Independent Review of Bangladesh's Development (IRBD)

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

The First 100 Days of the New Government

Tracking Electoral Pledges and Implications for the National Budget for FY2019-20

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CENTRE FOR POLICY DIALOGUE

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Contents

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The CPD IRBD 2019 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report

Section I. Introduction

Introduction

- A large part of the recent development discourse in Bangladesh has been dominated by the country's economic growth narrative. Indeed, Bangladesh's growth performance distinguishes it from the majority of the developing countries
- The history of economic growth theory would suggest that over time different schools of thoughts have emphasised different sets of factors as drivers of economic growth (capital investment, savings, human capital and technological progress)
- Development policymakers and practitioners have increasingly put emphasis on compositional and distributional aspects of economic growth
    - This has shifted the global attention from the growth-centric development discourse to human development, well-being economics, and more recently to Sustainable Development Goals (SDGs)
    - 'Job-less growth' has emerged as a key concern for particularly labour surplus economies
    - The need to broadbase the economic growth for attaining the SDGs for the 'left behind' has added a new dimension to this discourse
- Thus, issues related to the structural changes in the economy, sources of economic growth, decent employment require closer scrutiny for understanding the implications of relatively high growth for inclusive development

Introduction

- The present report seeks to address the aforesaid questions in the context of Bangladesh. Moreover, this study also seeks to relate the economic growth narrative with the progress in macroeconomic variables
- Correspondence and consistency between the growth trajectory and the progress in macroeconomic correlates are critically important for economic growth's effectiveness, reliability and sustainability
- Along with this, macroeconomic policy is also pertinent for economic growth and development
  - For example, capital accumulation in the form of private investment is a key factor for economic growth
- Sectoral policies including fiscal and monetary policies and sound financial sector management have important ramifications for private investment
- Similarly, development of human capital, an important driver of economic growth, will call for adequate and efficient use of public resources
- Progressive fiscal policy plays an important role in ensuring that the outcome of growth is distributionally fair
- Trade and external sector policies also drive growth outcomes

Introduction

- Taking cue from the aforesaid, the present report tracks development in some key areas of macroeconomic management to have a deeper understanding of a number of important growth drivers of Bangladesh
- The ruling party, Bangladesh Awami League, had put forward several pledges as regards macroeconomic management in its election manifesto of 2018
  - These may serve as guiding principles for economic growth and macroeconomic policies of the present government over the next five years
  - There is a need to establish clear benchmarks as regards the pledges
    - To monitor the activities geared towards attaining medium term development objectives
    - To identify immediate challenges as regards macroeconomic management
- The forthcoming national budget for FY2020 is the first major opportunity to take comprehensive fiscal-budgetary steps to realise the development aspirations outlined in the election manifesto
- It also offers an opportunity to discuss stance as regards policy and institutional reforms in a cohesive manner
- In this backdrop, the present report puts forward policy recommendations in the area of macroeconomic management in the run up to the FY2020 budget in view of the election pledges. The review also explores areas which need immediate policy attention but have been overlooked by the election manifesto

Introduction

- To summarise, the objectives of the present report are:
  - To review the present economic growth trajectory of Bangladesh to understand its sources, reliability and sustainability
  - To assess to what extent policy measures taken over the first hundred days of the government are likely to be 'front-loaded' or 'backloaded'
  - To appraise consistency between electoral pledges and post-election policy measures
  - To identify how policy interventions and allocative priorities can be improved qualitatively and quantitatively in view of the forthcoming national budget
- It needs to be put on record that, dearth of the needed up-to-date and disaggregated data has put significant constraints in undertaking this exercise

Section II. Economic Growth: Composition, Sources and Drivers

Economic Growth: Composition, Sources and Drivers

- According to the provisional estimates by the BBS, for the first time in history of the country, in FY19, the GDP growth is expected to reach 8.13%
- The projected GDP growth in FY19 is largely driven by the growth of the manufacturing sector, followed by the services sector
- Manufacturing sector is estimated to register a record breaking growth (14.73%) thanks to large and medium scale manufacturing industries

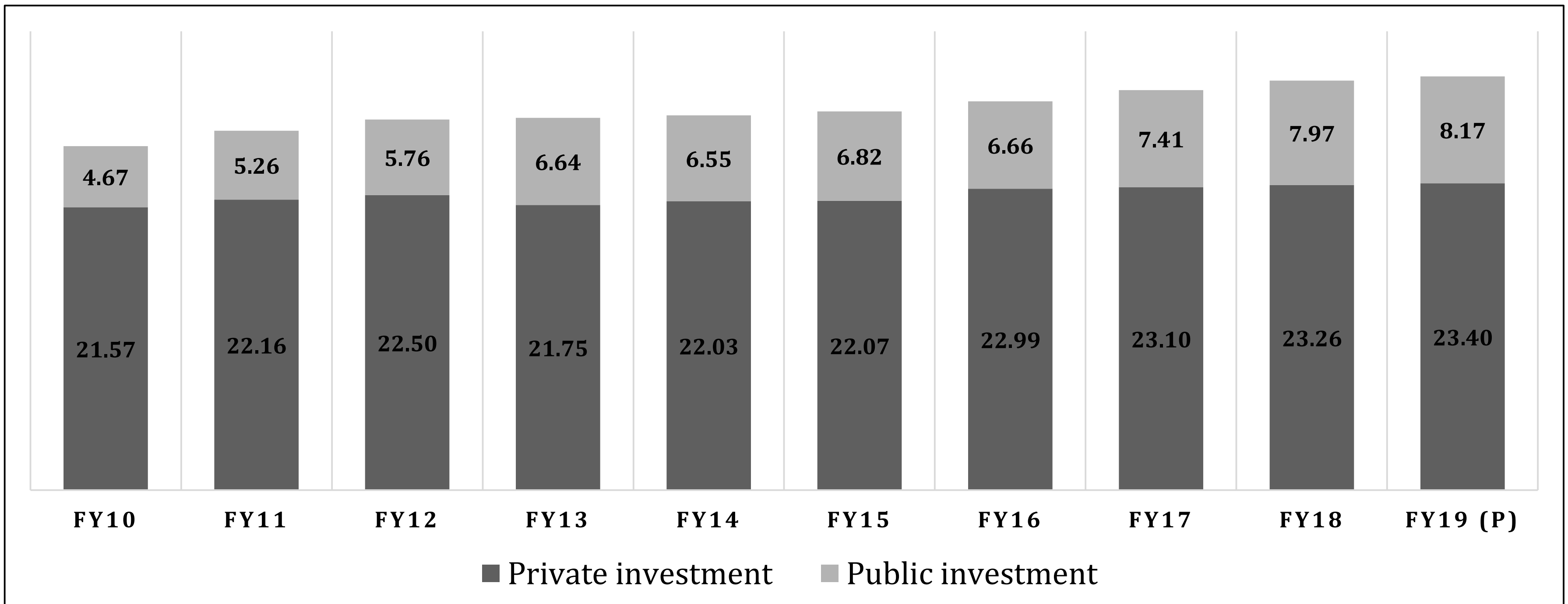
Contribution to GDP Growth Rate (%)

Sectors	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19 (p)
Agriculture	1.07	0.78	0.52	0.41	0.70	0.53	0.43	0.44	0.59	**0.48**
Industries	1.77	2.31	2.47	2.59	2.27	2.74	3.24	3.10	3.75	**4.21**
Manufacturing	*1.08*	*1.64*	*1.69*	*1.80*	*1.60*	*1.93*	*2.26*	*2.21*	*2.80*	***3.23***
Large and medium	*0.82*	*1.46*	*1.47*	*1.52*	*1.38*	*1.64*	*1.95*	*1.87*	*2.46*	***2.86***
Services	2.89	3.25	3.43	2.88	2.92	3.00	3.21	3.41	3.24	**3.25**
Wholesale and retail trade	0.78	0.89	0.90	0.83	0.90	0.86	0.88	0.99	1.00	**1.03**
Transport, storage and communication	0.78	0.89	0.98	0.69	0.67	0.66	0.67	0.73	0.71	**0.73**
Tax less subsidy	-0.17	0.12	0.10	0.13	0.16	0.28	0.24	0.34	0.28	**0.19**
GDP	5.6	6.5	6.5	6.0	6.1	6.55	7.11	7.28	7.86	**8.13**

Economic Growth: Composition, Sources and Drivers

- Investment as share of GDP is also projected to rise from 31.23% in FY2018 to 31.56% in FY2019, with the public investment accounting for the larger part of the growth
- Regrettably, private investment as share of GDP is estimated to increase only marginally (by about 0.14 percentage point) to 23.40%

Investment scenario: FY2010 to FY2019(p) (%)



Economic Growth: Composition, Sources and Drivers

In an ideal scenario, the expected rise in GDP in FY19 should be transmitted to, and reflected in, other major macroeconomic correlates

- Manufacturing sector's robust growth is backed up by data of the Quantum Index of Industrial Production (QIIP), which posted 16.38% growth for large and medium scale manufacturing industries during the July-November period of FY19
  - Among the manufacturing sectors, leather and leather related products appear to have registered very high growth rates according to QIIP (32.5%) without a commensurate reflection in the export performance [(-)16.11%] unlike the case of RMG
- According to MoF, **tax-GDP ratio** (1.93%) as of September FY19 stands lower than the figure of FY18 (1.97%)
  - VAT collection according to NBR (6.1%) was much lower than the estimated growth rate of nominal GDP of 12.7%
- **Private sector credit** registered a growth of 12.5% as of February FY19 which is 6 percentage points lower than that of the previous year (18.5%)
  - Agricultural credit growth (-17.3%) has also experienced a fall in July - January FY19 compared to the 5.8% growth posted in the corresponding period of the previous fiscal year

Economic Growth: Composition, Sources and Drivers

- The growth rate of nominal GDP is 12.69%, the lowest since FY15 which essentially implies that relatively lower **GDP deflator** of 4.23% has driven the high real GDP growth
  - Indeed, GDP deflator growth was significantly lower than the inflation rate (5.48% as of March 2019)
- It is to be noted that the provisional estimate is constrained by varying levels of availability of the required data
  - For example, crop production data was almost absent when the GDP estimate was made
  - Large and medium manufacturing production data was available for five months while data on financial sector was available for six to seven months
- It is also known that while estimating GDP in Bangladesh, for a large part of the total value added, real time annual data is not considered
  - These issues have been raised in a number of previous IRBD reports of the CPD and also in other credible studies including study by World Bank (2018)
- Such incoherent evidence between GDP estimates and proxy indicators suggest that there is a need to test the robustness of growth estimate so as to have credible policy guidance

Economic Growth: Composition, Sources and Drivers

- A number of studies carried out by the CPD over successive years has put the spotlight on issues of quality of economic growth in Bangladesh – distribution and effectiveness in creating jobs, raising labour productivity (wages) and reducing poverty
- The revealed disquieting trends in the backdrop of spectacular growth performance calls for **exploring the sources** as well as the **nature of growth** in Bangladesh to identify who had been the real beneficiaries of the recent economic growth dynamics in Bangladesh
- Some of the key development policy questions concerning economic growth may be posed in the following manner:
    - I. Does the attained economic growth originate from employment creation of/and increased productivity of labour?
    - II. Is the observed increase in output per worker (often seen as a proxy of labour productivity) because of higher productivity within the sectors, or owing to shifts of employments from relatively lower productive to higher productive sectors?
    - III. How far the increase in output per worker is related to enhanced total factor productivity originating from efficient use of resources compared to additional resources such as increase in capital?
    - IV. What has been the role of the 'demographic dividend' in the observed acceleration in the economic growth?

Economic Growth: Composition, Sources and Drivers

To this end, a decomposition analysis of the economic growth in Bangladesh during the post-2000 period has been undertaken following the methodology *'Job Generation and Growth Decomposition (JoGGs) Tool'*, as presented in World Bank (2012)

Decomposition of the first period (2000-2010) growth

- Growth of per capita GDP (**50.44%**) was driven by increase in output per worker (**56.11% of total growth**), employment rate (**19.44% of total growth**) and share of working age population (**24.45% of total growth**)
- Growth was not 'job-less' – employment rate increased by 4.33 percentage points
- Growth in output per worker was largely driven by high capital labour ratio
  - Other important contributor was movement of the labour into transport and commerce sectors from the less productive sectors
- Demographic dividend contributed the growth positively

Economic Growth: Composition, Sources and Drivers

Decomposition of the second period (2010-2017) growth

- Growth of per capita GDP (**44.73%**) was mainly driven by output per worker (labour productivity) (**90.75%** of total growth which was 56.11%)
  - While the share of growth linked to demographic structure fell to **13.84%** (from 24.45%), growth linked to changes in employment rate decreased to **(-) 4.59%** (from 19.44%)
- The economy was going through a job-less growth phase – employment rate decreased by (-) 0.95 percentage points
- Labour productivity significantly improved mainly due to higher capital labour ratio, followed by inter-sectoral labour relocation
- Demographic dividend of the economy has worn out gradually in the 2010-2017

Decomposition of the second period (2010-2017) growth

Decomposition of Growth in per capita Value Added, Bangladesh

Indicator	BDT	Percent of total change in per capita value-added growth	BDT	Percent of total change in per capita value-added growth
	2000-2010		2010-2017	
Growth linked to output per worker	7,330.42	56.11	15,816.91	90.75
Growth linked to changes employment rate	2,540.07	**19.44**	-800.53	**-4.59**
Growth linked to changes in the share of population of working Age	3,193.55	**24.45**	2,412.17	**13.84**
Total Growth in per capita GDP (value added)	13,064.04	100	17,428.55	100

Decomposition of the second period (2010-2017) growth

Contribution of employment changes to overall change in employment rate, Bangladesh

Sectors	Contribution to change in total employment rate (percentage points)	
	2000-2010	2010-2017
Agriculture	**0.20**	**-4.22**
Mining and Quarrying	-0.12	-0.02
Utilities	-0.05	-0.04
Manufacturing	**2.03**	**1.03**
Construction	**1.26**	**0.38**
Commerce	0.22	0.25
Transport	**0.84**	**0.60**
Government Services	-0.50	0.35
Other Services	0.46	0.72
Total employment rate	**4.33**	**-0.95**

Economic Growth: Composition, Sources and Drivers

Decomposition of the second period (2010-2017) growth

Decomposition (% change) of output per worker, capital stocks, capital labour ratio and share of capital in total income of Bangladesh

	% change between 1999-00 to 2009-10	% change between 2009-10 to 2010-17
Share of capital in total income (%)	34.77	15.41
Capital	131.87	80.18
Total output per worker	**25.81**	**39.90**
Output per worker net of inter-sectoral shifts	**24.16**	**31.63**
Capital labour Ratio	**66.27**	**60.56**
TFP residual net of inter-sectoral shifts	-47.96	-28.54

Economic Growth: Composition, Sources and Drivers

- Based on the decomposition analysis, it is clear that, over the 2010-2017 period, Bangladesh's economic growth has been relatively **less employment generating**
  - Indeed, if the employment generation of the earlier phase is considered, **economic growth forgone** for not sustaining the employment generation pace is estimated to be **as high as 2.05%** over the period 2010 to 2017
- It is also found that, **demographic dividend is getting thinner** over the years as its contribution to total growth in GDP (value added) per capita appears to be on the decline
  - Bangladesh will need to undertake targeted policies to address the challenge of the rising number of young people belonging to the category of 'not in employment, education or training' (NEET) and to reap the potential benefits of the demographic dividend
- While economic growth has been mostly driven by productivity of labour, the **benefits of growth** are likely to be mostly **reaped** by the **owners of capital** within the economy
- It appears that, Bangladesh has been passing through **a period of 'productivity revolution'**, if the *national accounts data quality is not subject to questioning*
- Taking the revealed nature of the quality of both current and past economic growth into cognisance, policymakers will be well-advised to emphasise **more on the nature of growth rather than its quantitative outcomes**

Section III. Public Finance: 'Front-load' Reforms in the Next Budget

Revenue Mobilisation

- Bangladesh development narrative has lost the plot as regards revenue mobilisation
  - It is not being able to match the demands of accelerating economic growth
- In FY18 Bangladesh's revenue–GDP ratio was only 9.6%
  - GDP elasticity of revenue declined (1.2 in FY17 to 0.5 in FY18)
    - In fact, between FY14 and FY18, GDP elasticity of revenue was only 0.8
- If this scenario prevails, then revenue growth: approximately 10.2%, revenue–GDP ratio: 9.4% inFY19
- The 7FYP ambition to reach revenue-GDP of 16.1% by FY20 appears to be a far cry at this moment

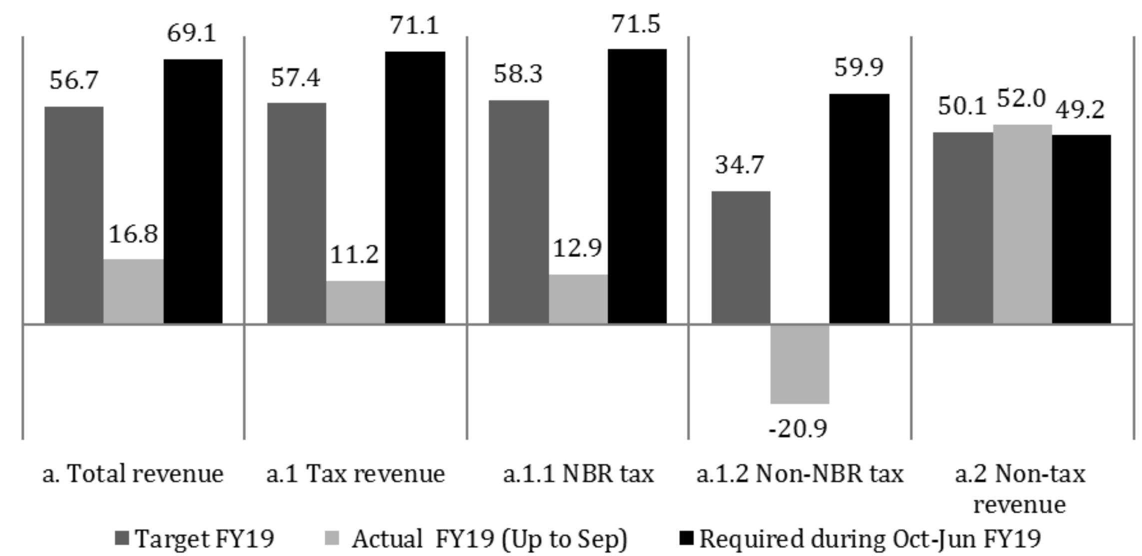
Revenue as share of GDP (in %)

Source	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	BFY19
a. Total revenue	9.2	9.5	10.1	10.9	10.7	10.4	9.6	10.0	10.2	9.6	13.4
a.1 Tax revenue	7.5	7.8	8.7	9.0	9.0	8.6	8.5	8.8	9.0	8.6	12.1
a.1.1NBR Tax	7.1	7.5	8.3	8.7	8.6	8.3	8.2	8.4	8.7	8.3	11.7
a.1.2 Non-NBR Tax	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
a.2 Non-tax revenue	1.7	1.7	1.5	1.8	1.7	1.8	1.1	1.2	1.2	1.0	1.3

Revenue Mobilisation

- In FY18, revenue shortfall was Tk. 71,445 crore (tax revenue 87.0%, non-tax revenue 13.0%)
  - Among the various components of tax revenue, income tax, VAT and import duty accounted for 36.6%, 32.1% and 14.2% of total shortfall respectively
  - NBR revenue shortfall in FY18: Tk. 61,094 crore (85.5% of total shortfall)
- The revenue mobilisation scenario in FY19 appears to be even more dismal
- According to MoF data, during Jul-Sep of FY19, total revenue rose by 16.8%
  - Growth target of total revenue for entire FY19: 56.7%
  - Required growth for the remainder of the year: an unprecedented 69.1%

Growth scenario of revenue mobilisation up to Sep FY19 (in %)



Independent Review of iRBD Bangladesh's Development

Revenue Mobilisation

- Only non-tax revenue was able to attain the target growth rate in the first quarter of FY19
  - However, as it constitutes only 9.8% of the total revenue target, the attained growth till now will impact the attainment of the revenue target only marginally
- In fact, NBR tax, which constitutes 87.3% of the total targeted revenue, registered a 12.9% growth during Jul-Sep of FY19
  - Requiring a 71.5% growth over the remaining months of FY19
- According to the NBR data, during Jul-Sep of FY19, NBR tax revenue attained a growth of 5.2%
  - This differs significantly from the aforementioned MoF data
- The growth rate, as per NBR data, increased to 7.0% up to Feb FY19
  - Within NBR tax revenue, VAT and income tax recorded 6.1% and 12.1% growth respectively during Jul-Feb of FY19
  - This implies that a growth of 99.2% will be needed for total NBR tax revenue during the Mar-Jun period of FY19

Revenue Mobilisation

- If the current trend in revenue mobilisation continues, as reported by the MoF data, the total revenue shortfall, comprising of both tax and non-tax revenue, may reach about Tk. 85,000 crore at the end of FY19
  - Even if revenue collection is able to achieve the highest annual growth recorded in the last ten years (i.e. 23.4% in FY12), the revenue shortfall in FY19 is going to be to the tune of Tk. 72,000 crore
- Hence, it may be said with certainty that maintaining the status quo will not be enough if Bangladesh is to attain the ambitious revenue mobilisation targets in the budget and in 7FYP
- Delay in implementation of needed reforms, allowing tax incentives on an ad hoc basis, widespread tax evasion and lack of administrative capacity are holding back the country from mobilising the domestic revenue which is needed and which the country has the potential to generate

Revenue Mobilisation

Election pledges and follow-up actions

CPD recommendations	Commitments in the manifesto	Follow-up actions
Raise revenue-GDP and tax-GDP ratio	The revenue collection will be enhanced after making necessary reforms with respect to income Tax, VAT and Supplementary Duty.	As of March 4, 2019, all Bangladeshi advertisements in online platforms, like, Facebook, Google, and YouTube will be subject to 15% VAT.
	Making VAT Law rational and implementable, the existing problems will be solved. Imposition of cascading (wrong notion of recurring taxes) will be avoided. The use of Alternative Dispute Resolution (ADR) will be increased. Considering success in audit report and ADR, activities to give rewards and incentives to tax officers will be made more effective.	The government has committed to implement the new VAT and SD Act from the forthcoming fiscal year. The earlier proposed single rate of 15 % for VAT may not be applied. Rather, four different rates, i.e. 5, 7.5, 10 and 15 %, may be proposed at the national budget for FY2020 in addition to 'zero rate' for a select set of 'essential commodities'.

Election pledges and follow-up actions

CPD recommendations	Commitments in the manifesto	Follow-up action
Raise revenue-GDP and tax-GDP ratio	The tax officers will be imparted training on Business Finance, Accounting, Business Law, International Business and other subjects in different organizations.	No noteworthy steps taken.
Focus on raising share of direct tax	The extent of income tax will be increased gradually in harmony with earning.	The NBR is going to form a taskforce to identify the foreign nationals working in Bangladesh to bring them under the tax net.
Commit to curb illicit financial flows and black money	Bribery, unearned income, black money, extortion, earning through manipulated tender, and muscle power will be eradicated.	After much delay, MoF has recently issued the Money Laundering Prevention Rules 2019 (BFID, 2019). The rules have come into effect seven years after enactment of the Money Laundering Prevention Act 2012 and three years after its amendment in 2015.
	Priority has been given on preventing laundering of money acquired through tax evasion and crimes, and also on strategy to recover the laundered money. All activities relating to controlling money laundering will go on.	

Revenue Mobilisation

- During the first 100 days of the incumbent government, efforts towards increasing revenue mobilisation centred around the implementation of VAT and SD Act 2012
  - Implementation of the said law suffered successive delays
  - World Bank (2018): implementing the VAT law at the proposed uniform rate of 15% would have mobilised additional revenue from VAT to the tune of 1% of GDP in FY18 and 0.8% of GDP in FY19
- The earlier proposed single rate of 15% for VAT may not be implemented
  - Rather, four different rates, i.e. 5, 7.5, 10 and 15%, may be proposed at the national budget for FY2020 in addition to the 'zero rate' for a select set of 'essential commodities'
- The '15% rate' is likely to be applied for the majority of goods and services
- It is also speculated that businesses availing the lower than 15 % rate may not be eligible for 'VAT credit'
- VAT exempt turnover limit will be increased to Tk. 50 lakh from the current Tk. 36 lakh

Revenue Mobilisation

- It was also reported that the ceiling of turnover tax will be expanded to Tk. 3 crore from Tk. 80 lakh with the tax rate to be increased from the current 3% to 5%
- Although it was assumed that the package VAT will be discontinued from the coming fiscal year, it was later reported that in the upcoming budget a similar instrument may be introduced
- It was also said that VAT registration will be made compulsory from FY20
- The legal regime of VAT may continue, with multiple VAT registrations by same businesses (business identification number) in lieu of the single registration provision advocated by the VAT and SD Act 2012
- The new legal provision may also allow flexibility on the issue of automation

All these propositions are, however, still under consideration.

Revenue Mobilisation

- The issue of tax exemption garnered much attention in the recent times. It was reported that the government provided approximately Tk. 1,47,699 crore worth of tax exemption at import stage since FY15 to January of FY19
  - This is about 62% of total revenue mobilised at import stage during the said period
- Although these may be necessary in consideration of 'development needs', it is reckoned that often these are allowed on an ad-hoc basis, without proper cost-benefit analysis
  - In view of the need for raising revenue mobilisation, a review of the exemptions has become an urgent necessity
- After much delay, MoF has recently issued the Money Laundering Prevention Rules 19
  - Seven years after enactment of the Money Laundering Prevention Act 2012, and three years after its amendment in 2015
- In the Rules, responsibilities of relevant government agencies have been specified
  - 27 money laundering related crimes were specified on which six government agencies are to act (CID, ACC, NCD, NBR, DoE, BSEC)

Planning and delivery capacity of public expenditure

- According to MoF data, during FY09-FY18 period, the average discrepancy between original approved budget and the actual expenditure was 14.5% and stood at 23.9% in FY18, highest since FY01
- The progress during Jul-Sep of FY19 indicates that majority of the fiscal parameters will not be achieved
  - ADP as well as operational expenditure will need to grow by 82.8% and 48.5% respectively over the remaining nine months of FY19
  - Expenditure was mainly driven by the non-development component which registered a growth of 15.2% (pay of establishments, 43.2% and interest payment, 17.5%)
  - Budget deficit was well within planned limit. However, a significant revenue shortfall coupled with relatively higher non-development expenditure (demand for subsidies) may result in higher overall deficit financing by the end of the fiscal year compared to the recent years

Fiscal framework (growth, %)

Parameters	Target FY18	Actual FY18	Target FY19	Up to Sep FY19	Required for Oct-Jun FY18
Revenue Collection	43.5	7.9	56.7	16.9	69.0
Total - Expenditure	53.1	16.5	52.5	9.5	60.4
ADP	98.4	29.5	72.9	-10.2	82.8
Non-ADP	34.0	11.0	42.6	15.2	48.5
Overall Deficit (Excl. Grants):	-84.8	-44.9	-42.4	101.3	-45.0

Planning and delivery capacity of public expenditure

CPD Recommendations	Commitments in the Manifesto	Follow-up Action
Prioritise planning and delivery capacity of public expenditure	No commitments made	• The government seeks to initiate a process of implementing different programmes under the 'single budget' system. • Finance Division has published a circular on February 12, 2019 regarding scheme selection, formulation, appraisal and approval, implementation and arrangement, and monitoring and evaluation of the schemes. • At the initial stage, the Ministry of Finance and Ministry of Education have been selected for adopting this system beginning from FY2020 budget, on a pilot basis.

- The government has previously made an attempt to introduce a 'unified budget' along with the budget proposal for FY11. However, this could not be implemented due to
  - absence of identical economic codes for allocation in the ADP), and
  - due to donor obligation as regards formulation of separate development budget
- The necessity to develop a single harmonised budget was also highlighted in the Public Financial Management (PFM) Reform Strategy 2016-2021
- At the operational level introduction of this system will need
  - creation of unique economic codes
  - to ensure adoption of sectoral programmes linked with the objectives of the national development plan and the SDGs instead of traditional project-based budget allocation

Public Expenditure

Delivery of development budget

- ADP expenditure, against allocation in FY19, is one of the highest in recent years
  - 38.8% of original ADP was spent during Jul-Feb of FY19 – highest since FY13
  - Higher utilisation (40.4%) of foreign aid (second highest since FY06) is a positive sign!
- ADP was slashed by Tk. 6,000 crore (or 3.6%) to Tk. 167,000 crore
  - Allocation was slashed for a number of sectors (e.g. Transport, Rural Development and Institutions, Education, SICT, and HNP&FW) due to slow rate of implementation
- The number of unapproved ADP projects that get allocation in the RADP has been on the rise in successive fiscal years. In contrast, the reduction in total allocation has also been increasing in the RADP as compared to the ADP
  - A total of 430 fresh projects was included in RADP of FY19 which was the highest in the last 14 fiscal years while the allocation was downsized by Tk. 6,000 crore which was the second highest since FY09
  - 121 out of these 430 projects (28.1%) received a symbolic allocation of Tk. 1 crore or less while 43 projects received allocation of only 10 lakh or less
    - These symbolic projects are perhaps included in the RADP due to political considerations; however, these remain unimplemented due to inadequate resource allocation
- Low physical progress undermines quality of overall ADP implementation
  - During FY01-FY18, about 63% (on an average) of all completed projects were stated as complete without 100% physical progress. Situation has somewhat improved since FY15!

Public Expenditure

Delivery of development budget

CPD Recommendations	Commitments in the Manifesto	Follow-up Action
Improve capacity of development administration	• To double the Annual Development Programme, that is to say, with a view to spending 9% of the total national earning in ADP, the adjustment will be made in the budget strategy.	• Due to inadequate spending by some key ministries, the government has downsized the allocation for RADP to 6.6% of GDP in FY19 from the original size of 6.8% of GDP. • With a view to expedite development work, Finance Division has issued an amended guideline on the release of development fund for FY19. According to the guideline, project directors will not need approval from the concerned ministry or finance division with regard to using the money of GoB component for the **first two instalments** (Jul-Sep and Oct- Dec periods) at a time. • In the circular for revised budget of FY2019, Finance Division has directed the ministries and divisions to keep the **number of projects limited**. However, the number of new projects was the highest in RADP for FY2019 in recent years.

Delivery of development budget

CPD Recommendations	Commitments in the Manifesto	Follow-up Action
Improve capacity of development administration	• To double the Annual Development Programme, that is to say, with a view to spending 9% of the total national earning in ADP, the adjustment will be made in the budget strategy.	• Another direction was to propose **similar type of projects under an agency in a cluster** rather than individual projects. However, this was also violated by a flurry of small and symbolic projects in the last RADP, mainly in Transport and Physical Planning, Water Supply and Housing sectors. • Towards delivery of the main objectives of a project, and to enable citizens to get actual services from the projects following completion, Finance Division has issued a circular on December 3, 2018. It states *Associated ministries/divisions for projects which require post-completion human resources, initiative will be undertaken to create positions two years before the completion of the projects, and will start the process of recruiting for the required posts at least one year before the project completion.*

Public Expenditure

Public expenditure for quality education, healthcare and social protection

- Over the past decade, shares of education and health in total public expenditure declined compared to each preceding year during FY10-13 while it increased marginally during FY14-17 period before falling again in FY18
  - This was coupled with deterioration of the overall budget utilisation (from 97% in FY11 to 76.1% in FY18) resulting in major improvement in social sector spending in relative terms
- Meanwhile, government budget for **education** and **health** as a share of GDP increased to 2.09% and 0.92% respectively in FY19 – considerably lower than the respective 7FYP targets of 2.84% and 1.12% for the respective sectors!
- Social safety net budget also has been hovering around 2% of the GDP during FY09-FY19
  - 35% of the budget for social security was allocated for pension of govt. officials in FY19
  - Indeed, SSNP budget excluding pension for public sector declined, from 2.1% of GDP in FY11 to 1.6% of GDP in FY19
  - As may be observed from earlier trends, budgetary targets did not consider the proposals set out in the NSSS
    - Compared to the NSSS target, the budget allocation during the period of FY16-FY19 reveals a significant gap
    - Government's efforts towards social safety net programmes are not only inadequate in monetary terms but also from the perspective of coverage

Public expenditure for quality education, healthcare and social protection

CPD Recommendations	Commitments in the Manifesto	Follow-up Action
Increase public education budget to at least 4%, and eventually to 6%, of GDP	• Giving highest allocations for education and the proper utilization of the fund will be ensured.	• Education & Religious Affairs received the highest allocation (23.3%) among the new projects included in RADP for FY2019 thanks to the '4th Primary Education Development Programme (PEDP-4)'.
Make teaching a prestigious and attractive profession	• Despite all welfare initiatives including the salary and status enhancement of the teachers, there may still remain some disparities in the salary structure of primary school teachers, which will be dealt judiciously in the next term.	• The government plans to arrange a 7-day overseas training for 7,000 primary school teachers.
	• Encouragement and assistance will be provided to university teachers for research. Allocations for this purpose will be increased.	• Allocations have increased for all the key projects targeted to attain quality secondary, technical and vocational and higher education in the RADP for FY19. These include: 'Teaching Quality Improvement in Secondary Education' (134,700%), 'Skills and Training Enhancement Project' (6%), 'Secondary Education Sector Investment Programme' (35%), and 'Higher Education Quality Enhancement Project' (73%).
Reform the Technical and Vocational Education and Training (TVET) system	• There will be more investment in technical education and ICT sector to make education from school to university time-befitting in the face of the challenges of 21st century.	

Public expenditure for quality education, healthcare and social protection

CPD Recommendations	Commitments in the Manifesto	Follow-up Action
Invest more resources on healthcare to reduce health inequity	• Making the health and nutrition services available to every citizen of the country will be ensured.	• Meanwhile, health sector continues to remain neglected both in terms of adoption of new projects and allocation priorities which is also reflected in RADP for FY19. In RADP for FY19, health sector received a meagre share of 2.1% in the total allocation for new projects. • The largest project for health sector is the '4TH Health Nutrition and Population Sector Program (HNPSP)' which expanses for five year (2017-2022) and is linked to several important targets of SDG3. Overall, only 32.1% of the total ADP allocation for MoHFW could be spent during Jul-Feb of FY19 which is lower than the overall ADP spending (38.8%) for the corresponding period.
	• Every person below one year and above 65 will be given health services free of cost	No steps taken.

Independent Review of Bangladesh's Development (IRBD)

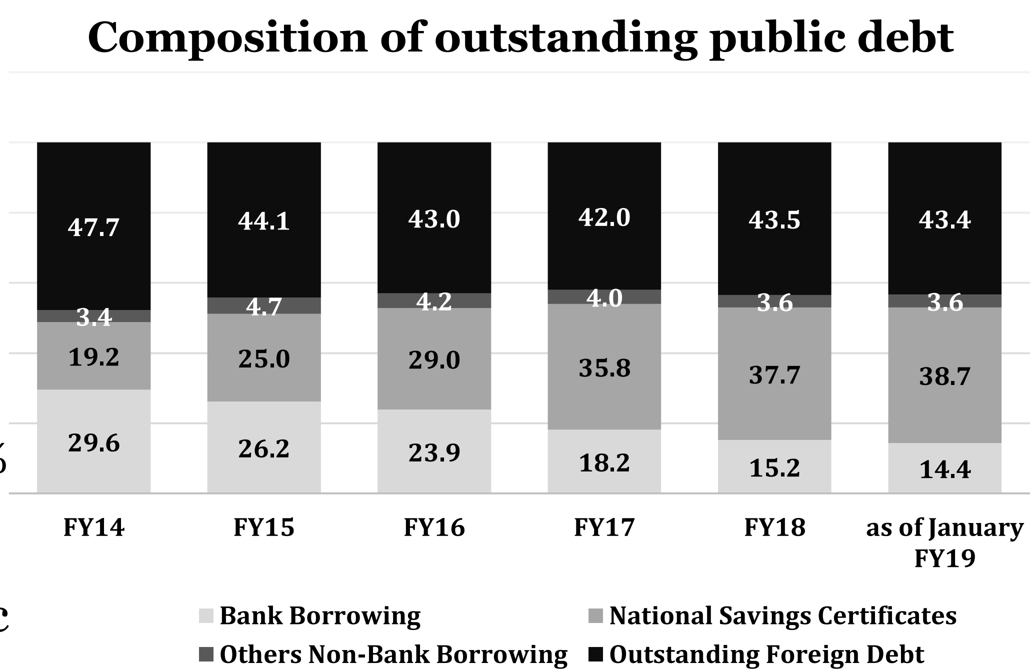
Public Expenditure

Public expenditure for quality education, healthcare and social protection

CPD Recommendations	Commitments in the Manifesto	Follow-up Action
Recruit and retain human resources for a better health sector	• Increasing the number of doctors, improving the quality of services and the availability of medical persons in the rural health centres will be ensured.	• Due to slow pace of implementation, three core projects under the 4th HNPSP which are aligned with the election manifesto commitments faced cuts in their allocation in RADP for FY19. 'Maternal, Child, Reproductive and Adolescent Health (MNCAH)' – **20.8%** Community Based Health Care (CBHC)' – **1.3%** 'Health Information Systems (HIS) and E-Health' – **2.4%**
Improve governance of the health system through decentralised structure	• Health service systems will be made friendlier and fault-free by introducing modern technologies in the health service centres and hospitals. Services of the specialised medical practitioners from home and abroad will be made available online.	
Re-evaluate existing SSNPs to improve targetting, reduce leakages and avoid overlaps	• Steps will be taken to extend the number of inclusion and the amount of assistance under 'Social safety network' programme.	• Introduction of direct transfer of benefits from government to people (G2P) through electronic fund transfer (EFT) • Establishment of digital database of all social protection beneficiaries. *Necessary steps should be taken for their earliest implementation.*
Reorient SSNPs to attain the 2030 Agenda - 'leave no one behind'—by targetting the most vulnerable groups	• Allocations for Social Safety Net will be increased as per necessity, in which elderly men folks will also be included. The coverage of the existing programme and expenditure for ultra-poor, widow and elderly women will be enhanced.	

Financing of Budget Deficit

- Likewise the last seven years, budget deficit financing was characterised by low net intake from foreign financing sources as against a heavy reliance on domestic financing sources
    - Net sales of NSD certificates stood at Tk. 30,996 crore during July-Jan of FY19 which is already 18.3% higher than the annual target set for FY19
- Currently about 56.6% of the public debt is attributable to domestic source and 43.4% to foreign finance



    - Within the domestic source, debt from non-bank sources is increasing, led by outstanding NSD, while declining from bank sources
        - Debt against sale of NSD certificate accounted for 68.2% of the total outstanding domestic debt liability of the government as of Jan 2019 (36.8% in FY14)

Financing of Budget Deficit

Financing of Budget Deficit

CPD Recommendations	Commitments in the Manifesto	Follow-up Action
Bring back balance in financing deficit	• The effective use of foreign fund will be ensured.	• Foreign aid utilisation rate in ADP has been quite impressive in FY18 (86%, highest since FY06) largely driven by the mega infrastructure projects.
	• The deficit financing from banks will be kept under control.	• The deficit financing from banks has been kept well under control. As of end January 2019, financing from banking sources accounts to only 14.4% of total public debt. • MoF in a recent notice on March 24, 2019 has made few changes with regard to the purchase of NSD certificates. ➢ *It has been made mandatory to submit the tax identification number (TIN) to purchase NSD certificate of more than one lakh taka.* ➢ *Besides, all the transactions in the savings certificate are now required to be done through the bank account.* ➢ *Further, selling activities through identical software under the 'National Savings Scheme Online Management System' has begun in order to protect all the information of the buyer in a database, to stop buying corruption or undisclosed income.* As per the notice, all the offices associated with the NSD sales have been directed to make all transactions under the NSD online management system from July 2019.

Recommendations for the National Budget for FY2020

- The forthcoming fiscal year will be the last of the ongoing 7FYP. The incumbent government will have to design and implement the 8FYP in view of the aspirations of the SDGs while devising adaptive measures to tackle the challenges emanating from the aforesaid dual transition
- Apart from these medium to long term issues, public finance management also has critical implications for recurrent issues such as budgetary and development planning
- Based on the assessment of available information on policy initiatives (e.g. circulars, guidelines, SROs, media reports, key personnel interviews etc.), the follow-up actions pertaining to revenue mobilisation can be broadly categorised in two sets
  - The first set includes new initiatives such as formation of a taskforce to bring foreign workers under the tax net
  - The second set is comprised of initiatives which are essentially culmination of longstanding reform issues e.g. VAT law, Money Laundering Prevention Rules and imposition of 15% VAT on online platform advertisements
  - However, no serious step can be observed as regards raising the share of income tax. It may be recalled that a recent CPD study showed that amongst the eligible taxpayers, only one-third paid income tax in 2017.
    - Indeed, 37% of the top earners were included in the non-taxpayer category (Khan, 2018)

Recommendations for the National Budget for FY2020

- In the case of public expenditure, it was found that there was a mix of both
  - Commitment-driven new policy initiatives (e.g. higher allocation for education in RADP) as well as
  - Follow-up measures of old plans and strategies (e.g. brining out guideline for the release of funds and directions of keep the number of development projects limited)
  - There are also new initiatives (e.g. 'single budget' and changes in NSD purchase and transaction provisions) which were not specifically mentioned in the election manifesto but are eventually important
- Given that the upcoming national budget is the first from the incumbent government's current term, it provides a unique opportunity to initiate some much-needed policy reforms concerning public finance management
- The new government should make an early stride to this end since such initiatives may prove difficult to implement in later years

In light of the discussion so far, the following recommendations are put forward for consideration in the upcoming budget

Revenue Mobilisation

Policy issues

1. It appears inevitable that the new VAT and SD Act will be implemented from the upcoming FY20 allowing multiple VAT rates
    - CPD has earlier proposed to gradually converge the VAT rate to a uniform 12% (CPD, 2017). The next budget should provide a clear timeline for converging the multiple VAT rates to a single rate of 12% in a staggered manner over the medium term, with a reassessment of VAT exemption provisions
2. Automation should be kept as an integral part of the new VAT regime
    - Hence, the new VAT provision needs to allow the aspiration of automation in the VAT collection process with a clearly specified dateline. Any departures from full automation should only be considered as a short-term exigency rather than a long-term solution
3. Since there are some ambiguities as regards the structure and implementation process concerning the VAT law, the government should clarify the proposed changes to businesses and stakeholders well in-advance, preferably before the budget session
    - This will allow more time to the stakeholders for discussion and preparation towards smooth implementation of the law from 1 July 2019

Recommendations for the National Budget for FY2020

4. Other reforms, which are already under consideration (e.g. Customs Act and Direct Tax Act) should be given a viable timeline for completion to initiate the implementation process as early as possible

5. For the upcoming budget, CPD reiterates its earlier proposal to introduce wealth and property tax in Bangladesh. At the same time, an inheritance tax, following international best practices, could also be introduced

   - These initiatives would not only generate additional revenue but also contribute towards building a more equitable society

6. The recent Rules related to money laundering may help enforcement of the Act. The key challenge remains in the area of execution. It is to be noted that legal provision of the Money Laundering Act can only partially contribute to this end

   - Relevant government agencies such as Transfer Pricing Cell and Customs Wing of the NBR need to be encouraged and endowed with resources to further develop their capacities as regards illicit financial flows
   - Coordination and cooperation among government agencies will be critical

Operational issues

1. Ad-hoc provisions of tax exemptions should be curtailed. There is no official estimate of how much the government provides as tax exemptions every year
    - This indicator should be calculated on an annual basis so that it is possible to have a more informed debates about the necessity of such provisions. It will also allow the NBR to measure its ability to deliver the revenue mobilisation targets
2. Given the low number of taxpayers in the country, the minimum exemption threshold for personal income tax may not be increased at this moment
    - However, to provide some respite to the taxpayers, the first slab of personal income tax rate may be reduced from the current 10% to 7.5%. This will provide an opportunity to enhance the tax base by incentivising the new taxpayers

Recommendations for the National Budget for FY2020

3. Using the electronic taxpayer's identification number (e-TIN) database, the NBR could pursue individuals who are registered in the system but are not submitting returns

- For example, the NBR could set up a mechanism to make phone calls, send SMSs or emails to TIN holders to follow up on return submission and tax payment. The initiative will put moral pressure on TIN holders

4. Further efficiency in revenue mobilisation could be attained through broader use of technology

- Such an initiative may include introduction of electronic tax deduction at source (e-TDS) with issuance of tax certificates by the NBR against an e-TIN linked to each TDS collection

Public Expenditure and Deficit Financing

Policy issues

1. In order to implement the '**single budget**' system successfully for the two ministries primarily, and for other ministries and divisions gradually:
   - The government will require to adjust the new budget and accounting classification system (BCAS), which was introduced in FY19
   - Concurrently, measures should be taken to harmonize the budget preparation calendar, circulars, and guidelines of the ADP and non-development budget
   - Also, the recurrent costs of closed public investment projects should be included in the MTBF and in the derived annual budgets
   - To this end, the Finance Division should emphasise the 'Bangladesh PFM Improvement Programme 2018-2023' towards implementing the PFM Reform Strategy 2016-2021 as planned in the national action plan (NAP) for the SDGs
2. In order to raise the efficacy of delivering the **development budget**:
   - The concerns as regards overcapitalisation of public sector projects should receive required attention from the government. The government should constitute an independent Public Expenditure Review Commission to this end
   - It is suggested that the upcoming budget should report on the progress made as regards proposed initiatives by Ministry of Planning and MoF

Recommendations for the National Budget for FY2020

3. In order to enhance the capacity of delivering the social protection programmes:
   - The digital database (disaggregated by gender, age, union/upazila) of social safety net must be publicly available with regular update in order to ensure transparency
   - Local public administration needs to be encouraged to disseminate the beneficiary lists of the programmes at the local level, in an open and transparent manner
   - The timely completion of effective use of the 'National Household Database' is also important
   - The government should report the follow-up as regards the progress towards attaining the two core pledges as regards universal pension scheme and universal health care
4. With a view to bring back the balance in **financing the budget deficit**:
   - The government should ensure adequate follow-up of the changes with regard to NSD purchases and use of an electronic database. Commercial banks should be included in the process at the earliest
   - Further, since only new sales data may be included in the database, government will need to ensure that data on old savings certificates are also brought within the fold of the database
   - Identification of new sources of external development finance has become a necessity, for example, blended finance opportunities
   - In view of recent surge in non-concessional financial flows, particularly from the Southern providers, it is high time that the government revisits its current MTDMS, prepared in 2014. The next debt strategy should also consider domestic outstanding debt

Recommendations for the National Budget for FY2020

Allocation and utilisation of resources

1. While aiming for its commitment of raising public investment-GDP ratio to 9%, the government should adequately emphasise the country's needs in the social sectors

2. Timely completion of mega infrastructure projects should receive priority consideration in view of the next budget. A clear plan to this end needs to set out immediately

3. The government needs to present a plan as regards improving resource allocation for **education** sector in the upcoming budget

   - While it is perhaps pragmatic to anticipate that allocating at least 3% of the GDP, in line with the targets of the 7FYP for FY20, may not be possible, there has to be a plan to reach the target in the next two years in view also of the aspirations of the SDGs
   - Emphasis should be given on increasing allocation for promoting quality secondary education, research in higher education and technical and vocational education which are consistent with the 7FYP and the SDGs
     - To this end, government, after impact evaluation, may re-introduce projects such as 'Teaching Quality Improvement in Secondary Education' and 'Skills and Training Enhancement Project' which are set to be completed by FY19
     - The government should also include project in the ADP for FY20 which are outlined in the NAP such as 'Secondary Education Development Programme' and 'Teaching Quality Improvement in TVET Sector'

Recommendations for the National Budget for FY2020

4. With regard to the **health** sector, government in the upcoming budget should:
   - At least meet the target of the 7FYP set for FY20 to allocate 1.2% of GDP from the current level of 0.8%
   - Priority should be given on the timely implementation of key projects on maternal, child and adolescent health and e-health services under the 4th HNPSP through allocating adequate resources
   - Further, budgetary measures should be there to ensure that citizens above 65 are provided health services free of cost
5. In order to allocate adequate resources for the implementation of the **NSSS**, the government should allocate its resources more efficiently. While the targets set forth in the NSSS may appear to be rather ambitious, the reality is that government spending and implementation are lagging far behind the required levels
   - Between FY11 and FY18, the budget deficit has never reached the target level
     - For example, in FY18, the difference between the target and actual budget deficit was Tk. 24,258 crore which is equivalent to the total health sector budget and half the overall social security budget excluding pensions for the public servants in FY19
6. With regard to foreign aid, the government should pay more attention to efficacy of its utilisation by raising concerned institutional capacities

Section IV. Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

Private Investment during FY2019

- **Private investment has maintained 'business as usual' trend**
  - **In 2019:** Private investment is expected to rise by 7.47 % (provisional)
    - This is lower compare to the previous years (8.77% in 2018, 8.04% in 2017)
  - **Private investment GDP ratio hovering around 23%**
    - This was 23.4% in FY2019 which was 22.99% in FY2016
  - Total Investment in FY2019 was equivalent to 31.6% of GDP
    - Additional 8.44 percentage points investment will be required to achieve the target rate of investment by FY2024 (40% of GDP)
    - Between 2009-18 investment-GDP ratio has increased only by 5.03 percentage points.
- **Discrepancy of data in national accounts:** Make it difficult to fully capture the nature of relationship between GDP growth and private investment (Table 1)
- **Review of ICOR for countries with high GDP growth rates** does not show a consistent pattern: Bangladesh, Ethiopia, India, Cambodia, Rwanda and Vietnam

Discrepancies in the Reported Data of Private Investment

	FY2018			FY2019		
	Budget	Revised/ provisional	Actual	Budget	Revised/ provisional	Actual
GDP growth	7.4	7.65	7.86	7.8	8.13	?
Pvt inv.-GDP ratio	23.2	23.25	23.26	25.1	23.4	?
y-o-y % changes of pvt inv.	12.9	15.63	14.7	23.4	13.4	?
ICOR	4.3	4.1	3.97	4.3	3.88	?

Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

Changes in Structure and Composition of Private investment

❑ **Agricultural Credit (working capital financing)**

- Disbursed Tk.12101 crore in Jul.-Jan., FY19 which is 4.7% lower compared to the same period of the previous year
- The disbursed amount is 55.5% of the target set for FY2019 (Tk.21800 crore)
- Assessment of special agricultural refinance programme for sharecroppers (ended in June, 2018) is needed in order to appreciate its future demand

❑ **Non-farm Rural Credit**

- Disbursed Tk.2457 crore in Jul.-Jan., FY19 is 12.3% lower compared to the same period of the previous year

❑ **Industrial Term Loan for Manufacturing and Service Sectors**

- During Jul-Sept, 2018 growth of industrial term loan was about 21.2%
- Gradual rise in the share of term loans taken by large-scale enterprises
    - Its share: 62% in FY12, 81.3% in Q1 of FY19 (Figure 1 in the next slide)
- Share of MSE has seen consistent decline (31% in FY12 to 10.7% in Q1 in FY19)
- SME financing in last decade was BDT 11,65,875 crore (21.7% of total credit disbursement)

Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

Figure 1: Industrial Term Loan: Dominance of LSI

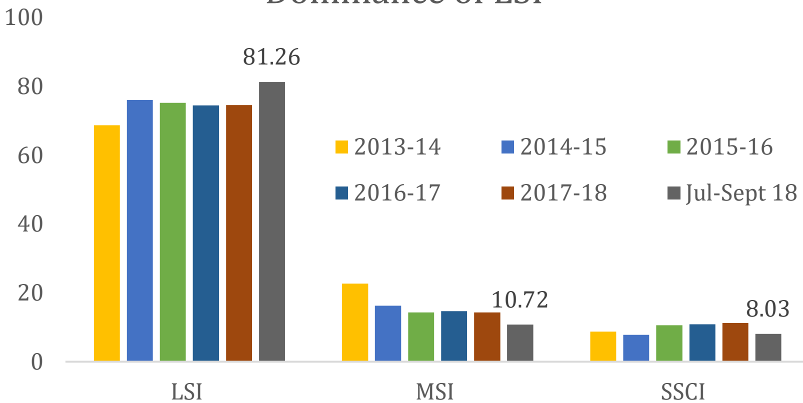


Table 2: Difference between Registration of FDI and FDI Inflow

	Registration of FDI (mil Tk.)	Inflow of FDI (mil Tk.)	% of Share of registered FDI realised
2009-11	575347	187513.4	32.6
2012-14	750207	347275.6	46.3
2015-17	1092271	497627.9	45.6
2018-19*	1165055	292536.6	25.1
Av. yearly % change	13.7	1.5	

Figure 2: DSEX Index (July, 18- April, 19)

Figure 3: Size of IPOs Face Value (in Tk.)

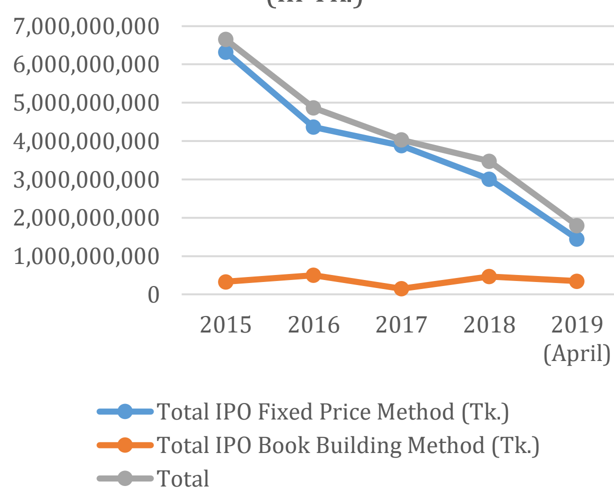
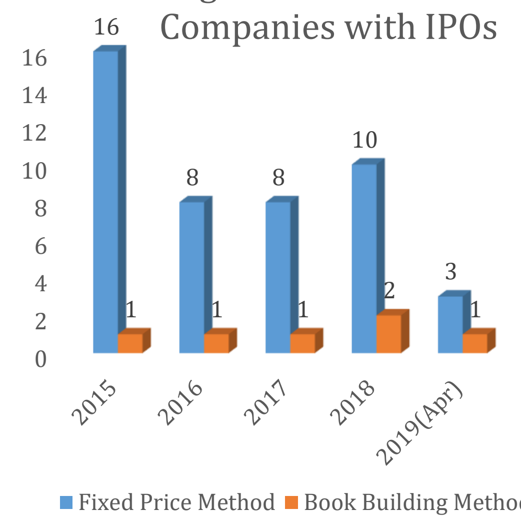


Figure 4: Number of Companies with IPOs



Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

Foreign Direct Investment

- **FDI has increased at a modest pace**: Jul-Jan., 19 => USD 1 billion (4% rise)
  - Registration of new FDI projects has increased; but realised FDI has dropped significantly in recent years (Table 2, in the previous slide).

Capital Market

- Capital market remained in a weak state
  - Pre-election gain in share prices has almost lost in post-election period (Fig.2)
  - Number of new companies listed as well as their raised capital on the decline (Fig 3 & 4). Poor listing of well-reputed companies
  - Newspaper reports alleged about possible collusive (e.g. active groups; price movement within a range) and illegal activities of vested quarters (placement shares; price of Z category shares)
  - Allegations of submitting false information in IPO proposals and poor quality of financial reporting of the newly listed companies etc.
- **Factors Affecting Private Investment**
  - Lack of appropriate policies and weak institutional capacities
  - Lack of progress in delivering services by new institutions
  - Unavailability of full-packaged infrastructure facility
  - Rising cost of doing business
  - Weak enforcement of business related rules and regulations

Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

Election Pledges and Initiatives Undertaken

- **Formulate well-packaged infrastructural facilities for different categories of enterprises**
  - Majority of the steps are related to investment promotion and facilitation such as infrastructure development, reducing bureaucratic bottlenecks, providing/offering fiscal benefits and raising Bangladesh's demand in international platform.
  - Despite these initiatives, a number of areas as committed in the election manifesto, are yet to be addressed by the government. For example, reducing complications as regards land management in connection with setting up factories, sectoral measures targeted to selected industries
- **Ensure inclusive entrepreneurship development**
  - Entrepreneurship development received priority in the election manifesto; till date only ongoing initiatives have been noticed.
  - Programme of 'Start-up Bangladesh' under the ICT ministry for empowering IT related start-ups to succeed, and scale up, and Bangladesh Bank's refinancing scheme to support the SME sector
  - Organised 4th BPO Summit in April, 2019
  - No initiative has yet been taken with regard to formulating 'youth entrepreneur policy'.

Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

- **Devise sectoral policies, and targeted and predictable incentives and Initiate regulatory and institutional reforms to ensure the rule of law**
  - Two of the least addressed areas of activities of the government
  - No major initiative has been taken with regard to venture capital, strengthening BIDA and PPP office for the promotion of private investment
- **Strengthening the Capital Market**
  - The election manifesto focuses on further inflow of capital to the ailing market.
  - The market will not be able to stabilize and thrive unless SEC is able to ensure 'full transparency and accountability' in the involvement of all stakeholders
  - Effective, immediate and stern measures against 'wrong doers' will need to be ensured
- **Overall observations**
  - Existing measures will be able to address mainly on continuation of ongoing activities to facilitate private investment.
  - Addressing other activities relate to election pledges will be challenging which include reform measures-related initiatives

Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

Recommendations for the National Budget FY2020

- **Sectoral polices and targeted and predictable incentives**
  - Various incentives to be offered to enterprises and entrepreneurs should be well-targeted and time-bound in nature
  - Fiscal incentives for different industries/enterprises should be strategically balanced with a view to ensure diversification of industries
  - Focus on developing sectoral policies which will facilitate developing competitive value chains in different traditional and emerging sectors
- **Well-packaged infrastructural facilities for different categories of enterprises**
  - Industrial clusters (e.g. SEZs, EPZs, BSCIC industrial estates and industrial parks) should be geared
  - Building infrastructure for the development of SMEs located outside of major industrial belts deserves special attention
  - Widespread corruption in public agencies needs to be addressed through *'zero-tolerance policy'* and ensuring and through timely delivery of the needed services (e.g. connection of gas line, electricity line, water supply, sewerage system and getting business license)

Private Investment in FY2019: Demand, Election Pledges and Initiatives Undertaken

❑ Regulatory and institutional reforms to ensure rule of law

- ➢ Regulatory reforms should focus more on the enforcement of rule of law in order to ensure competition in the market
- ➢ State owned enterprises need to be restructured; in the long run, government should be flexible in gradually phasing out some of these enterprises
- ➢ Public monitoring agencies, departments and other relevant entities need to be strengthened in order to ensure full compliance with national rules and regulations (e.g. human and labour rights, environment and competitive practices)
- ➢ Newly established public agencies mandated to promote investment, including the BIDA, BEZA and the PPP Office, should play more proactive role in realising the goal of rapid industrialisation
- ➢ The capital market needs major reform with regard to ensuring transparency and accountability of the operations of DSE, CSE and SEC and other stakeholders
- ➢ SEC's regular oversight activities need to be more efficient. Bond market should be developed in order to create new investment opportunities

Section V. Banking Sector: Reform for the Future or Repeat of the Past?

Banking Sector: Reform for the Future or Repeat of the Past?

- One of the formidable economic challenges for the present government is to reform and rejuvenate the banking sector of Bangladesh
- This is not an easy task, as the banking sector is suffering from several acute problems due to poor governance for a prolonged period of time
- Consequently, the newly elected government is required to deal with the problems of the sector in an uncompromising manner, and fulfil its promises for reforms in the financial sector
- In this issue of IRBD, CPD has revisited the banking sector with a view to capture and assess new trends and new measures taken during the first 100 days of the current government
- It also examines the actions taken by the government with regard to the banking sector related issues which were promised in the election manifesto of the ruling party

Interest rate: is it in the public interest or to cater to the vested interest?

- The weighted average interest rate spread in case of the scheduled banks has declined from 4.41% in January 2018 to 4.15%in January 2019
- While the interest rate spread is on the decline, it is still at high levels
- This is a matter of concern since a high interest rate spread is indicative of inefficiency in the banking system
- Studies on the interest rate spread in the banking sector of Bangladesh have found that the tendency of making high profits by some banks and incidence of high volume of classified loans are among some of the factors that drive the high interest rate spread in Bangladesh

Weighted average interest rate spread of scheduled banks

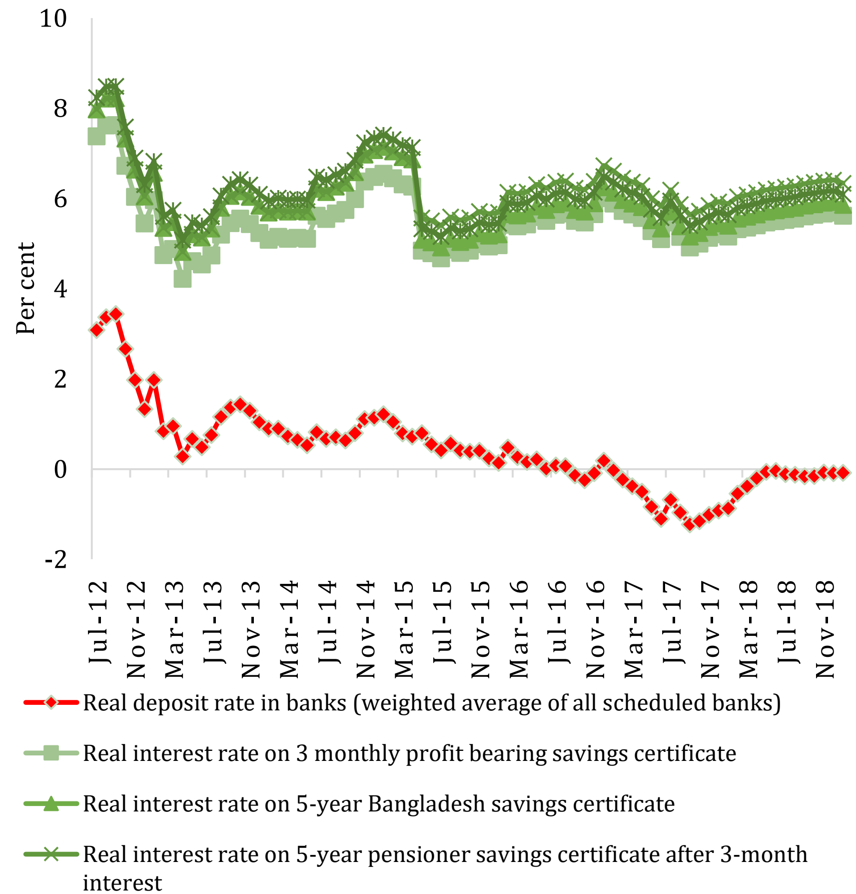
Interest rate: is it in the public interest or to cater to the vested interest?

- Most foreign commercial banks (FCBs) continued to take advantage of lax regulations and a lenient monetary policy to keep their average interest rate spreads above 6%
- A recent study by Bangladesh Bank has shown that, given their weighted average deposit rate, operating cost, return on asset, capital charge rate and risk premium, FCBs can hypothetically charge a lending rate of 7.4%, even though they were charging 9.1%, as of August 2018
- The same study also reveals that the hypothetical lending rate for state-owned commercial banks (SCBs) was estimated to be 9.7%, which was higher than the actual lending rate of 7.1% that was being charged by the SCBs, as of August 2018
- It appears that the FCBs have set their lending rates in tune with their own business interests, backed by profit motives, while SCBs have set their lending rates in accordance with the public interest

Interest rate: is it in the public interest or to cater to the vested interest?

- The real weighted average deposit rate offered by scheduled banks has been below zero since January 2017
- The real interest rates on various forms of the national savings directorate (NSD) certificates were around 6%
- In the absence of adequate social protection, the NSD certificate has transcended its role as a financial product, and transformed into a de facto social safety net mechanism
- High dependency on NSD certificates also creates debt burden on the economy as the government has to borrow at a high interest rate

Figure 5.2: Real rate of interest on bank deposits (weighted average of all scheduled banks) and real interest rate on NSD certificates



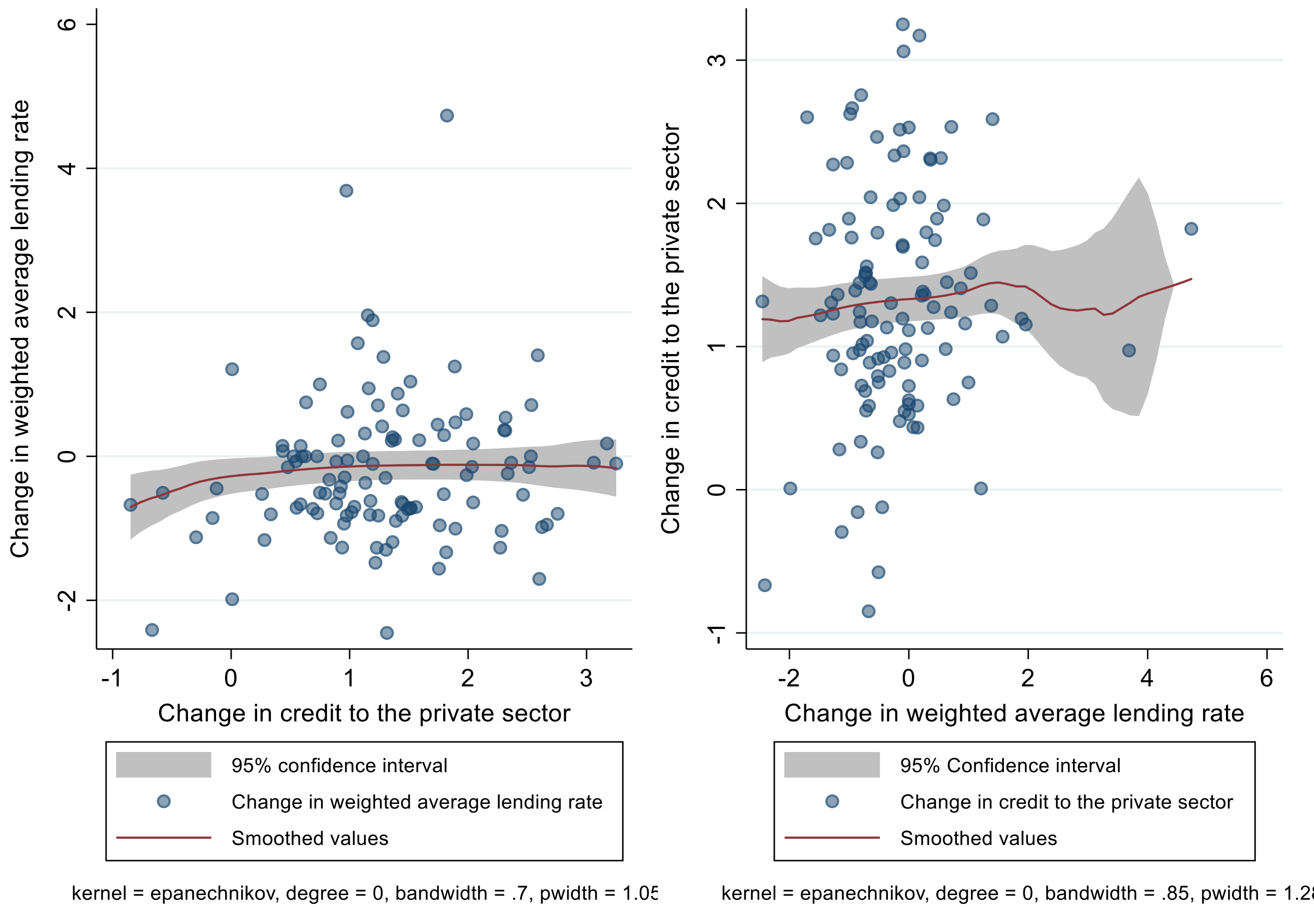
Interest rate: is it in the public interest or to cater to the vested interest?

- While the impact of interest rates on the behaviour of savers could be predicted within reasonable limits, the impact of interest rates on the behaviour of investors could not be clearly ascertained
- Studies on the interest rate and investment nexus in Bangladesh have yielded mixed results
  - Simple estimation methods such as ordinary least squares (OLS) have found a weak negative relationship between real lending rate and investment
  - However, more sophisticated estimation methods, such as error correction mechanism (ECM), have found that the real lending rate is not a statistically significant determinant of investment in Bangladesh
- CPD has estimated kernel-weighted local polynomial regressions with the weighted average lending rate and four proxy indicators of investment which are: credit to the private sector, industrial term loans, import of capital machinery and general index of manufacturing

Interest rate: is it in the public interest or to cater to the vested interest?

- The estimated regression line is nearly flat, indicating that neither increase nor decrease in the weighted average lending rate affects the credit to the private sector
- Therefore, it appears to be having no systematic relationship between the weighted average lending rate and credit to the private sector

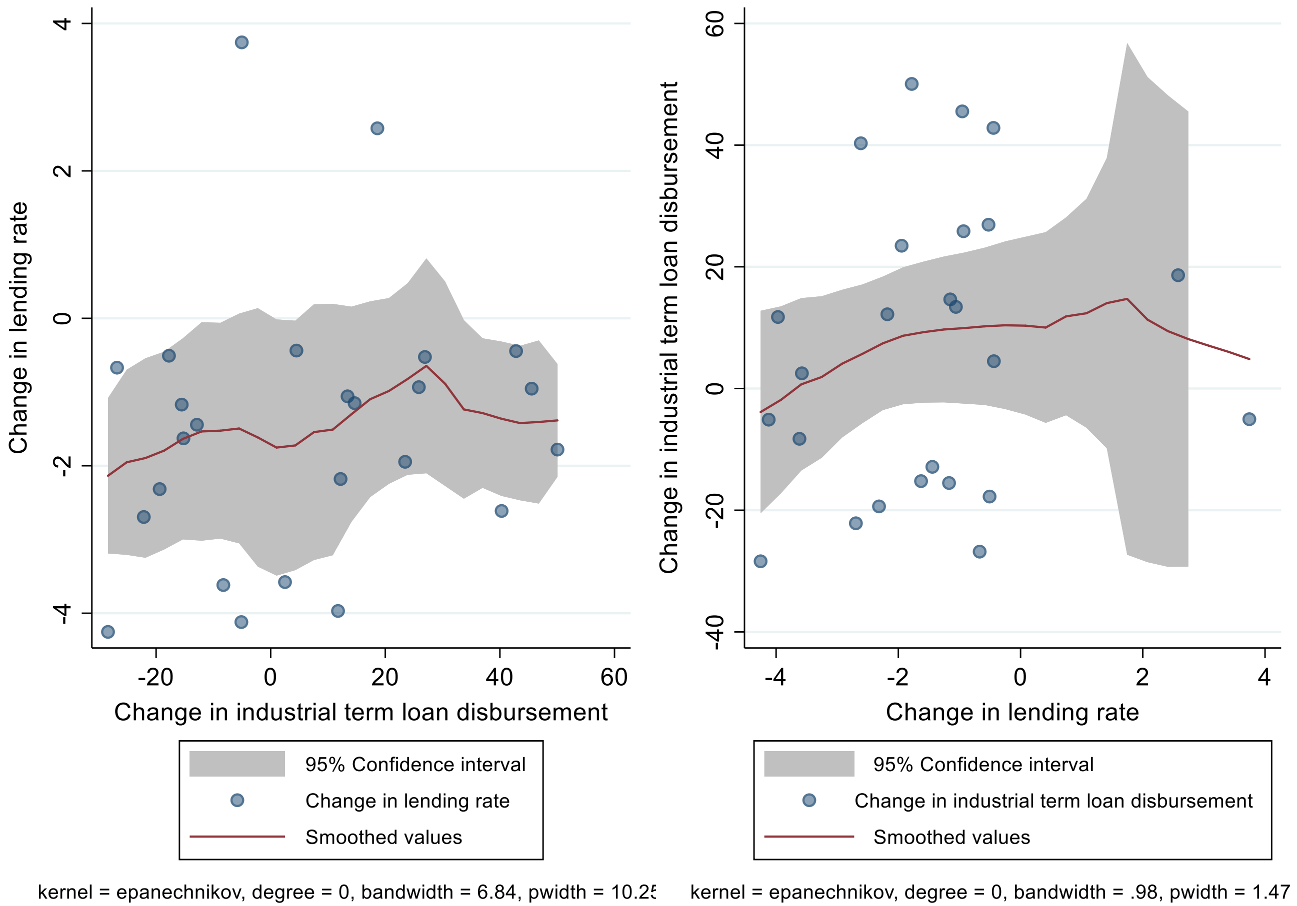
Figure 5.3: Relationship between weighted average lending rate and credit to the private sector



Interest rate: is it in the public interest or to cater to the vested interest?

- The estimated regression line is nearly flat, indicating that neither increase nor decrease in the weighted average lending rate affects industrial term loans
- Therefore, it appears to be having no systematic relationship between the weighted average lending rate and industrial term loans

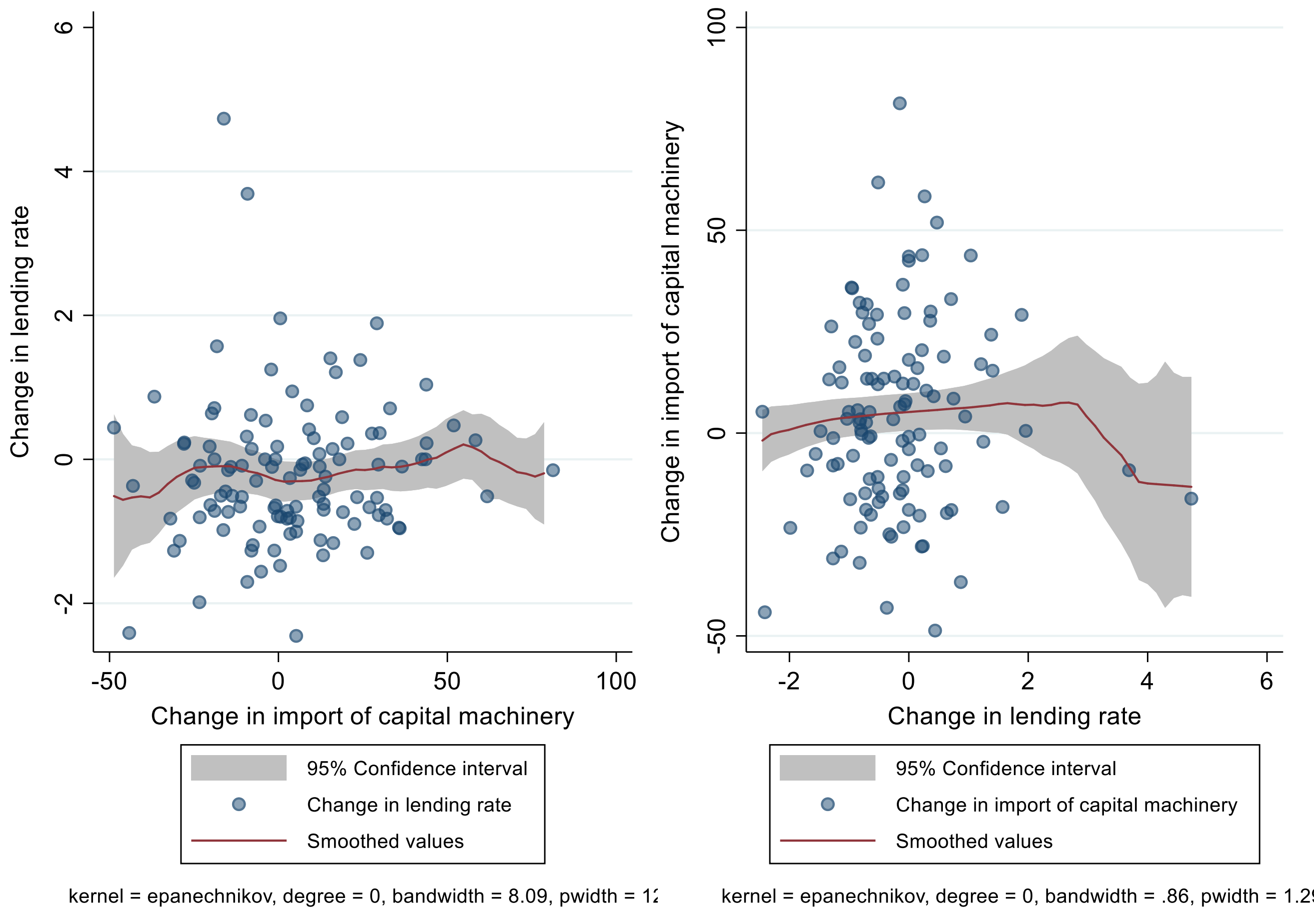
Figure 5.4: Relationship between weighted average lending rate and industrial term loans



Interest rate: is it in the public interest or to cater to the vested interest?

- The estimated regression line is nearly flat, indicating that neither increase nor decrease in the weighted average lending rate affects the import of capital machinery
- Therefore, it appears to be having no systematic relationship between the weighted average lending rate and import of capital machinery

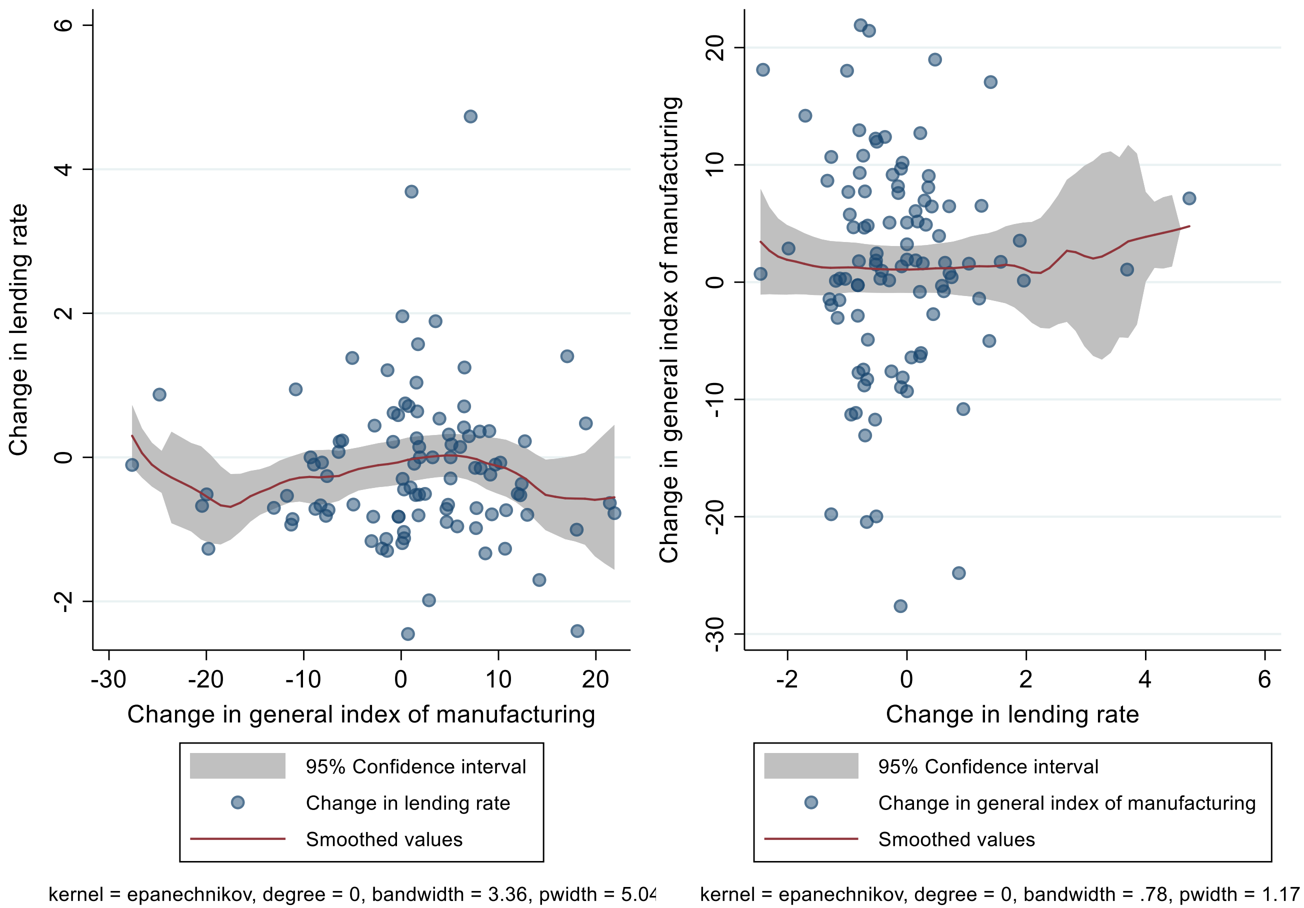
Figure 5.5: Relationship between weighted average lending rate and import of capital machinery



Interest rate: is it in the public interest or to cater to the vested interest?

- The estimated regression line is nearly flat, indicating that neither increase nor decrease in the weighted average lending rate affects the general index of manufacturing
- Therefore, it appears to be having no systematic relationship between the weighted average lending rate and general index of manufacturing

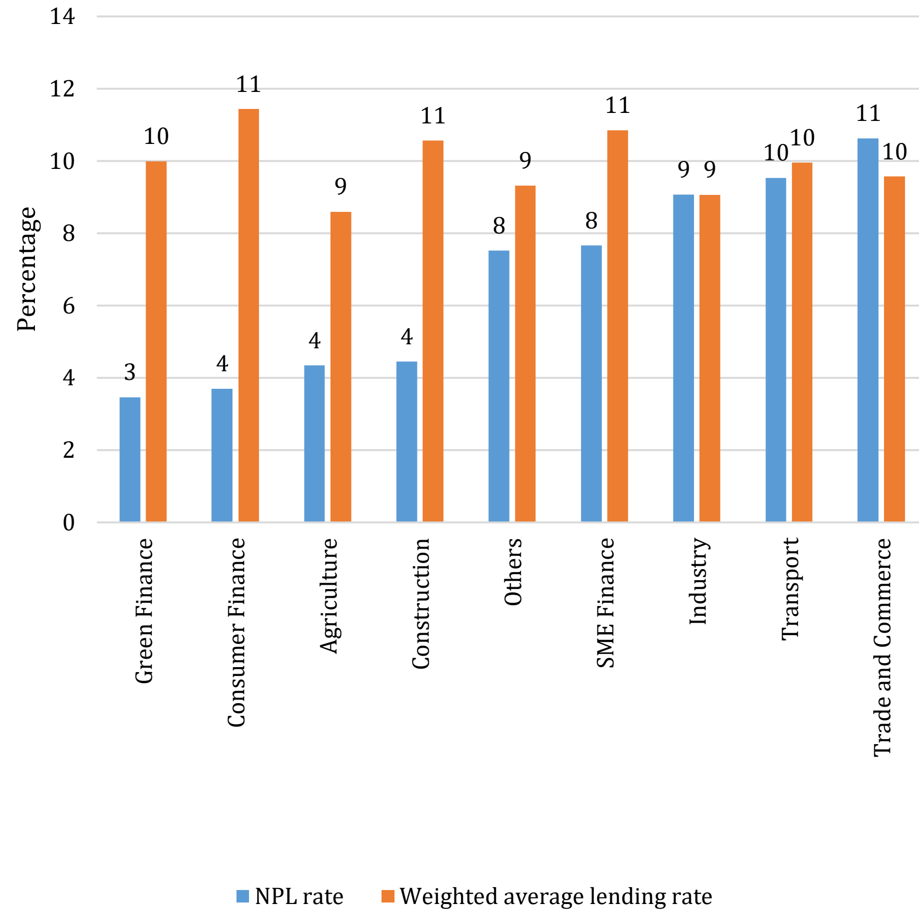
Figure 5.6: Relationship between weighted average lending rate and general index of manufacturing



Non-performing loans: no indication of improvement

- Credit provided for consumer finance had a weighted average lending rate of 11% even though its NPL rate was only 4%, while credit provided for trade and commerce had a weighted average lending rate of 10% despite its NPL rate being as high as 11%
- In essence, good borrowers were being punished with high interest rates while bad borrowers were being rewarded with low interest rates

Figure 5.7: Overall NPL rate and weighted average lending rate in 2017



Non-performing loans: no indication of improvement

- NPLs have spiralled upwards, partly due to the fresh funds offered by the government in every budget to recapitalise the NPL-struck banks
- In the eight out of nine years between 2010 and 2018, the amount of NPLs was so high that they would have been sufficient to pay for the combined national expenditure of education and healthcare as outlined in the budget
- Nevertheless, it must also be kept in mind that the amount of NPLs would have been much higher had there been no adjustments due to the frequent restructuring and rescheduling of bank loans

Table 5.1: Overall NPL rate and weighted average lending rate in 2017

FY	NPL as % of GDP	Education budget as % of GDP	Health budget as % of GDP
2010	2.85	1.95	0.79
2011	2.47	2.01	0.80
2012	4.05	1.78	0.73
2013	3.39	1.73	0.71
2014	3.74	1.87	0.70
2015	3.92	1.85	0.69
2016	3.59	2.18	0.73
2017	3.76	2.19	0.34
2018	4.17	2.09	0.89

Non-performing loans: no indication of improvement

- Bangladesh Bank issued a circular on 21 April 2019, stating that if any instalment of a fixed term loan is not repaid within the fixed expiry date, then the amount of unpaid instalment shall be categorised as overdue only after six months of the expiry date
- Such benefits offered by the central bank will simply encourage more people to become defaulters
- According to the International Monetary Fund (IMF), loans should be classified as NPLs if:
  - payments of principal and interest are past due by 90 days or more
  - interest payments equal to 90 days interest or more have been capitalized, refinanced, or rolled over, and/or
  - sufficient evidence exists to classify a loan as non-performing even in the absence of a 90 days past due payment, such as when the debtor files for bankruptcy
- The 90-day mark is recommended as an upper threshold, and the IMF does not discourage more strict definitions of NPLs

Election pledges of Bangladesh Awami League and measures taken or announcements made by the government in the first 100 days

Pledges in the election manifesto 2018 of Bangladesh Awami League	Measures taken or announcements made in the first 100 days	CPD's analysis/comments
• Services of banking and insurance sectors will have to be expanded; skills and accountability will have to be ensured	• On 17 February 2019, Bangladesh Bank approved three new private commercial banks: Bengal Commercial Bank, People's Bank and Citizen Bank	• Increasing number of banks cannot guarantee higher private investment

Election pledges of Bangladesh Awami League and measures taken or announcements made by the government in the first 100 days

Pledges in the election manifesto 2018 of Bangladesh Awami League	Measures taken or announcements made in the first 100 days	CPD's analysis/comments
• An effective and sustainable strategy will be determined to lower the ratio of non-performing loans and implement the Bankruptcy Act	• Bangladesh Bank issued a circular on 6 February 2019, instructing all scheduled banks to create a separate debt cancellation unit to recover written-off loans and stops rescheduling and restructuring of written-off loans	• Banks can reduce their tax burden by writing off loans, whereas recovering written-off loans can be time consuming and expensive. Therefore, some banks may resist this move or only comply under strict compulsion from the central bank

Election pledges of Bangladesh Awami League and measures taken or announcements made by the government in the first 100 days

Pledges in the election manifesto 2018 of Bangladesh Awami League	Measures taken or announcements made in the first 100 days	CPD's analysis/comments
• An effective and sustainable strategy will be determined to lower the ratio of non-performing loans and implement the Bankruptcy Act	• A special audit will be undertaken in all banks to identify honest and dishonest borrowers and on the basis of this audit, honest borrowers who are unable to repay loans for legitimate reasons will be allowed to pay off loans with a 2% down payment on the loan amount and 7% interest over 12 years	• A clear, concrete and quantifiable definition of an honest borrower and a legitimate reason for non-payment should be declared before extending such privileges to any borrower

Election pledges of Bangladesh Awami League and measures taken or announcements made by the government in the first 100 days

Pledges in the election manifesto 2018 of Bangladesh Awami League	Measures taken or announcements made in the first 100 days	CPD's analysis/comments
• An effective and sustainable strategy will be determined to lower the ratio of non-performing loans and implement the Bankruptcy Act	• Single borrower exposure limit will be withdrawn for honest borrowers	• Repeal of the single borrower exposure limit will make banks vulnerable to risky large loans

Election pledges of Bangladesh Awami League and measures taken or announcements made by the government in the first 100 days

Pledges in the election manifesto 2018 of Bangladesh Awami League	Measures taken or announcements made in the first 100 days	CPD's analysis/comments
• Without undermining the market system, the central bank will keep interest rates under control skillfully by adopting specific strategies	• In its Monetary Policy Statement for January-June 2019, the central bank has allowed the interest rates to be market determined	• As of February 2019, the weighted average real deposit interest rate in scheduled banks was negative and the interest rate spread in most FCBs was above 6%

Election pledges of Bangladesh Awami League and measures taken or announcements made by the government in the first 100 days

Pledges in the election manifesto 2018 of Bangladesh Awami League	Measures taken or announcements made in the first 100 days	CPD's analysis/comments
• Efforts will continue to offer agricultural loans on easy terms	• These measures are yet to be taken	• Average interest rate on loans provided to agricultural sector was as high as that provided to the industry sector, even though the average rate of NPL in the agricultural sector was lower than that in the industry sector

Conclusions and recommendations

- Dependency on NSD certificates should be lessened in order to reduce the debt burden of the government. In this regard, the central bank has to revisit both lending and deposit rates
- Recapitalisation of losing banks should be stopped. This public money can be invested in the social sector
- No new licenses for new private commercial banks should be issued as most of the existing new banks are not performing well
- Central bank directives that prohibit rescheduling and restructuring of written-off loans should be strictly imposed
- A clear, concrete and quantifiable definition of an honest borrower should be announced and a legitimate reason for non-payment should be declared before extending any privileges to any borrower

Conclusions and recommendations (continued)

- Single borrower exposure limit for commercial banks should not be repealed
- Banking Companies Act should be amended to reduce both the number of family members in the board of directors and the tenure of each member
- Bankruptcy Act has to be amended to remove mortgage-related loopholes that delay the course of justice
- The budget should allocate adequate funds for setting up an independent banking commission
  - CPD has been continuously urging for such a commission in view of addressing emerging challenges in the sector
- The commission will critically assess problems and weaknesses of the sector and suggest concrete recommendations for improving the performance of the banking sector

Section VI. Managing the External Sector in Times of Emerging Tensions

Managing the External Sector in Times of Emerging Tensions

Introduction

- Bangladesh's external sector is facing a number of challenges as the economy moves towards Budget FY2020
- The AL Election Manifesto deals with external sector in three ways:
  - as a cross-cutting area contributing to export-oriented industrialisation and accelerated GDP growth
  - by setting specific external sector targets
  - by articulating policies to harness the potentials of external sectors
- The manifesto mentions about undertaking various measures towards export and market diversification, supply-side capacity building, and raising export competitiveness through targeted incentive programmes
- Over the years the government has been pursuing various policies to stimulate export performance and maintain external sector stability
- However, one would have expected more energetic steps from the government to stimulate the export sector in the first months of its current tenure towards attaining the targets set out in the manifesto

Managing the External Sector in Times of Emerging Tensions

Over the coming years Bangladesh will face formidable challenges in a number of areas

- ❑ LDC graduation will entail loss of many of the prevailing market access provisions leading to significant preference erosion, with concomitant impact on competitiveness
- ❑ The emerging global scenario will have important implications for Bangladesh's external sector performance
    - ➢ looming trade war
    - ➢ fall-outs of Brexit
    - ➢ weakening of the multilateral trading regime
    - ➢ move towards mega-regionals and regionalisation

Managing the External Sector in Times of Emerging Tensions

- Enhanced export growth, moderate import growth, and robust remittance growth have reduced the negative extent of overall balance in the BoP
- External sector elements has shown mixed performance for in FY2019

• Current account balance is negative • Overall balance is negative • Sharp fall in overseas migration • REER is on the rise	• Export growth has gained momentum • Remittance growth has risen significantly • Import growth has been relatively moderate

- Bangladesh's overall balance situation has moved into negative terrain after years of surplus
- Robust forex earnings through high growth of exports and remittances will be needed to maintain exchange rate stability, underwrite imports, maintain robust reserves and continue with the good debt servicing track record

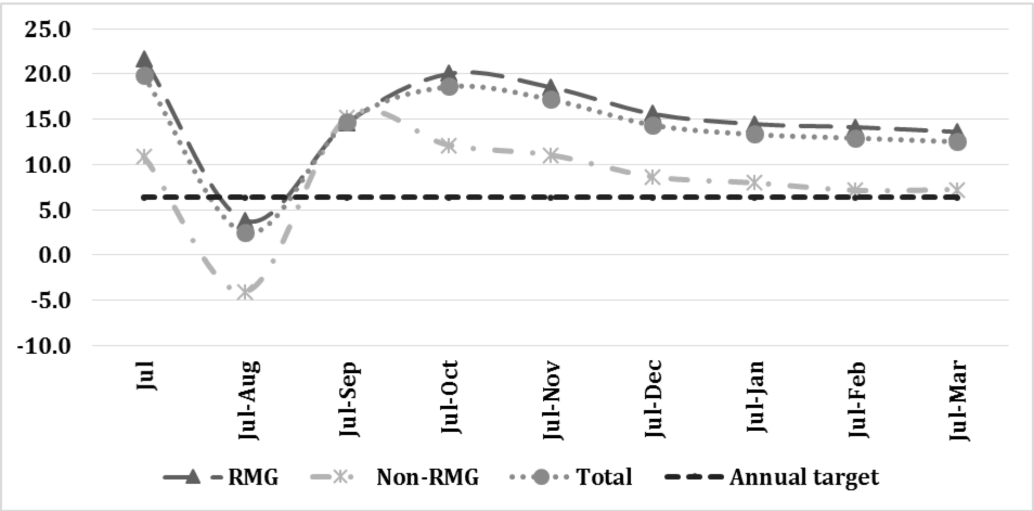
Managing the External Sector in Times of Emerging Tensions

- The AL manifesto has set ambitious targets of reaching export earnings of USD 72.0 billion by FY2024 and USD 496.8 billion by FY2041
- Required growth to achieve the targets in the manifesto
  - For reaching the target of USD 72 billion of export earnings by 2024 – required annual growth rate is 11.9% for the period of FY2019-FY2024
    - CAGR over the past six years (FY2012 to FY2018) was 7.1%
  - Traget of USD 496.8 billion by FY2041 can be achieved if export earnings have CAGR of 12% for FY2025-FY2041 (17 fiscal years)
  - Import target of USD 110.0 billion in FY2024 can achieved if CAGR is 11.9% for the period of FY2019-FY2024 (six years)
    - CAGR over the past six years (FY2012 to FY2018) was 8.5%
- By any measure **maintaining such a high double-digit growth rate** for more than the upcoming two decades will be a daunting task

Managing the External Sector in Times of Emerging Tensions

- Exports have picked up in the first three quarters of FY2019 - 12.6% growth
  - remained well above the strategic annual target of **6.4 %**
  - export growth rate has been decelerating

Target, achieved and required period-on-period growth rates (in %)



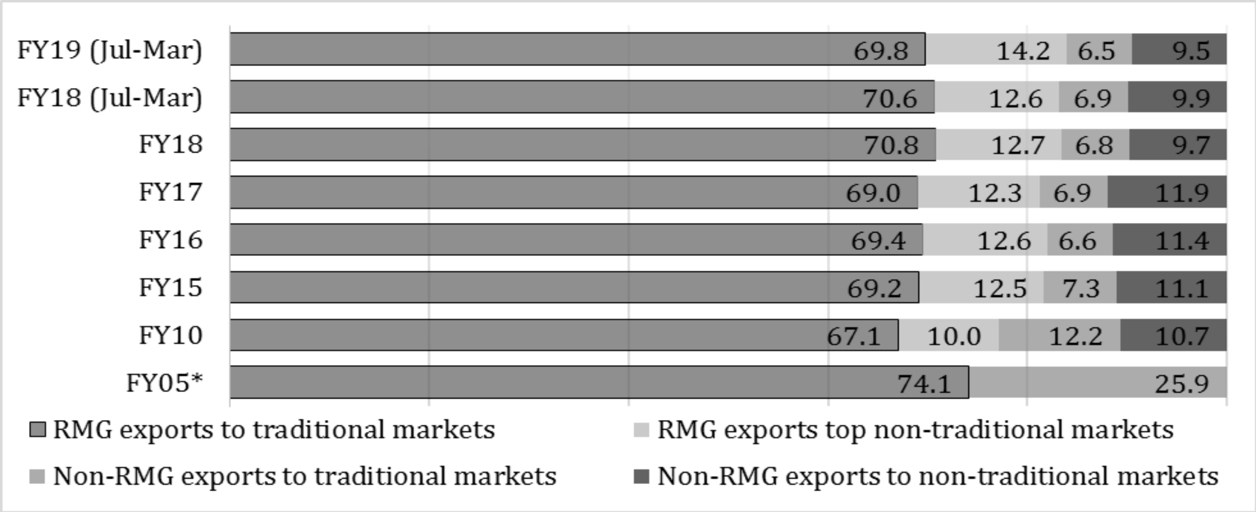
- Underpinned by growth of RMG export earnings at 13.7%
- Non-RMG export growth was a subdued 7.2%
  - With major non-RMG exports encountering negative growth

Incremental share of exports (July-March FY2019)

RMG			Non RMG						All products
Knitwear	Woven Garments	Total	Leather & Leather Products	Jute & Jute goods	Home Textile	Frozen & Live Fish	Other Non RMG	Total	
42.9	47.4	90.3	-2.2	-5.5	-0.7	0.3	17.8	9.7	100.0

Managing the External Sector in Times of Emerging Tensions

Market- and product-composition (%) of Bangladesh exports



- In spite of the repeated initiatives towards export and market diversification - concentration has been rising for both market and product
  - Prevalent trend: RMG-led growth of export earnings with higher market concentration to traditional markets
- For July-March FY2019
  - Out of total RMG export earnings 76.3 % was from traditional market
  - 59.5 % of non-RMG exports were destined to non-traditional markets – encouraging sign
- Fiscal policies should support exports to non-traditional markets, also for non-RMG products

Growth of Imports Payments

- Import growth has decelerated in July-February FY2019 period - from 26.2 % to 5.6 %
  - Production-oriented intermediate imports have maintained robust growth (16.6 %)
  - However, growth of capital machineries have come down to 8.0 % from 42.3 %
  - High growth of infrastructure and construction-related items (both machineries and input)
- Rising commodity prices, particularly commodities with high import payments such as oil and petroleum-based products
  - could potentially lead to a rise in growth of import bills in the coming months
- The significant deceleration in import growth rates has helped prevent further deterioration in the BoP situation
  - Current account balance has lessened in extent but is still negative: (-) USD 4.3 billion from (-) USD 5.9 billion
  - Overall BoP balance was a negative (-) USD 0.89 billion in FY2018 - the disquieting trends of FY2018 has persisted in the BoP

Balance of Payments

- At the end of first three quarters of FY2019, the overall balance stood at (-) USD 0.50 billion; the corresponding figure for FY2018 was (-) USD 0.98 billion
- The BoP balance went into the negative terrain in FY2018 for the first time since FY2011
- Comparison of the BoP scenarios prevalent in FY2011 and FY2018 shows that
  - a large part of the overall balance situation in the both cases can be explained by the increasing imports and the resultant high deficit in the trade account; with the trade deficit rising from (-)9.94 billion in FY2011 to (-) USD 18.3 billion in FY2018
  - between FY2011 and FY2018, the relatively slow pace of remittance growth (30 %) could not compensate for the rising trade deficit (by 84%)
  - the negative overall balance in FY2018 would have been much higher had it not been for the significant rise in the financial account balance: (+) USD 9.07 billion in FY2018 compared to (+) USD 0.65 billion in FY2011

Managing the External Sector in Times of Emerging Tensions

- ❑ There has been important shift in the structure of Bangladesh's foreign loans for the period of July-February FY2019
  - ➢ Medium and long term loans, and other long term loans (net) has increased
  - ➢ Short-term loans has decreased
- ❑ The increasing loan structure is indicative of the accumulating debt and rising debt-servicing liabilities in future – *implications originating from LMIC status*

Items	FY2011	FY2018	FY2019 (July-Feb)
Financial account*	**651**	**9076**	**3723**
A. Foreign direct investment (net inflows)	775	1583	1183
B. Portfolio investment (net)	109	365	127
C. Other investment (net)**	-233	7128	2413
(a) Medium and long-term (MLT) loans	1032	5785	3906
(b) MLT amortization payments	739	1113	766
(c) = (a) - (b)	293	4672	3140
(d) Other long term loans (net)	-101	155	936
(e) Other short term loans (net)	531	1947	951
(f) Other assets	-661	0	0
(g) Trade credit (net)	-135	-1270	-2756
(h) Commercial Bank (net)	-160	1624	142

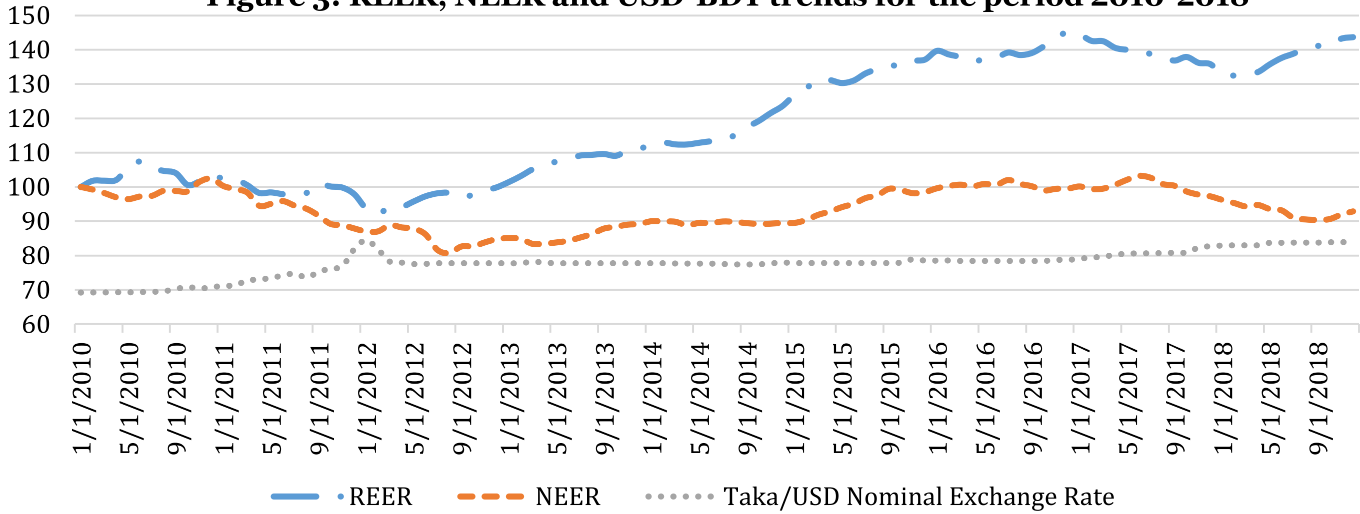
Increasing remittance flow and decreasing migration

- Growth in remittance earnings was 10.3 % for the period of July-March FY2019
- Remittance inflow to Bangladesh had recorded an impressive growth in the beginning of FY2019 (July) – however, the pace slowed down in the subsequent months
- For the period of July-March FY2019, growth in number of workers travelling overseas decreased by (-) 26.7 %
  - the number of workers going abroad per month between FY2015 and FY2018 averaged at about 61,100 while in the first nine months of FY2019 the average number was at 56,400
- If this disquieting trend holds, future remittance flows will likely to be negatively impacted owing to lagged effects of the declining number of overseas migrant workers – *is likely to impact the BoP situation negatively*

Managing the External Sector in Times of Emerging Tensions

Exchange rate management

Figure 3: REER, NEER and USD-BDT trends for the period 2010-2018



- ❑ There has been a notable rise in the REER - *this would mean that exports of Bangladesh has become more expensive relative to its competitors (whilst imports have become cheaper)*
- ❑ Future implications for exchange rate management
  - ➢ Pressure on BDT to depreciate - BDT may depreciate at a faster pace than has been the case in recent years
  - ➢ In view of this likelihood, it will advisable to go for gradual depreciation of the BDT in keeping with the evolving scenario
- ❑ Growing importance of maintaining robust reserve

Managing the External Sector in Times of Emerging Tensions

Assessing the Measures taken so far

The government has put in place a number of incentives and measures to promote the export sector during the first half of FY19:

- fiscal and other incentives towards market diversification
- support for export-oriented investment
- fiscal incentives to export-oriented entrepreneurs
- policy support through the medium term Export Policy 2018-2021
    - Export Policy 2018-2021 contains provisions to extend easy term loans and other banking facilities to export-oriented industries from the Export Development Fund of the Bangladesh Bank
    - Bangladesh Bank will set up two new funds for modernisation and technology upgradation of export-oriented industries: technology development and upgradation fund, and the green fund
    - The list of export items to receive cash incentives has been expanded to include 9 more products, list of high priority sectors increased to include 3 more item and that of special development sectors now includes 5 more items

After the National Elections

- In a significant move in support of exports, the withholding tax on export earnings was sharply reduced from 0.6 % to 0.25 % (except for jute and jute related products) on 02 January 2019
  - RMG industry (with the highest export earnings) will be the greatest beneficicary
  - this will result in an annual revenue loss to the tune of about Tk. 1150 crore
    - of which RMG sectors 's gain will be about Tk. 960 crore
- Need to undertake assessment to ensure the effectiveness of the incentives, good value for money, evaluate the necessity to implement new incentives to boost market and product diversification

Proposed Measures in view of FY2020

- The budget should draw on findings originating from a comprehensive assessment of the effectiveness of the existing fiscal incentives, cost incurred due to incentives and foregone revenues in connection with promoting the export sector
- To address product diversification more actively
  - the budget should allocate for adequate resources
    - to establish needed infrastructure and roads for the relocated leather hub in Savar
    - to operationalise CETP and support for environment-friendly production
    - to provide targeted loans for building low-cost housing for leather-sector workers in the vicinity of STIE
  - the budget should make provisions for adequate measures for the speedy operationalization of the API Park
- Urgent steps must be taken towards framing the rules and regulations to operationalise the One Stop Service Act to incentivise potential export-oriented investors to the SEZs

Managing the External Sector in Times of Emerging Tensions

- Decentralised budgetary initiatives will be needed
  - towards financial inclusion of migrant workers
  - support for low-cost migration
  - skills enhancement of migrant workers - to meet the evolving demands of the global market
- To take advantage of the potential benefits of initiatives such as BBIN-MVA and BIMSTEC FTA the budget will need to make provisions for investment towards greater trade facilitation for cross-border trade – establishment of single window, ensuring interoperability of system, electronic data exchange etc
- Bangladesh is one of the very few countries in the world which does not have bilateral FTA or bilateral comprehensive economic partnership agreement (CEPA)
  - The budget should allocate adequate resources to strengthen negotiating capacities of concerned institutions to undertake these complex negotiations
  - the budget should foresee strengthening of Bangladesh's negotiating capacity in the WTO in view of its status as a developing country in the not so distant future

Section VII. Concluding Remarks

Concluding Remarks

Economic growth

- Incremental private investment seems to have contributed insignificantly to economic performance.
- An examination of the interface of a number of macroeconomic correlates reveals some inconsistencies, leading one to believe that further scrutiny of the robustness of the final GDP estimate may be required.
- During 2010-2017, Bangladesh's economic growth has been relatively less employment generating.
- While economic growth has been mostly driven by productivity of labour, the benefits of growth are likely to be mostly reaped by the owners of capital within the economy.
- Depleting contribution of demographic dividend to growth is also a major concern.

Public finance

- In order to continue the growth momentum, efficiency of public expenditure is essential.
- Though public expenditure on infrastructure has increased to a great extent, health and education sectors receive much less than what is suggested in the 7FYP.
- There may be a shortfall of Tk 85,000 crores in case of revenue mobilisation in FY2019.
- The upcoming budget is a unique opportunity for the government to initiate much–needed policy reforms in the area of public finance management given that the upcoming national budget is the first from the incumbent government's current term.
- Implementation of the new VAT law, automation in VAT collection process, creation of a timeline for completion of Customs Act and Direct Tax Act and introduction of progressive taxation, such as wealth and property tax and inheritance tax may be conducive for generating additional revenue.

Concluding Remarks

Private investment

- ❑ Despite attempts to attract FDI, overall FDI inflow has increased only at a modest pace.
- ❑ Capital market remained in a weak state over the last decade and failed to emerge as an alternate source for financing industries.
- ❑ Two of the least addressed areas of activities of the government are:
  - ➢ devising sectoral policies, and targeted and predictable incentives
  - ➢ initiating regulatory and institutional reforms to ensure rule of law which will create an enabling business environment.
- ❑ Special attention is needed in the upcoming national budget for FY2020 on these issues:
  - ➢ sectoral polices and targeted and predictable incentives
  - ➢ well-packaged infrastructural facilities for different categories of enterprises
  - ➢ regulatory and institutional reforms to ensure rule of law.

Concluding Remarks

Banking sector

- Reform in the banking sector is an unfinished agenda as the banking sector suffers from several acute problems due to poor governance for a prolonged period of time.
- Some of the measures announced or taken during the first 100 days of the government, such as
  - awarding licenses to new banks
  - removing the single borrower exposure limit which prohibits banks from lending more than 35 per cent of their total capital to a single borrower
  - new facility to the bank defaults in terms of getting an additional six months time before their defaulted loans get recognized

are not helpful for improving the bank default situation in the country.

- The upcoming budget should allocate adequate funds for setting up an independent banking commission. The commission will critically assess problems and weaknesses of the sector and suggest concrete recommendations for improving the performance of the banking sector.

Concluding Remarks

External sector

- Managing the external sector during the period of emerging tensions globally will be a challenging task.
- The AL election manifesto refers to a number of specific policy initiatives to be pursued by the government to boost up the external sector. However, in the first 100 days of the present government tangible actions and initiatives which are different from the business as usual were not visible.
- In the backdrop of Bangladesh's graduation from the LDC status and in the context of the emerging global landscape, product diversification will have to be combined with higher quality.
- In order to deal with the pressure on the external sector due to preference erosion as a result of Bangladesh's LDC graduation, efforts will be required to enhance export and remittance earnings, maintain competitive exchange rate and robust reserves and continue with the current impressive debt servicing record.

Independent Review of Bangladesh's Development

Thank You