Independent Review of
iRBD
Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD Budget Dialogue 2019

An Analysis of the National Budget for FY2019-20

Dhaka: 23 June 2019

CENTRE FOR POLICY DIALOGUE

www.cpd.org.bd

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I. INTRODUCTION

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- Our objective is to focus on a few important areas of the National Budget FY2019-20 presented at the National Parliament on 13 June 2019
- This, by no means, is an exhaustive set of issues discussed in the National Budget FY2019-20. Detailed analysis of the budget was presented before the media earlier on 14 June 2019

All data used for empirical analysis are sourced from relevant government publications

We have structured this presentation under the following heads:

- Macroeconomic scenario
- Fiscal framework
- Annual Development Programme (ADP)
- Fiscal measures
- Sectoral issues
- Concluding remarks

II. MACROECONOMIC PERSPECTIVES

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Performance as against 7FYP

Macroeconomic indicators	7FYP Target (FY2019)	Performance (FY2019)	Difference (%)	Comments
GDP growth	7.6	8.13	7%	Achieved
CPI inflation	5.7	5.49	(-)4%	Achieved
Investment (% of GDP)	32.7	31.56	(-)3%	Moderately lagging behind
Private investment (% of GDP)	25.1	23.4	(-)7%	Moderately lagging behind
Public investment (% of GDP)	7.6	8.17	8%	Achieved
Gross national savings (% of GDP)	30.7	28.41	(-)7%	Moderately lagging behind

Although the target for public investment (% of GDP) has been met, total investment is still lagging behind due to low contribution of private investment

External sector	7FYP Target (FY2018)	Performance (FY2018)	Difference (%)	Comments
Remittance (million USD)	20986.4	14978.78	(-)28.63%	Alarmingly lagging behind
FDI (net million USD)	5871.2	2798	(-)52.34%	Alarmingly lagging behind
Export f.o.b (including EPZ) (million USD)	42001.6	36668.2	(-)12.7%	Alarmingly lagging behind

Key indicators of the external sector are substantially lagging behind

II. MACROECONOMIC PERSPECTIVES

❑ Confronting challenges originating in global economy

- Global economic growth - projected to slow down from 3.6% in 2018 to 3.3% in 2019 (IMF, 2019)
- Global economy likely to slow down to 2.9% in 2019 as trade, investment weaken (World Bank, 2019)
- Crude oil prices (barrel)– in 2018 the price was USD 68 which is expected to fall to average USD 66 in 2019 and USD 65 in 2020 (World Bank, 2019)
- Fertiliser prices – expected to increase further (World Bank, 2019)
- **Chinese Yuan, Indian Rupee, Vietnam Dong– are likely to devalue**

❑ Confronting opportunities originating from global economy

- US-China trade war, suspension of trade benefits by US to Turkey and India may create export opportunities for Bangladesh
  - RMG, leather and leather products, IT and other services could be key beneficiaries

II. MACROECONOMIC PERSPECTIVES

Growth, investment and inflation

- **The GDP growth rate shows consistent improvement** (8.13% in FY19, provisional) over the years which already exceeded the FY19 target for 7FYP (7.6%)
  - The GDP growth target for FY20 has been set at 8.2% compared to 8% target in 7FYP
- **Total investment (as % of GDP) sluggishly improved mostly due to public investment**
- **Private investment (as % of GDP) remains the "Achilles Heel"**
  - In FY20 the projected private investment (as % of GDP) is even lower than the FY19 budget (24.20% vs 25.15%)
- **CPI inflation is expected to remain steady** at 5.5%, as FY19

Fiscal framework

- Aspiration for **Revenue-GDP ratio and NBR revenue-GDP ratio of FY20 is lower than that of previous year.** Similar trend is observed for expenditure-GDP ratio
- **The revenue-GDP ratio has stagnated** (around 10%) over the last 10 years without any major improvement, however the **gap between the performance and the target of 7FYP increased** over time
- Revenue and expenditure targets for FY20 are falling short of 7FYP target by approx. 18% and approx. 14% respectively
- For deficit financing, projected reliance on banking is similar to that of FY19. Share of foreign financing in total financing is expected to increase

II. MACROECONOMIC PERSPECTIVES

Monetary and external sector

- **Money supply projection manifests a subdued outlook**
  - Expected money supply growth in FY20 is 12.5%; the 7FYP target for FY20 is 15.9%; lower than the budget of FY19(14.6%)
- **Private sector credit growth is projected to be steady and consistent (16.6% in FY20) with the subdued projected performance of private investment but needs considerable improvement**
- After slight increase of targeted remittance growth in FY20 (13.0%), it is projected to decline by 1 percentage point in each of the next 2 years
- In FY20 export growth is expected to decline by 3 percentage points, whereas import growth is expected to increase by 4 percentage points

Some general conclusions can be made for the macroeconomic performance of the country:

- **Mobilisation target**
  - Revenue dimension remains weak
- **Banking sector**
  - New pressure on fragile situation due to government borrowing
- **External balance**
  - BOP may not improve, exchange rate has not been addressed at all

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III. FISCAL FRAMEWORK

III. FISCAL FRAMEWORK

Broad fiscal framework for FY20

- **Revenue** (19.3%) projected to grow **faster** than **public expenditure** (18.2%)
  - Total budget expenditure is set at 18.1% of GDP (17.4% in RBFY19)
  - Revenue income will be 13.1% of GDP (12.5% in RBFY19)
- **Development expenditure** (22.0%) programmed to grow **faster** than **operating expenditure** (16.3%)
- **ADP**: 38.7% of total public expenditure (37.7% in the RBFY19)
- **Budget deficit** has been projected at 5.0%of GDP (same as RBFY19)
- **Balance in financing the budget deficit** is likely to be restored through **limited foreign financing and increased bank borrowing**
  - NSD sales is programmed to be reduced substantially (by 40%), but no extensive measure indicated
- Gross foreign aid requirement will be around USD 9.6 bln (USD 6.9 bln in RBFY19) – USD 4.5 bln being received during Jul-Mar FY19
  - **Much will depend on project aid utilisation of ADP** – about 97% of total foreign resources are for ADP projects

III. FISCAL FRAMEWORK

Revenue mobilisation

- Budget FY20 targets an additional Tk. 61,197 crore revenue with a 19.3% growth over RBFY19
  - **CPD projection: more than 48% growth - an additional Tk. 146,000 crore may need to be mobilised**
- NBR to grow by 16.3% (accounting for 74.5% of incremental revenue)
- Non-tax revenue is expected to service 17.5% of the incremental revenue with a robust growth of 39.6%
- SCBs are expected to provide Tk. 2,731 crore in the form of dividends
- Document registration fee an additional Tk. 4,200 crore
- Import duty growth target is only 6.5%
- Despite implementing long awaited new Act, VAT is expected to grow by 17.4% compared to income tax (19.7%) – **More reliance on income tax**
- Composition of individual and corporate income tax to remain the same (40:60)
- Revenue collection by the LTUs to grow slower (11.2) due to marginal improvement expected in collection of VAT and SD (4.3%)

III. FISCAL FRAMEWORK

Public expenditure

- Public services and interest payments account for 46.2% of total incremental expenditure
- **Public Services Sector** receives incremental Tk. 28,895 crore of which Tk. 28,108 crore is for Finance Division
- Investments in Equities is expected to almost double to Tk. 25,063 crore in FY20 (Tk. 13,883 crore in RBFY19)
  - Surprisingly, no explanation has been given for keeping such a large amount for investment in equities!
  - It may noted that Tk. 3,516 crore was spent in FY18 on this account against an allocation of Tk. 11,945 crore
- Tk. 20,537 has been kept for providing loan to autonomous bodies
- Total incremental allocation for Interest Payments – Tk. 8,325 crore
  - Of which, domestic - Tk. 7,520 crore
  - Incremental allocation for interest on national savings (NSD) - Tk. 3,000 crore

Subsidy and incentives

- Total allocation for FY20: Tk. 43,230 crore (8.3% of budget and 1.5% of GDP)
    - 24.5% increase from RBFY19, the highest in last decade
    - Over the last seven fiscal years, the composition of subsidy has shifted from agriculture and BPC towards Power and Gas
    - **Remittance emerged as a new component (7%)**
- **Agriculture** received 20.8% of the total allocation (Tk. 9,000 crore) – a similar allocation since FY14
- During the last three fiscal years, it has never been possible to fully spend the agriculture subsidy (Tk. 2,570 crore, Tk. 5,390 crore and Tk. 3,800 crore remained unutilised in FY16, FY17 and FY18)
    - Low price of fertilisers in the world market (fertiliser price index dropped from 98.4 in 2015 to 74.3 in 2017) helped to keep the subsidy demand low during this time
    - Even if we consider the rising global price of urea fertiliser into account, Tk. 3,500 crore may remain unutilised in FY19
- Government has proposed that subsidies will be provided towards mechanisation of harvesting. However, no specific on details or allocation was mentioned!

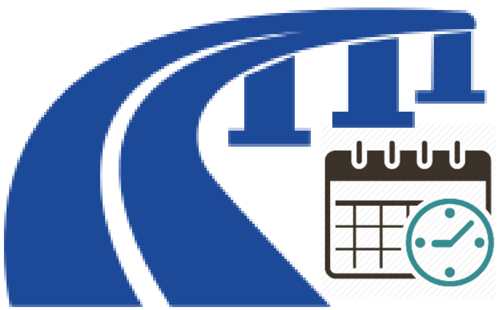
III. FISCAL FRAMEWORK

- **Power and Energy**
  - **BPDB received Tk. 9,500** crore due to increased demand (3.3% increase from RBFY19)
    - Power generation with imported LNG and upward trend in global oil price created added demand for subsidy
  - **Subsidy for 'Gas and Others' registered a 113.3% growth in FY20 (Tk. 9,600 crore) over RBFY19**
    - The additional fiscal burden is perhaps prompting a gas price hike!
  - **BPC made a profit of Tk. 29,409 crore during FY15-FY19 and repaid all its loans to the government. Since FY16 BPC did not need any subsidy. No allocation is made for FY20**
- **BJMC** received an allocation of Tk. 4,000 crore (Tk. 4,100 crore in RBFY19) which incurred a loss of Tk. 3,055 crore during FY15-FY19.
  - A reform agenda is a must for this sector!

III. FISCAL FRAMEWORK

Cash Incentives

- The budget FY20 has proposed new fiscal incentives for the **export sector**
  - Cash incentive of 1% for the RMG exports which are not receiving the prevailing 4% incentive – An additional Tk. 2,825 crore will be provided in FY20 (CPD's estimated requirement: an additional Tk. 3,300 crore)
- A 2% cash incentive has been proposed- will likely increase the **remittance inflow** via formal channels by effectively acting as means of exchange rate depreciation for remitters – **dual exchange rate?**
  - Will create a fiscal burden to the tune of around Tk. 3,060 crore
- These two cash incentives are equivalent to 65.4% of agricultural subsidy in FY20
- CPD proposed a **gradual depreciation of BDT to also help incentivising export and remittances** – hence, cash incentives would not be required!
- Government could save Tk. 9,385 crore from unutilised agriculture subsidies and depreciation of BDT instead of the cash incentives
- Thus, it could easily provide **a one-time Tk. 5,000 to each card holding farmer's bank account (proposed by CPD),** which totals to 9,100 crore, to compensate somewhat for their incurred losses during this Boro season



IV. ANNUAL DEVELOPMENT PROGRAMME

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- **ADP as share of GDP is increasing**
  - ADP of Tk. 2,02,721 crore has been proposed for FY20 [**7%** of GDP in FY20 (5.3% in FY18 Actual and 6.6% in FY19 RADP)]
- Project Aid (PA) to finance 35.4% of total ADP in FY20 (30.5% in RADP of FY19)
  - **Rooppur Power Plant** accounts for 16.7% of PA allocated for FY20 ADP
- **Revenue surplus as a share of financing ADP is increasing in terms of allocation but declining in terms of actual expenditure**
  - Revenue surplus to finance 25.4% (Tk. 51,457 crore) of total ADP in FY20. 21.1% in RADP of FY19, 7.3% in FY18 (Actual), 13% in FY17 (Actual)
- **Concentration ratio of top 5 sectors has increased**
  - The **top 5 sectors** have received **70.1%** of total ADP allocation – concentration ratio increased from 67.7% and 66.2% from ADP FY19 and RADP FY19 respectively. The sectors are: Transport; Power, Physical Planning, Water Supply & Housing; Education & Religious Affairs; Science, Information & Communication Technology (SICT)
  - Transport Sector once again received the highest allocation (26% of total) for the highest number of projects (257). Physical Planning, Water Supply & Housing has received third highest share in ADP allocation– with the second highest number of projects (253)
  - SICT has entered among the top five club for the first time in the place of RDI – Rooppur project accounts for 85.4% of total allocation for SICT sector

IV. ANNUAL DEVELOPMENT PROGRAMME

- 41 new projects are included in FY20 (112 in FY19): 0.4% of total ADP allocation (4.1% in FY19) – **positive sign**!
  - 439 new projects were included in the RADP for FY19
- **The share of projects with symbolic allocation (the minimum to keep the project in the ADP list) declined marginally**
  - **62 projects (4.2%) under ADP received only Tk. 1 lakh** for FY20; 64 projects (4.7%) received such allocation in FY19
- **Ageing projects (Zombies!) are increasing**
  - Out of 1,358 investment projects, 1,237 (91.1%) are at least 2 years old – almost double from FY19! **Average age** of these 1,237 projects are **4 years**
  - **200** (16.2%) of these 1,237 projects are more than 6 years old
  - **29** of the 1,237 projects are 10-16.5 years old while **2** are more than 16 years old
- **Foreign aid expectation list both in terms of allocation and number of projects are declining since FY17**
  - 242 projects has been listed with an expectation to be financed with foreign aid
  - The estimated cost for all of the projects were considered as USD 94.5 billion

IV. ANNUAL DEVELOPMENT PROGRAMME

❑ Mega Projects: size has improved, but not the status of implementation

- Tk. 43,919 crore is allocated for 14 projects (all infrastructure including fast-track and based on project size) which is 21.7% of total ADP of FY20 (Tk. 28,992 crore and 17.4% in RADP FY19)
- 5 out of 14 projects are scheduled to be completed by FY20
  - Given the progress of work, it would not be possible to complete any of these 5 projects including the PMB project
- China is co-financing 4 out of 14 of these projects and progress of all these 4 projects are very poor

❑ Low reflection of projects set out in the National Action Plan for SDGs in the ADP

- Among 41 new projects in ADP FY20, only 10 projects (24.4%) set out in the NAP was included

❑ Delivery of self-financed projects has been deteriorating

- Lowest number of projects (89) since FY14, falling since FY17 – good initiative since a large part of the allocated resources remain unutilised at the end of fiscal year
- Implementation rate has been lower than the average
  - The implementation rate (62.2%) in FY18 was much lower compared to overall ADP implementation (90.7%) in the corresponding period

V. FISCAL MEASURES

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Personal Income Tax (PIT)

- **No change** in the tax slabs or tax rates of personal income tax
  - Tax-free income threshold for personal income stays same at Tk. 2.5 lakh
  - *CPD has proposed* ***lowering the income tax rate for the first slab to 7.5%*** *from the existing 10%* ***without*** *changing the taxable income level*

Wealth Surcharge

- Minimum net wealth exemption limit has been increased to **Tk. 3 crore** from Tk. 2.25 crore – *leaves a number of rich people out of the surcharge net*
  - This implies that a taxpayer even after owning four 2000 square feet flats in Gulshan area, is still exempted from paying the surcharge (estimated based on government rates)
- Wealthy individual taxpayer having a net wealth of Tk. 50 crore or above shall pay 0.1% of net wealth **or** 30% of annual income tax (whichever is higher) – *promotes equity*

Corporate Tax

- Corporate tax structure **remains unchanged**

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V. FISCAL MEASURES

Tax holiday

- The proposed changes in tax holiday facilities will be beneficial in terms of balanced regional development and domestic industry support

Untaxed or illegal money

- Existing provisions on undisclosed money **to be continued**:
  - Opportunities to invest in real estate under Special tax treatment (19BBBBB) **has been made more relaxed by reducing tax rates**
  - New opportunity given for setting up industrial undertaking investment in economic zone and hi-tech park by paying income tax at 10% on the invested amount along with regular tax (19DD)

CPD's position:

- *The new opportunity to invest will not yield much investment but will discourage regular taxpayers – counterproductive*
- *All the above provisions allow source of fund to remain undisclosed – will encourage immoral/illegal activities*
- *The existing and new provisions should be discarded to disincentivise tax avoidance and evasion*
- *CPD's demand for a legal framework to deal with benami property has not been addressed yet*
- *The proposed changes go against the commitment of Election manifesto*

Tax deduction at source (TDS)

- TDS on the bill of contractors and suppliers has been rearranged by reducing the number of slabs from **6 to 4** and also the **rates for the highest slab has decreased from 7% to 5%**
- Tax exempted yearly turnover limit for SMEs raised to Tk. 50 lakh from Tk. 36 lakh
- Total last assessed income threshold for advance payment of tax has been increased from Tk. 4 lakh to Tk. 6 lakh – *lowers hassle for small taxpayers*
- **TDS** on house rent (and some other forms of space e.g. hotel rooms) **to be deducted by the tenant** at the rate of **5%** at the time of payment – *problematic*
- TDS on interest from savings certificate has been increased from 5% (final settlement) to 10% (final settlement) – *the final settlement part of the new clause will put tax burden in case of low-income people depending on the interests from savings (measures should be taken to protect their welfare)*
- Rate of TDS on export subsidy in every recipient sector has been increased from **3% to 10%**

Tax exemption

- Tax exemption of export earnings from handicrafts is to continue till 2024
- **New** tax exemption provisioned for income of institutions earned by educating or training physically challenged persons – *a positive initiative*

Tax rebate

- **5% rebate on total tax** introduced for taxpayers who employs physically challenged persons for at least 10% of the workforce – *welcome move to promote inclusivity in the workforce*

Tax credit on investment

- Rate of tax credit on investment has been changed to **flat rate 15%** if total income does not exceed Tk. 15 lakh; and **flat rate 10%** otherwise
- Tax liability will be **higher** for the richer tax payers with total taxable income more than Tk. 15 lakh – *progressive taxation*

V. FISCAL MEASURES

Tax measures to boost capital market

- The adopted measures might *encourage small investors, encourage non-resident companies to invest in the Bangladeshi stock market, encourage companies to distribute cash dividends and consequently benefiting the shareholders, and might result in more revenue collection*
- However, proposed 15% tax on listed company's retained earnings and reserves (in excess of 50% of the paid up capital) *might have adverse impact on investment*
  - ***Overall. will these measures address the structural weaknesses of the capital market? – NO***

Proposed institutional measures to expand tax net

- Setting up tax offices in every upazilla
- Increasing the number of tax zones to 63 from current 31
- Setting up specialised units
- Submitting return of income for the non-resident taxpayers who are doing business in Bangladesh through permanent establishments
- Making TIN compulsory for receiving different utility services as well as asset transfer
- Increasing the number of income taxpayers to more than 1 crore by the next few years - *any time bound action plan is missing in this regard*

- ***Impact of these proposals will depend on enforcement and timely implementation***

V. FISCAL MEASURES

Introduction of new VAT law- new developments

- **Coverage** of VAT had been widened
- VAT will be based on **market price**
- Online service for VAT and Turnover Tax registration, tax payment, return submission, refund
- **VAT registration threshold** has been increased from Tk. 80 lakh to Tk. 3 crore
- **Turnover tax rate** increased to 4% for traders with turnover threshold between Tk. 50 lakh to Tk. 3 crore
- Along with the **standard VAT rate of 15%**, there will be **reduced rates** of 5% (on 91 goods and services), 7.5% (on 12 goods and services) and 10% (on 20 goods and services) for specific goods and services
- **Tariff value provisions** have been kept for some products
- **VAT exempted for small and marginal traders** with an annual turnover up to Tk. 50 lakh
- Since the new VAT law is online-based, it will be mandatory for the shop owners and business entity to keep records of VAT challan/invoice during sales/supply through **Electronic Fiscal Device (EFD)** and Sales Data Controller (SDC)
  - The NBR is working to set up Electronic Fiscal Device (EFD) in every business organization to make VAT collection more transparent. NBR is now in the process of procuring these EFD machines
- *Timely actions in these areas are critical for successful implementation of the new VAT and SD Act*

V. FISCAL MEASURES

Welcome initiatives

- Increase in VAT exemption threshold - *will protect small and medium traders*
- VAT exemption on: the rent of showroom run by women entrepreneurs; production and supply of bread, hand-made biscuits and hand-made cakes up to the value of Tk. 150 per kg; watches specially designed for the use of the blind; wheel chair and hearing aid; pacemaker, heart valve, Haemodialyser (Artificial Kidney), cancer medicines; sandals and slippers made of rubber and plastic (below Tk. 150); local supply of agricultural machineries; heavy industries like automobiles, refrigerators, freezers, air conditioners, motorcycles, mobile industries etc.; jute based products; suppliers and electricity in Bangladesh Hi-Tech Park – *will benefit concerned groups*
- Price of **health hazardous tobacco products** is set higher keeping the supplementary duties unchanged- *will reduce the direct and indirect health risks*
- 5% VAT on **powder milk, spices, juices, rapeseeds oil, colza seeds oil, canola oil, mustard oil, LP gas** instead of tariff value- *price of the mentioned items might decrease*
- 10% supplementary duty on **issuance or renewal of all kinds of vehicles registration, route permit, fitness certificates, ownership certificate** etc. except for passenger buses, trucks, lorries, three wheeler, ambulances and school buses- *will discourage private vehicle ownership*
- VAT on **English Medium Schools** is to be reduced to 5% from 7.5%- *will reduce the cost of education*

Measures which need further clarification

- 5% VAT on **plastic based** tableware, kitchenware, household accessories, stationaries (except tiffin box and water bottle) and **aluminium based** kitchen and household accessories, sanitary ware, machineries, coir based mattress- *to protect domestic industry?*
- The **input tax credit** can be obtained through the VAT return only by those who provides 15% VAT- *will this discrimination discourage small and medium enterprises?*
- VAT exemption on inputs required for government's priority and fast track projects, such as the Bangladesh Economic Zone **(BEZA)** and the Public-Private Partnership **(PPP)** projects- *expected to attract investment but will it create discrimination?*
- **Tariff value** appears to prevail on **construction** raw materials despite abolished for many other goods and services- *why?*
- VAT on **social media** based virtual business increased from 5% to 7.5%- *will support the revenue target achievement*
    - *Definition of virtual business is yet to be clarified!*
    - *Will it include internet based ride sharing services and social media based businesses?*

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V. FISCAL MEASURES

Measures which might have adverse impacts

- VAT on **clothing outlets** both branded and non branded will increase from 5% to 7.5%- *will raise price of clothing*
- VAT on **manufacturing of furniture** raised from 7% to 7.5%- *discourage local industry?*
- 5% VAT on both **reading glass and frame** (plastic frame and metal frame)- *will increase health support cost*
- In many cases **VAT exemption at import stage** appears to be given on **ad-hoc basis** without any justifiable rationale!
    - For example, VAT exemption facilities had been provided for live-horses, asses, mules and hinnies, live swine, whales, dolphin, sea lion, camels, seed potatoes, fresh tomatoes, etc.
    - Despite *being net exporter of shrimp, it appears that, VAT has been exempted for shrimp and prawns imports!*
- SD increased from 5% to 10% of the **services provided through mobile phone SIM / RIM card**- *might increase the cost of communication and internet usage*
- SD of 45% was kept on sanitary towels (pads) and tampons – *should be reduced considering the adverse impact on female hygiene*

V. FISCAL MEASURES

Duties at import stages

- ❑ Duty to be changed on a large number of products (1921)
- ❑ Advanced tax rate has been introduced (5% flat rate) and advance trade VAT was discarded (If these two are compared, increase is observed in 672)- *will generate additional revenue at import stage*
- ❑ Existing (six) slabs of Customs Duty (0%, 1%, 5%, 10%, 15%, and 25%) will remain unchanged
- ❑ Attempt to provide protection to selected domestic industries, incentivise export, and to rationalise tariff structure by reducing prevailing discrepancies [number of newly added HS codes 90]

Types of duty	Increase	Decrease	Newly imposed	Waived	Total number of changed items
Custom duty	19	43	0	7	69
Supplementary duty	15	14	9	94	132
VAT on import	29	45	29	33	136
Advanced income tax	2	34	2	18	56
Regulatory duty	30	28	17	64	139
Advanced Tax	672	31	590 (5% rate)	1	1294
Excise duty	1	1	0	93	95
Total (FY 19 figures in parenthesis)	767 (24)	195 (45)	647 (145)	310 (56)	1921 (270)

Note: while carrying out this exercise, tariff schedules of FY19 and FY20 were compared. However, the SROs that came in between were not considered. Also, no distinction was made between AT and ATV

V. FISCAL MEASURES

Welcome changes in duties on selected items:

- Reduction of duties on a number of raw materials of **cancer medicine;** several ingredients used in **poultry, dairy and fish feed;** components/parts of **firefighting equipment**
- Specific duty on commercial **gold import** and duty on gold under Passenger (non-tourist) and Baggage (import) Rules-2016 was reduced.*– a welcome initiative since it will encourage import of gold through formal channel*

Uncertain change in duties on selected items:

- Duty is reduced for a number of parts used for producing mobile phones while CD for **smartphones** is increased from 10% to 25% - *providing incentives to domestic handset assembling and manufacturing industry*
- Additional 5% CD on **milk powder** *– will provide protection to domestic industries but will entail higher costs to consumers particularly low and middle income families with children*
- Export duty for **building bricks** decreased from 25% to 15% - *measures need to be taken to reduce environmental risks*
- Export duty on **unmanufactured tobacco and tobacco refuse** was decreased from 10% to 0% - *incentivising the production of a harmful product!*

VI. SELECTED SECTORAL ISSUES

VI. SELECTED SECTORAL ISSUES

1. Agriculture

- Allocation for Agriculture and Allied Sectors (AAS) is projected to rise by 11.8% in BFY20 compared to that of RBFY19. Allied sectors include: 1) Ministry of Fishery and Animal Resources; 2) Ministry of Environment and Forest; 3) Ministry of Land; 4) Ministry of Water Resources
  - The share of AAS in total budget has continued to decrease over time (5.4% in BFY20)
  - Share of MoA in total budget slightly falling from 2.9% in RBFY19 to 2.7% in BFY20
- The proposed budget has announced to introduce a 'crop insurance' in order to save farmers from the financial loss caused by natural calamities - *very much needed*
  - The government is planning to introduce livestock insurance
  - These are welcome initiatives which need to be implemented immediately
- Election manifesto mentioned a number of commitments: continuation of subsidy, agricultural tools at minimum cost, mortgage free loans for tenant farmers, increasing allocation for R&D and better facilities for fisheries sector.
  - Continuation of subsidy, better facilities for fisheries are highlighted in budget
  - No mention about mortgage free loans for tenants

2. Education

- Education budget **decreased** as a **share of total budget** from 12% in FY09 to 11.7% in FY20
- Allocation as **share of GDP** remains **stagnant (2.1%) in** BFY20 and BFY19
- Figures remained **below the standards** set by 7FYP (3% of GDP) and Education 2030 Framework for Action of UNESCO (4-6% of GDP)
- **Implementation of overall education budget** in **FY18 (85.8%)** is **lowest** in the last decade!
  - Overall budget implementation rate was 80% (FY18)
- Of selected large ADP projects pertaining to education currently being implemented, possible maximum completion by 2020 will be within the range of **67% - 105%.**
  - A number of projects are **behind** targeted timeline
- In **hard to reach areas**, instead of formal primary education, madrasah education is made more available
- Inclusivity of the marginalized people have not been clearly reflected in the Education budget at a **disaggregated level** (e.g. by gender)

3. Health

- **Allocation for health as share of total budget has fallen** (from 5.1% in BFY19 to 4.9% in BFY20)
  - Since 2017, health budget as share of GDP remain at 0.9% level
- Government budget for health (as a share of GDP) is considerably lower than the targets stipulated in the 7FYP and WHO benchmark
  - 7FYP target: 1.12% of GDP: WHO target: 5% of GDP
- Per capita allocation for health sector (in nominal terms) has slightly increased (from Tk.1349 in RBFY19 to Tk.1537 in FY20) but the rise is much lower in real terms (less than Tk.100)
- Utilisation of the overall health budget has been decelerating in recent years and it was lowest in FY18 (83.7%) during the last ten fiscal years
- A detailed description on different activities of the health sector has been mentioned in the budget document
  - Most of these are either ongoing or completed projects
- From ADP projects, 14 were selected based on total cost of Tk.100 crore or above and completion by FY19-21
  - Most of the projects are behind schedule in terms of level of implementation

VI. SELECTED SECTORAL ISSUES

4. Social Safety Net

- Allocation for social safety net (SSN) has been increased by 15.5% from BDT 64,404 crore in budget FY19 to BDT 74,367 crore in budget FY20
  - Overall SSN allocation has decreased as a % of budget, but increased as a % of GDP
- SSN budget excluding pension has increased, from 9.5% of budget in RBFY19 to 9.8% of budget in BFY20 and from 1.7% of GDP in RBFY19 to 1.8% of GDP in BFY20
  - Nevertheless, in FY20 **the SSN allocation excluding pension is only 1.8% of GDP which is much lower than the target of 2.3% of GDP outlined in the 7FYP**
- Although total SSN allocation has increased, **budget allocation for a number of safety net programmes have fallen short of the targets set out in the National Social Security Strategy (NSSS).**
  - For example, the combined primary and secondary school stipend in the budget for FY2019-20 is only 10.16% of the NSSS target for FY2019-20
- The budget speech for FY2019-20, just like the previous budget speech, has mentioned the intention of the government to introduce a Universal Pension Scheme
  - **Unfortunately, no budget allocation was made for such a scheme**
  - The government should at least consider introducing the Universal Pension Scheme as a small scale pilot project, in to order to kick-start the programme

VI. SELECTED SECTORAL ISSUES

5. Power and Energy

- Total allocation for the power division has been increased from BDT 22,936 crore in budget FY19 to BDT 26,064 crore in budget FY20 - a 13.64% increase
  - The allocation for the power division has declined both in terms of total budget (4.16% of the total budget) as well as in terms of GDP (0.69% of GDP)
- Total budgetary allocation for the energy and mineral resources division has been increased from BDT 1,985 crore in FY19 to BDT 1,986 crore in FY20, which is only a 0.05% increase
  - This has been hovering at an average of 0.56% of the total budget or 0.09% of GDP

6. Climate Change

- Climate allocation as share of total budget has **decreased to 7.8% in FY20** (8.1% in FY19)
  - **37.89%** of total CC relevant budget allocated to **Food security, social protection and health** thematic

7. Local Government

- Allocation in BFY20 for
  - Local Government Division (LGD) has increased by 11.56% from RBFY19
  - Rural Development and Co-operatives Division (RDCD) increased from both BFY19 and RBFY19 by 10.9% and 8.1% respectively
  - Ministry of Chittagong Hill Tract Affairs (MCHTA) has **decreased from both** BFY19 and RBFY19 by 9% and 12.2% respectively
- Budget allocations as share of GDP for LGD, RDCD, and MCHTA **have remained very meagre over the years**

8. Defence

- The budget allocation for Defence in FY20 is Tk. 32,101 crore, which is 10.4% higher than the allocation for the previous year
  - Overall, share of defence in budget has decreased (from 8.8% in FY17 to 6.1% in FY20)

9. Public Order and Safety

- The budget allocation for Public Order and Safety for FY20 is Tk. 27,636 crore, which is 3.9% higher than the allocation for the previous year
  - Overall, share of POS in budget has increased (from 4.6% in FY16 to 5.3% in FY20)

VI. SELECTED SECTORAL ISSUES

10. Gender

- Allocation for Gender Budget in FY20 (Tk 161,247 crore) increased by 17.1% against FY19
- Gender budget as a percentage of total budget **has increased** from 29.65% in BFY19 to 30.82% in BFY20

11. Child

- Allocation of child budget as a percentage of total budget has been increasing steadily since its inception in FY16, reaching its highest of 15.33% in FY20
- Child budget allocation (as % of GDP) has **marginally increased** from 2.59% in BFY19 to 2.78 % in BFY20

12. Youth

- The total allocation for the Ministry of Youth and Sports **has decreased** from 0.34% of the total revised budget for FY19 to 0.28% of the total budget in FY20
- The budget speech mentions a number of positive measures aimed at youth: i) BDT 100 crore allocation to provide start-up capital to promote youth entrepreneurship; ii) Steps taken to train 15 lakh people; iii) Special programme will be introduced to create 1 lakh skilled and professional drivers

13. Senior Citizen

- The allocation under the old age allowances has been **increased** from Tk.2,400 crore in FY19 to Tk.2,640 crore in FY20
  - This higher allocation will cover additional 4 lac man month (of senior citizens) (from 40 lac mm to 44 lac mm) without any change in per capita allocation (Tk.600)
  - Considering the high cost of living, the per capita allocation needs to be increased

VI. SELECTED SECTORAL ISSUES

14. Marginalised Groups

- **In the budget for FY20, allocation has been increased for**:
  - Allowances for the Financially Insolvent Disabled; Programme for Livelihood Improvement of tea-garden labours; Stipend for Disabled Students; Food Assistance in CTG-Hill Tracts Area; Programme for Improving the Livelihood of Bede & disadvantaged community; Rehabilitation and Generation of Alternative Employment for Beggars Profession; Street Children Rehabilitation Programme; Infrastructure and livelihood Development in Haor Area; Development of the Living Standard of the Marginal People of Bangladesh
- However, budget allocation for Employment Generation Programme for the Poor has remained unchanged
- Allocation for Programme for Improving the Livelihood of Transgender (Hijra), Coastal Climate Resilient Infrastructure Improvement and Development Support for Special Needs has decreased
- For Biharis, rehabilitation project is unapproved and unallocated
- The Dalit community is not specifically brought into concern, it is within the budget for the oppressed, destitute and ultra poor and marginal people

VII. CONCLUDING REMARKS

VII. CONCLUDING REMARKS

- **In summary, CPD welcomes the following from the proposed budget:**
  - Tone down of growth target in key fiscal framework parameters
  - Including less new projects in ADP
  - Proposed changes in tax holiday facilities
  - Tax exemption or rebate on institutions for educating, training or employing the physically challenged
  - Changed rate of tax credit on investment
  - Increase in VAT exemption threshold
  - Introduction of a 'crop insurance'
  - Tk. 100 crore allocation to provide start-up capital to promote youth entrepreneurship
  - A number of industries received renewed protection
- **CPD urges reconsideration of the following:**
  - No extensive measure indicated towards reducing NSD sales
  - Keeping a large amount for investment in equities without any explanation
  - No specific on details or allocation towards mechanisation of harvesting
  - Providing new fiscal incentives to exporters and remitters instead of gradually depreciating BDT
  - Increasing the minimum net wealth exemption limit

VII. CONCLUDING REMARKS

- **CPD urges reconsideration of the following:**
  - The existing and new provisions as regards undisclosed money
  - Providing VAT exemption at import stage on ad-hoc basis
  - Increasing SD on the services provided through mobile phone SIM / RIM

- **CPD urges further assessment/follow-up on the below:**
  - Tax measures to boost capital market
  - Timely action in the area of VAT automation
  - Obtaining input tax credit through VAT return only by those who provides 15% VAT
  - Increased VAT on social media based virtual business
  - Reduced duty on a number of parts used for producing mobile phones with increased CD on smartphones

Overall, the proposed measures are likely to disproportionately increase the cost of living for low- and medium- income groups compared to the affluent section.

VII. CONCLUDING REMARKS

Transparency of the budget

- ❑ The budget speech (on page 112) used NBR data to report revenue trend growth
  - ➢ There is a substantial difference between data provided NBR and MoF
  - ➢ Is NBR data used in this case to show a better picture?

- ❑ In view of recent surge of tax exemptions amid rising gap between targeted and realised revenue mobilisation, it is critical to have a comprehensive and detailed estimate of revenue forgone
  - ➢ Is it due to institutional incompetency or an informed political choice?

- ❑ Although, the budget reports previous year's actual revenue mobilisation and expenditure figures (FY18 figures in this year's budget), the same for allocations for social safety net programmes and some other indicators are not made available
- ❑ Geography-wise disaggregated information on allocations for social safety net programmes could also help assess the distribution of the public resources to the poor and marginalised

VII. CONCLUDING REMARKS

Transparency of the budget

- Regrettably, a number of inconsistencies have been found in budget documents from different government agencies. For example:
    - In the case of tax deduction rates at source on the bill of contractors and suppliers, the first slab was mentioned to be "Up to BDT 25 lakh" in the budget speech (page 113 of the English version). However, on page 2 of "Salient features of proposed reforms in income tax by Budget 2019-2020" – a document provided by NBR; the same first slab was mentioned to be "Up to BDT 15 lakh". In both documents, the second slab followed the upper limit of the first slab and thus created much confusion.
    - In a similar fashion, in the list of items for which SD have been imposed/increased/decreased, the budget speech provided a list of 9 items (page 124) while NBR provided a list consisting 7 items (page 1 of the document titled SD imposed/increased/withdraw/decreased)

VII. CONCLUDING REMARKS

- Emerging challenges in the economic management have largely remained unaddressed in the proposed budget for FY20
- The proposed budget was not directly informed by the election manifesto of the ruling government
- Despite being the budget for the terminal year of 7FYP, there was no visible urge to make a last stride towards fulfillment of the planned targets
- There was not special effort to rectify the longstanding structural marginalisation of deprived sectors
- There has been a number of promises made (such as generating employment, raising number of taxpayers) without any concrete timebound plan
- The structural reform agenda hardly gain a recognition in the Budget Speech
- Infrastructure oriented public finance driven economic growth centric approach is now showing its limitation to establish an inclusive society

Thank You

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