY19 over RBFY18	Growth (%) from changes in duty structure
VAT	31.2	11.2
Custom Duty	22.7	10.6
Supplementary Duty	51.4	11.9

Stagnating shares of education and health are anti-equity and will be a drag on future development

EDUCATION

- **Budgetary allocation for education has increased in absolute terms**
  - Allocation in BFY19 is Tk 53,504 crore while it was Tk 46757 crore in RBFY18
  - Largest incremental share for education was in Secondary and Higher Education Division
- **Allocation for education fell as share of total budget**
  - In BFY19, education received 11.4% of total budget while it was 12.6% in RBFY18
- **Allocation as Share of GDP remains stagnant**
  - Share of GDP in BFY19 and RBFY18 is **2.09%**
- Both figures remain **below the standards** set by 7FYP and Education 2030 Framework for Action of UNESCO
  - 7FYP requires spending of 2.84% of GDP in BFY19
  - The Education 2030 Framework for Action set 4 -6% of GDP/ 15 -20% of public expenditure

Share of education expenditure in budget and GDP



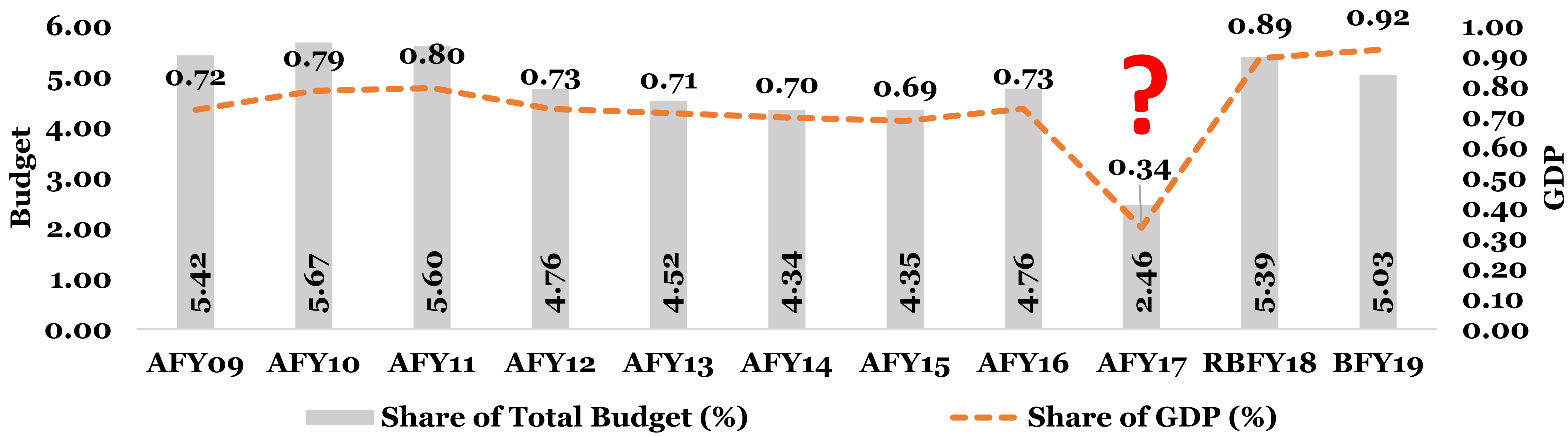
Budgetary allocation for health has increased in nominal terms

- Tk 23,383 crore has been allocated for BFY19, which was Tk 20,014 crore in RBFY18
- Largest incremental share for health was in Health and Service Division

Allocation for health as share of total budget has fallen

- Health received 5.03% of total budget which was 5.39% in RBF18
- In FY17, two-thirds of the allocated Tk 20,652 crore was unspent!

Share of health expenditure in budget and GDP



Share of GDP has increased but below 7FYP and World Health Organization (WHO) targets

- Health sector received 0.92% of GDP which was 0.89% in RBFY18
- 7FYP targeted spending 1.04% of GDP in BFY19
- WHO considers a benchmark of 5% of GDP or GNI of the country for health expenditure

Enhanced safety net allocation is appreciable but implementation of NSSS was ignored

SOCIAL PROTECTION

- Total social protection budget was increased by Tk. 9,971 crore in FY19
  - The budget for social protection excluding pension was made 1.6% of GDP – exactly same as recommended by CPD during budget proposal!
  - 80.6% of incremental allocation earmarked for **Development Sector Programmes**
    - Of which 28.9% for new development projects
- However, as may be observed from earlier trends, budgetary targets did not consider the proposals set out in the NSSS
  - Comparing the NSSS target allocation to the budget allocation of FY19, it is seen that there was a significant gap:
    - Tk. 1,560 crore for the **old age allowance**
    - Tk. 6,390 crore for **child school stipends**
    - Tk. 1,580 crore for **widowed, deserted and destitute women**
    - Tk. 1,430 crore for **people with disabilities**

SOCIAL PROTECTION

- Similarly, gap also exists from coverage and monthly allowance point of view between the NSSS target and the original budget
  - For example, the old age coverage was raised to 40 lakh persons in FY19 as against the NSSS target of 55 lakh for FY18
- The need to introduce a participatory universal pension scheme was outlined in the budget speech for both FY18 and FY19
  - However, no specific allocation, timeline or guideline were provided for the realisation of this much desired scheme

A number of priority sectors received business as usual attention

SELECTED SECTORAL ISSUES

Agriculture

- Allocation for Agriculture and Allied Sectors (AAS) increased by 7% in BFY19 compared to that of RBFY18
- However, share of AAS in total budget has continued to decrease over time (5.7 per cent in BFY19) due to low cost of fertiliser
- Moreover, growth of actual budget declined from 12.3% in AFY16 to –5.5% in AFY17

Gender Budget

- Allocation for Gender Budget in FY19 (Tk 1,36,938 crore) increased by 63.74% against RBFY18
- Share of Gender Budget in total budgetary allocation in **FY19 (29.48%) is highest since Gender Budget was introduced**
- Lack of transparency in the actual spending of Gender budget: Realised Gender Budget is not available

Child Budget

- Encouragingly, child budget as percentage of GDP has increased from 2.50% to 2.59%
- Allocation has increased from 13.96% in FY18 to 14.13% in FY19
- Lack of transparency in actual expenditure due to non-reporting of data

Local Government Division

- Allocation for LGD in FY19 **increased (growth in FY19 over RBFY18 was 9.8%)**
- However, allocation as a share of total budget **decreased from 7.14% in RBFY18 to 6.27% in FY19**
- Pattern for LGD allocation share of total budget follows an **alternating trend -** decreased in ABFY14, ABFY16, ABFY17 and FY19 from respective prior Fys

Climate change

- As a share of GDP, climate allocation is **increasing**
- As a share of total budget, climate allocation is **increasing**
- Growth rate of climate relevant allocation is **decreasing**

Defence

- The allocation for defence in FY19 is Tk 29,048 crore, which is 12.9% higher than the previous year
- Overall, share of defence in the budget has decreased (from 6.48 % in FY18 to 6.26 % in FY19)
- Actual spending in defence has been surpassing the original defence budget over the past few years

The budget lacked broader discussion on economic reforms and failed to take a forward-looking approach as regards raising the overall efficacy of institutional performance and governance

REFORMS AND GOVERNANCE

- Despite the Election Year, the broader discussion on economic reforms is largely absent in the budget speech
  - Various sections of the budget speech including 'Reform and governance' did not highlight a forward-looking agenda
- During 2009-2018, government has framed/adopted 215 Acts and Rules and 145 Policy Strategies
  - Major changes in rules and procedures are observed in: local government, environment, home affairs and science and technology
- Various other measures have been reported in different documents
  - Documents include election manifestos, 7th FYP and national budget speeches for various years
- CPD has reviewed the extent of implementation of different announced measures by the government over the years
  - CPD highlighted reform related issues reported in the budget speeches of various years: Financial sector, Local government, Public expenditure management and Tax related Issues and Energy Sector
- Out of 87 different initiatives undertaken between FY15-FY19, only 34.5% have been implemented, 36.8% have been ongoing and another 28.7% are yet to be implemented

Independent Review of iRBD Bangladesh's Development

REFORMS AND GOVERNANCE

- Various reform measures undertaken over the years did not generate the expected results in sectors such as local government institutions, financial sector and tax and tariff related areas
- Some of the key measures as proposed by CPD are yet to be undertaken-
  - Implementation of reforms related to revenue mobilisations (e.g. VAT and SD Act, Customs Act and Direct Tax Act)
  - Setting up Public Expenditure Review Commission
  - Setting up Financial Sector Reform Commission
  - Devolution of power to the LGI
  - Lack of implementation of the Coal Policy
- Organisations are weak in ensuring internal and external coordination and integration which further delay the process of implementation and undermine the quality of expected results
- Various interest groups exert pressure on the government which further delay adoption of laws/rules and adversely affect their enforcement
- There is a need to address the issues that inform the political economy of reform

Concluding Remarks

CONCLUDING REMARKS

1. Addressing the emerging stresses on macro-economic stability

A number of laudable fiscal measures have been taken to strengthen domestic-oriented industries and enhance revenue earnings. Support to the social safety net programmes is also somewhat appreciated. However, budget for FY19 is, overall, one of maintaining the status quo. The budget statement builds more on a review of the past, rather than a focus on future. It lacks sensitivity towards existing and emerging macro stresses e.g. pressure on balance of payment and exchange rate, inflationary expectations etc. as well as scant attention to areas requiring reforms

CONCLUDING REMARKS

1. Addressing the emerging stresses on macro-economic stability (contd.)

Moreover,

- No well-crafted action plan to implement the budget: strengthen revenue collection, deliver public expenditure, raise allocative efficiency, improve expenditure efficacy, and ability to pursue the deficit financing programme
- No concrete initiatives towards strengthening of implementing institutions and oversight mechanisms
- Inconsistent budget programming e.g. import growth target totally out of line with foreign finance driven import demand
- No substantive work programme to reenergize the stagnant private investment
- Cost overrun and time overrun of ADP projects creating fiscal pressure and impeding private investment
- Absence of adequate response measures to the challenges in the banking sector; Rather a number of measures that indicate to the contrary
- Ironically, the issue of underwriting the cost of hosting Rohingyas is missing

2. Addressing inclusivity of growth and other achievements

Compared to the macro-stresses, inclusivity has been better addressed in the budget, albeit mostly through short term measures. The medium to long term challenges e.g. inequality, both income and wealth, unplanned urbanisation and other issues mentioned in the fourth quadrant in the aforesaid budget backdrop, remain ignored

CONCLUDING REMARKS

2. Addressing inclusivity of growth and other achievements (contd.)

Moreover,

- The anticipated (food and non-food) price pressure will fall disproportionately on low income people and worsen consumption and income inequality situation
- Increased food inflation may adversely affect low-income households
- Lower and middle income groups to bear the pressure of the higher (indirect) tax incidence
- Stagnating shares of education and health are anti-equity – the high investment in infrastructure coupled with resource constraints may be resulting in allocative trade off

Although,

- Enhanced surcharges on assets are steps in the right direction
- Enhanced safety net coverage likely to improve income and transfer
- Announcement of universal pension scheme to improve inclusivity albeit only when implemented

Thank You

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