Independent Review of

iRBD

Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD's Recommendations for the National Budget FY2024-25

Dhaka: 16 March 2024

Centre for Policy Dialogue

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Acknowledgements

The CPD IRBD 2024 Team would like to register its profound gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report.

The CPD IRBD Team also expresses its sincere thanks to *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD for his guidance and support to the team.

The Team gratefully acknowledges the valuable support provided by the Dialogue and Communication Division, CPD, in preparing this report. The contribution of the CPD Administration and Finance Division is also highly appreciated. The assistance of *Mr A H M Ashrafuzzaman*, Deputy Director, IT, is particularly appreciated.

The CPD IRBD 2024 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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1. Introduction

Introduction

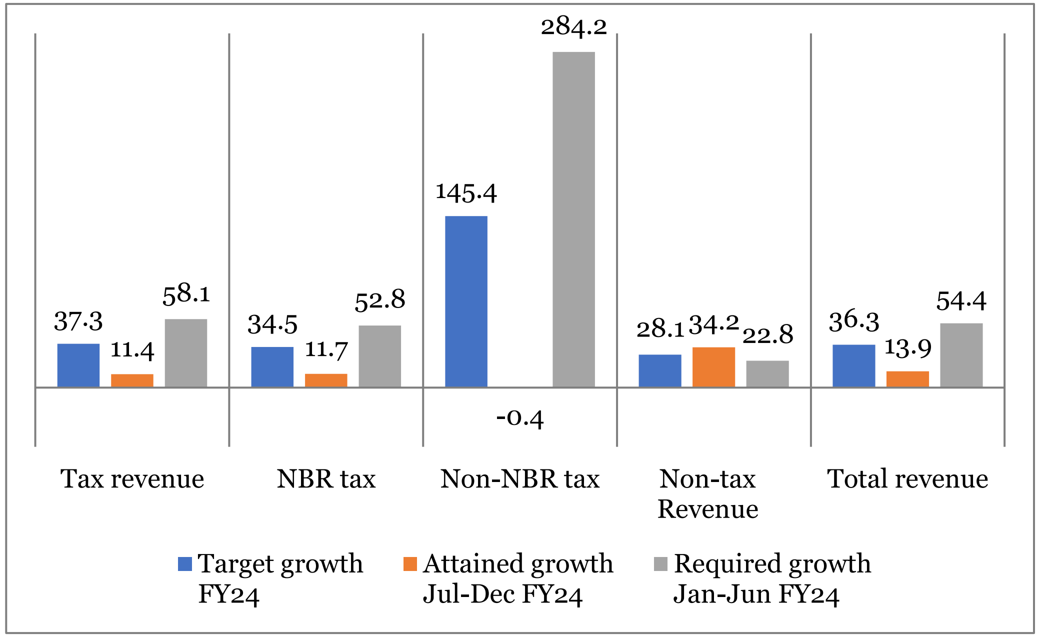
- The national budget for FY2024-25 (FY25) will be the first budget prepared by the incumbent government
  - It will also be prepared under new leadership at the Ministry of Finance
- The budget for FY25 is going to be placed before the National Parliament in the backdrop of a number of persistent macroeconomic challenges, manifested in, inter alia, subdued revenue collection, slow budget implementation, high inflation, liquidity crunch in the banking sector, lower momentum of export earnings and remittance inflow, declining forex reserves
- In general, the **macroeconomic stability has come under considerable pressure**
  - Owing to both domestic and external factors
- The FY25 budget will need to address the attendant challenges as also the medium-term reform issues with a view to restore macroeconomic stability
- In this backdrop, the Centre for Policy Dialogue (CPD) has proposed a number of fiscal budgetary measures and initiatives, keeping in the purview the upcoming FY25 budget

2. Snapshot of macroeconomic correlates

Fiscal space was rather limited during the first half of FY24

- **Revenue mobilisation growth** was **subdued** during the first half (Jul-Dec) of FY24
  - If the annual growth target of 36.3% is to be met, then total revenue collection will need to grow by a whopping 54.4% during the remainder of FY24, an unlikely prospect
  - If the current revenue mobilisation growth is carried over, then **revenue shortfall at the end of FY24** could reach **Tk. 82,000 crore**
- **Restrained approach** in the area of **public expenditure** was observed
  - During Jul-Dec of FY24, overall budget utilisation was 25.5% (27.2% in Jul-Dec FY23). **ADP implementation was low** as well
  - The government took some austerity measures both on its own and as per the IMF conditionalities

Revenue mobilisation growth by sources (%)



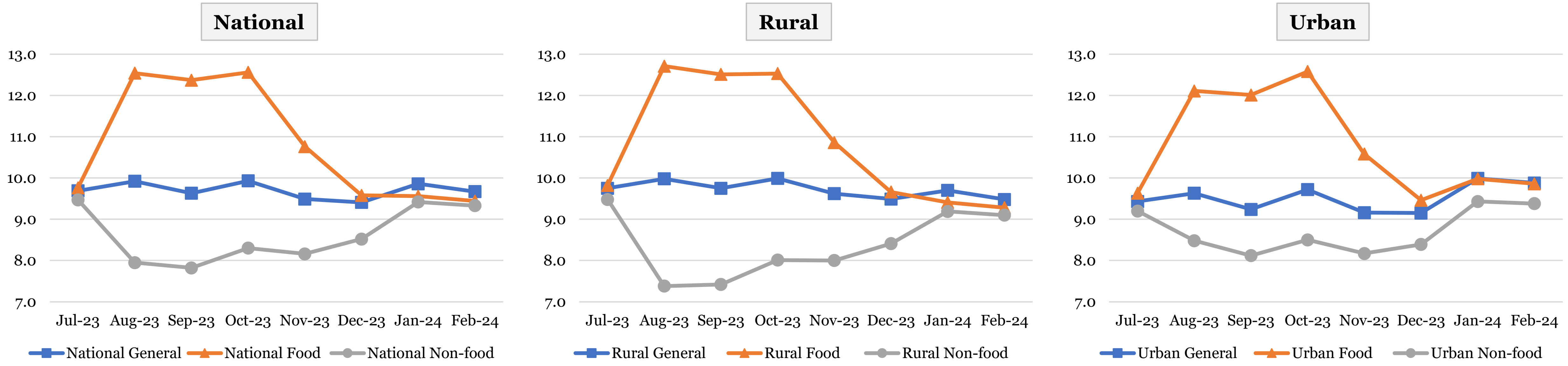
Source: Calculated from Quarterly Budget Execution Report, MoF

- While the budget deficit narrowed, the **composition of deficit financing** emerged as a **more problematic** issue
  - During Jul-Dec of FY24, budget deficit was Tk. 7,885 crore (deficit of Tk. 20,400 crore in Jul-Dec FY23)
  - **High reliance on scheduled banks** for deficit financing – affecting private sector credit growth amid liquidity crunch

Inflationary pressures persisted

- ❑During the first eight months of FY24, **general inflation remained over 9%** at national, rural, and urban levels
  - ➢ Recent **increase in electricity prices** is likely to **make matters worse**
- ❑**Food inflation**, both at urban and rural areas, was **higher than non-food inflation**
- ❑**Inflation in rural areas** was, **on average**, **higher** compared to **urban areas**

Inflationary trend during Jul-Feb FY24 (%)



Source: BBS

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Some monetary policy measures were taken to restrain inflation

- Bangladesh Bank has **taken a number of measures** throughout FY24 **to restrain inflation.** These included:
  - **Increase in policy rates**
    - The policy rate increased from 6.0% in Mar 23 to 8.0% in Jan 24 (applicable for Mar 24)
  - **Removal of interest rate caps by replacing it with** competitive market-based reference rate (**SMART**) accompanied by a margin
    - The SMART rate increased from 7.1% in Jul 23 to 9.61% in Feb 24 (applicable for Mar 24)
  - **Bringing to an end the practice of** lending to the government by **creating money** (i.e., devolvement)
  - **Infusion of USD** into the local market and mopping up liquidity
- **Projections** concerning **monetary aggregates were revised** in view of the measures taken

Monetary aggregates projections for FY24

Projection for Jun 24	Net foreign assets	Net domestic assets	Domestic credit	Credit to the public sector	Credit to the private sector	Broad money	Reserve money
Announced in Jun 2023	4.7	11.1	15.4	31.0	11.0	10.0	6.0
Announced in Jan 2024	-2.4	12.2	13.9	27.8	10.0	9.7	-1.0

Source: Bangladesh Bank

External sector performance exhibited mixed trends

- **Export performance** has been **rather muted**, with adverse implications for net export earnings
- **Import payments decreased** both owing to policy interventions and falling global commodity prices
  - Tightening of imports is **hurting the small players** in the market
  - **Larger players** are **gaining ground** in the commodity market
  - These trends will have **negative implications for future investment**
- The trends in **remittance flows do not match** the growing number of migrant **workers leaving for overseas jobs**
- Trade and current A/C balances are showing some improvement, but **financial A/C balance continues to be a major concern**
- **Forex reserves** are **yet to stabilise**, albeit at lower levels
- **Slide in exchange** rates **likely to continue** under the crawling peg pursued by Bangladesh Bank

Key indicators of the external sector

Indicator	Time frame	FY23	FY24
Export earnings growth (%)	Jul-Feb	9.6	3.7
Import payments growth (%)	Jul-Jan	-5.7	-18.3
Remittance growth (%)	Jul-Feb	4.3	7.6
Overseas migration growth (%)	Jul-Feb	27.5	15.8
Current A/C balance (USD mln)	Jul-Jan	-4,648	3,148
Financial A/C balance (USD mln)	Jul-Jan	-812	-7354
Overall balance (USD mln)	Jul-Jan	-7,387	-4,684
Forex reserve (USD mln)	Feb	24,936	20,573
Exchange rate (BDT/USD)	Feb	106.22	110.00

Source: Bangladesh Bank, Export Promotion Bureau

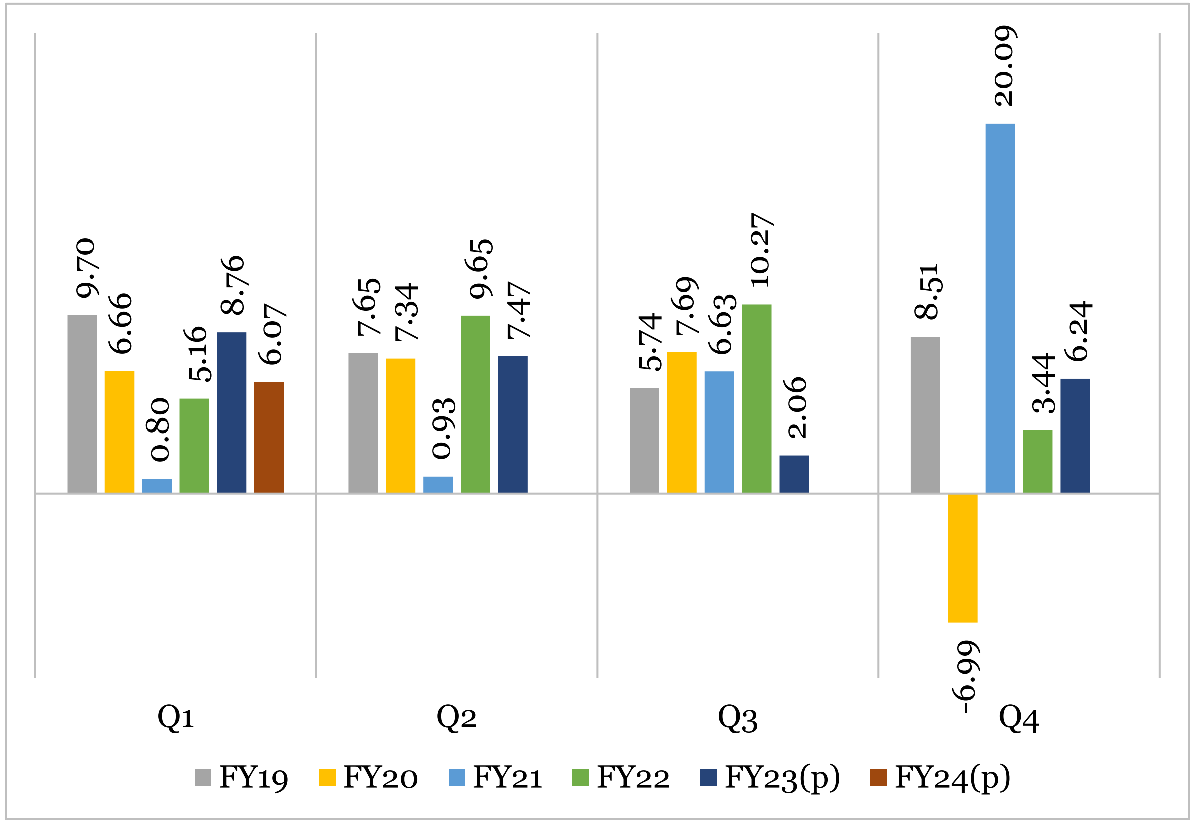
A crawling peg system was introduced for exchange rate management

- **Instead of a fully market-based** exchange rate regime, **a crawling peg system was introduced**
  - The **oft-cited reason** is to **decrease inflationary pressure**
    - However, **importers are already paying considerably higher than the official rate**
  - This measure, perhaps, was taken **to reduce the expenditure owing to government's own imports**, or **to provide some relief in terms of private sector external debt repayment**
- However, this is **hurting the cause of quick recovery** in terms of **remittance inflow/export earnings**
- This is **helping to incentivise transactions** through **informal channel** (hundi/hawala)
- **Encouraging** people to **not bring back foreign currency** and **defer foreign exchange repatriation**
- **Creating additional fiscal burden** for the government in the form of export subsidies and remittance incentive, **ultimately limiting fiscal space**
  - The government could have resorted to monetary policy tools (exchange rate) instead of fiscal policy tools (cash incentives). The prevailing policy is raising costs for both the government and the banking sector, which importers are passing on to the consumers

GDP growth declined in the first quarter of FY24

- ❑It is **encouraging** to see that the BBS has started to **publish quarterly GDP data** on a **regular basis**
- ❑During the **Jul-Sep period of FY24**, estimated **GDP growth** was **6.07%**
  - ➢ The annual target is 7.5%
- ❑**Growth of industrial production** was **lower** for **all** categories of **industries** (large; small, medium and micro; and cottage) **during the second quarter (Oct-Dec)!**
- ❑GDP growth in FY24 is more likely to be affected by the macroeconomic policy adjustments!

Quarterly GDP growth in Bangladesh (%)



Source: BBS

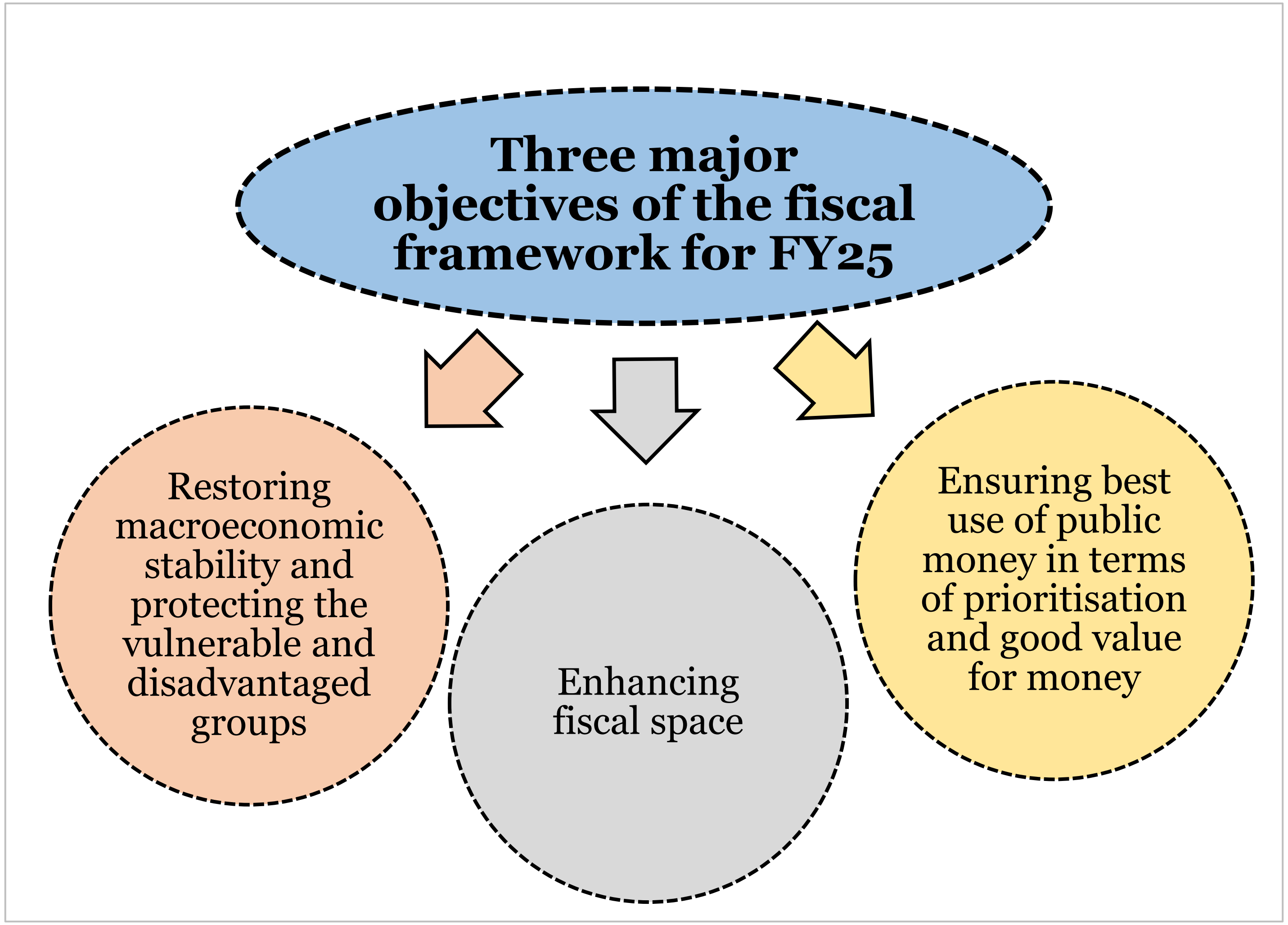
- ❑**The key macroeconomic management stance ought to be restoring macroeconomic stability**, by curtailing the rate of inflation and stabilising exchange rate, **even if this comes at the cost of lower GDP growth**

3. Proposals towards a credible fiscal framework

The three guiding principles

The **three guiding principles** for the **national budget for FY25** should be:

- **Restoring macroeconomic stability while protecting the interests of vulnerable and disadvantaged groups**
- **Enhancing fiscal space**
- **Ensuring best use of public resources through appropriate prioritisation and by ensuring good value for money**



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Setting the targets for FY25 in a realistic manner

- CPD, while presenting its 'Analysis of the National Budget for FY2023-24' in June 2023, observed that 'the targets to be set for the macroeconomic framework for FY2024 did not take cognisance of the current realities'
  - The resultant fiscal framework for FY24 was rather formulaic in nature and envisaged that a business-as-usual scenario would prevail. Consequently, lofty targets were set that were very likely to be missed by a considerable margin at the end of the fiscal year
  - As the FY24 approaches the finishing line, many of the apprehensions, regrettably, are proving to be true
- Building on the lessons from this experience, the design and fiscal targets of the upcoming FY25 should be set in a realistic manner, taking cognisance of the emergent macroeconomic scenario – both concerning the domestic and external fronts
- In discussing the issue of realistic target setting, the revenue mobilisation targets for FY24 can be a case in point
  - While proposing the budget for FY24, the targeted growth of revenue mobilisation was set at 15.5% over the revised budgetary target of FY23
  - However, if the actual revenue mobilisation of FY23 is considered, the growth target for FY24 actually turns out to be 36.7% - more than double the projected growth rate!

Setting out priorities for public spending clearly

- While designing the budgetary framework for FY25, policymakers should take cognisance of the continued rising cost of essentials
- Proper attention should be given to food production, social protection (including public works programmes), subsidies for agriculture, energy and power sectors, as well as the health and education sectors
    - Supporting the vulnerable and disadvantaged groups should be the central focus of subsidy management
- Earlier government directives to cut down "unnecessary and luxury" public spending (such as the purchase of government vehicles and international travel) should be continued
- The government should prioritise implementing all foreign-funded ADP projects in light of the declining foreign exchange reserve situation. The government should give higher priority to implementing projects that are nearly finished (about 90-95% completion rate in June 24)
- Projects that had a 10% or lower implementation rate up till end of March 2024 should be deprioritised
- An Independent Commission to examine the concerns about the rising costs of public infrastructure projects should be formed

Maintaining balance in terms of budget deficit financing

- In FY25, a major challenge will be to cater to the envisaged financing from foreign sources
  - In the case of foreign borrowing, the bulk is tied with ADP design and implementation capacities of the government agencies
  - In the case of budget support, the majority is contingent upon policy reforms
- Non-bank borrowing targets are unlikely to be met
  - Sale of NSD certificates may continue to be sub-par owing to lower levels of savings by people, and the rising interest rates for deposits with banks
- Bank borrowing will likely be under pressure to finance the budget deficit
  - In the backdrop of the liquidity crunch of the commercial banks and the government's commitment not to opt for borrowing from the central bank, the fiscal space available for the government will be somewhat limited, if private sector borrowings are not to be crowded out

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

Fiscal measures for FY25

- In the FY24 budget, tax-free income threshold for personal income was raised to Tk.3.50 lakh from Tk. 3.00 lakh considering the loss of real income due to inflation
  - In view of the persisting high inflation, particularly those of food items, the second slab for personal income tax (PIT) which is 5% for additional Tk. 1 lakh should be increased to Tk. 2 lakh to provide cushion to limited-income earners
- In the FY21 budget, highest rate for PIT was reduced to 25% from 30%. Is has remained unchanged ever since
  - CPD argued that reducing the highest tax rate was against the cause of promoting tax justice. The highest tax rate should be reinstated at 30% for top earners in the FY25 budget

Individual taxpayer - tax rate

FY24		FY25	
Current tax slabs	Current tax rate	Proposed tax slabs	Proposed tax rates
Up to Tk. 3,50,000/-	Nill	Up to Tk. 3,50,000/-	Nill
Next Tk. 1,00,000/-	5%	**Next Tk. 2,00,000/-**	5%
Next Tk. 3,00,000/-	10%	**Next Tk. 2,00,000/-**	10%
Next Tk. 4,00,000/-	15%	Next Tk. 4,00,000/-	15%
Next Tk. 5,00,000/-	20%	Next Tk. 5,00,000/-	20%
On balance	25%	**On balance**	**30%**

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Fiscal measures for FY25 (cont.)

- In the FY23 budget, the gap in corporate income tax (CIT) rate for traded and non-traded companies was reduced – discouraging entry to the capital market. The FY24 budget did not propose any change to these rates
  - For FY25, the CIT rates for the aforementioned types of companies should revert back to the pre-FY23 scenario

Corporate taxpayer - tax rate

Company type	Current FY24		Proposed FY25	
	In normal scenario	In case of failure to meet condition	In normal scenario	In case of failure to meet condition
Publicly traded company that issues shares worth more than 10% of its paid-up capital through IPO	20%	22.5%	20%	22.5%
Publicly traded company that issues shares worth 10% or less of its paid-up capital through IPO	22.5%	25%	22.5%	25%
Non-publicly traded company	27.5%	30%	**30%**	**32.5%**

Fiscal measures for FY25 (cont.)

- The new Income Tax Act 2023 put several not-for-profit entities under the category of 'companies' [according to Section 2(31)]
  - Treating not-for-profit entities in the same way as profit-maximising companies does not do justice to these organisations' purposes, objectives and modus operandi
  - There is a need to amend this definition to define these under a separate category. This will also help ensure that the concerned entities do not face any obstacles while receiving foreign grants
- According to SRO No 333-Act/Income tax-20/2023, income generated from private organisations' recognised provident fund, approved gratuity fund, approved superannuation fund, and approved pension fund is subject to 15% tax in FY24
  - However, there is no mention of what happens after FY24
  - The 15% tax rate should be reduced to 10%, making it permanent in the FY25 budget
- Prioritise property tax with valuing the assets at actual current market prices and by integrating data from all available sources

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

Fiscal measures for FY25 (cont.)

- A number of provisions concerning legalisation of undisclosed income and assets have been included in the Income Tax Act 2023
  - Carried over from the Income Tax Ordinance 1984
- Rather than continuing such measures year after year, more proactive actions should be taken against tax dodgers by enforcing appropriate laws

Provisions concerning legalisation of undisclosed income and assets

As per Income Tax Act 2023	As per Income Tax Ordinance 1984
Section 20	Section 16H
1st Schedule part-1, para-1	Section 19BBBBB
1st Schedule part-1, para-2	Section 19DD
1st Schedule part-2	Section 19E
Section 45 (Cha)	Section 19 (6)
Section 67 (4)	Section 19 (8)
Section 67 (6)	Section 19 (9)
4th Schedule, Para-8	Section 19 (14)
Section 41 (2)	Section 19 (17)
Section 67 (6)	Section 19 (9)
Section 24	N/A

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Fiscal measures for FY25 (cont.)

- To collect VAT at local stage, NBR installed 9,572 electronic fiscal devices (EFDs) as of July 2023. In FY24, NBR expects to install another 10,000 EFDs. The government plans to install another 300,000 EFDs over the next five years
  - NBR needs to aggressively pursue this target. Provisions should be there in FY25 budget to enable tax authorities to install 60,000 EFDs
- NBR should launch a comprehensive on-line payment system for VAT, income tax and customs together with an interface with iBAS++ and ensure harmonisation and taxpayer data sharing across various wings of the NBR as has been envisaged in the PFM Action Plan 2018-23. This should be done at the earliest
  - The data sharing issue has also been raised by the IMF
- As per data from international sources, the major part of Bangladesh's illicit financial outflows is on account of trade mispricing. Transfer Pricing Cell (TPC) of NBR, Bangladesh Financial Intelligence Unit (BFIU) and Customs Intelligence and Investigation Directorate (CIID) should work closely to deal with trade-based money laundering. Bangladesh Bank's current initiatives to deal with the problem should be further strengthened
  - For effective implementation of the responsibility of the TPC, the national budget for FY25 should ensure adequate allocation for technical and human resources and forensic investigation capacities

Fiscal measures for FY25 (cont.)

- As part of the IMF conditionalities, NBR is scheduled to establish compliance risk management units (CRMUs) within the customs and VAT wings by end-December 2023, and a CRMU for the income tax wing was expected by early 2024
  - These units should be adequately endowed with the required financial, technical and human resource capacities in the FY25 budget
- NBR should intensify its efforts towards timely publication of revenue collection data (by type of tax and under stipulated subheadings)
  - As per the Data Reporting Requirements of IMF, this data is to be published monthly, within six weeks of the end of each month
- Efforts to broaden taxation base must be given priority in the FY25 budget
  - Opportunities of taxing the digital economy, and initiatives towards digitalisation of the taxation system ought to receive priority attention on the part of NBR
- Fiscal policies and proposals will need to be aligned with Bangladesh's obligations as a future developing country, following LDC graduation
  - Subsidies for export, and export credit subsidies
  - Frequency of notification to the WTO

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

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Fiscal measures for FY25 (cont.)

- CPD, in its earlier state of the economy exercise, provided the following recommendations for **medium and long term revenue strategy (MLTRS)** - currently being developed and to be adopted by June 2024
  - *Prioritise the unfinished agenda*
  - *Recognise the frontier issues of taxation, such as meaningfully taxing property and wealth, and introducing inheritance tax*
  - *Improving the data ecosystem*
  - *Vigorously pursue the curbing illicit financial flow (IFF) agenda*
  - *Emphasise digitalisation of the entire revenue system*
  - *Define the scope of MLTRS beyond the remit of NBR tax*
  - *Assess economy-wide implications and equity concerns of MLTRS and learn from the past experience of implementing similar strategies*
  - *Ensure openness, transparency and stakeholder participation in fiscal decision making*
- CPD would like to reiterate that adoption of MLTRS will require buy-in not only from high-level policymakers (political buy-in) but also from those involved at the operational and implementation levels (functional buy-in)

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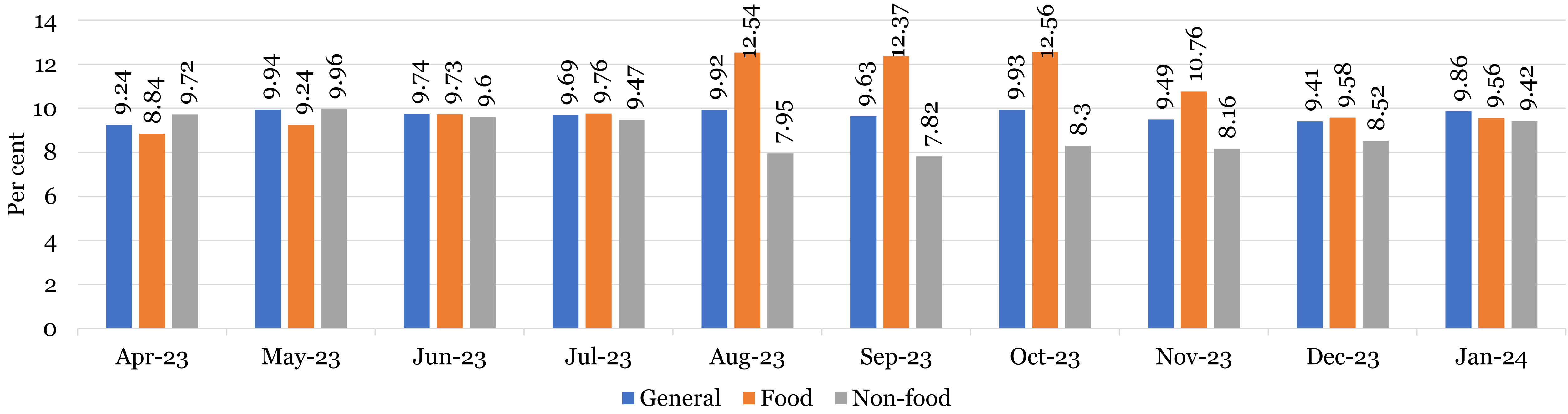
4. The cost of living crisis in Bangladesh

Point-to-point CPI inflation rate

- The point-to-point general CPI inflation rate has been nearly double digit for almost one year
- The point-to-point food CPI inflation rate has exceeded double digits multiple times in the past one year
- Apart from updating the base and basket used for calculating CPI, BBS has also reduced the length of its monthly inflation report from 41 pages to 34 pages and stopped published monthly average prices of selected items, starting from April 2023

Figure: Point-to-point CPI inflation rate, base index 2021-22 = 100 (in %)



The cost of living crisis

- There were signs of inflationary pressures in Bangladesh even before the situation in Ukraine started
- In 2021, **73.9% of Bangladesh's population, or 125.2 million people, could not afford a healthy diet**, according to the Food Prices for Nutrition 2.1 database developed by the World Bank, International Food Policy Research Institute (IFPRI), and Tufts University (https://www.worldbank.org/en/programs/icp/brief/foodpricesfornutrition)
- Given the persistently high prices prevailing for the past three years, the number of people unable to afford a healthy diet in Bangladesh is anticipated to be much larger in 2024
- The ongoing increase in prices can be attributed to various factors, including **market manipulation** by a few powerful companies and inadequate regulation
- The increase in prices of a variety of items that are highly sought after (such as brinjal, lentil, onion, chickpeas, chickpea flour, edible oil, sugar, potato, meat, green chilli, parched rice (chira), dates, and puffed rice (muri) during the month of Ramadan is a widely recognised occurrence in Bangladesh
- Government efforts to keep prices of essentials under control during Ramadan, or even during the rest of the year, have seen little success in the past several years

Withdrawal of tariffs and taxes may not be enough

- The Government of Bangladesh, through the Bangladesh Tariff Commission, has decided to establish a committee to determine the fair prices of essential commodities
- The Government of Bangladesh has set up this committee because the market for essential items is not perfectly competitive
- **Price controls are ineffective** in a market economy and can lead to the emergence of informal markets, ultimately reducing the economy's efficiency and productivity
- If obstacles hinder the smooth operation of the market, it is crucial to identify and address these barriers with suitable policies accurately
- CPD has previously recommended that the Government withdraw import tariffs and other taxes on essential items. This may be a **short-term option** for dealing with the high level of inflation in the country. However, *in the long run, this approach cannot control inflation on its own*
- It must be kept in mind that **inflation in Bangladesh is not only imported inflation**
- Additionally, it must also be kept in mind that the effectiveness of the policy of tariff cuts as a means for controlling inflation is limited by the concurrent decline in the value of the Bangladeshi Taka
- Removing these tariffs would only temporarily reduce prices, which may be quite low considering the significant increase in consumer prices

Volatile energy prices fueling inflation

- The Ministry of Power Energy and Mineral Resources (MoPEMR) **increased the electricity tariff** on 27 February 2024
- **Electricity users** across all sectors of the economy, including homes, farms, factories, and service providers, have to bear the **full brunt of this change**
- Gas and electricity tariff rises, in particular, are likely to drive up industrial costs, which **in turn will drive up consumer product prices**
- The amount of **capacity payments given to independent power producers (IPPs)**, including rental and quick rental power plants, has notably increased, along with the energy subsidy burden
- The adoption of the **Quick Enhancement of Electricity and Energy Supply (Special Provision) (Amendment) Act, 2010**, indemnifying the government's measures in the energy sector from legal action, has resulted in a **lack of competitive bidding**, which in turn has driven up the price of electricity purchased from private companies
- The current national energy crisis, and to some extent, the current cost-of-living crisis, is a consequence of the **questionable practices and favouritism** that the government has permitted through the 'emergency power supply act'
- Due to the decline in local natural gas reserves, Bangladesh's energy market has shifted toward **relying more on imported energy source**s such as petroleum, LNG, and coal, increasing its vulnerability to shocks
- Therefore, price fluctuations within the worldwide energy market impacted both the energy sector and the overall economy
- The power and energy sectors in the country have seen a **significant shortage of public investment in energy exploration** despite geological surveys pointing to the possibility of making gas discoveries

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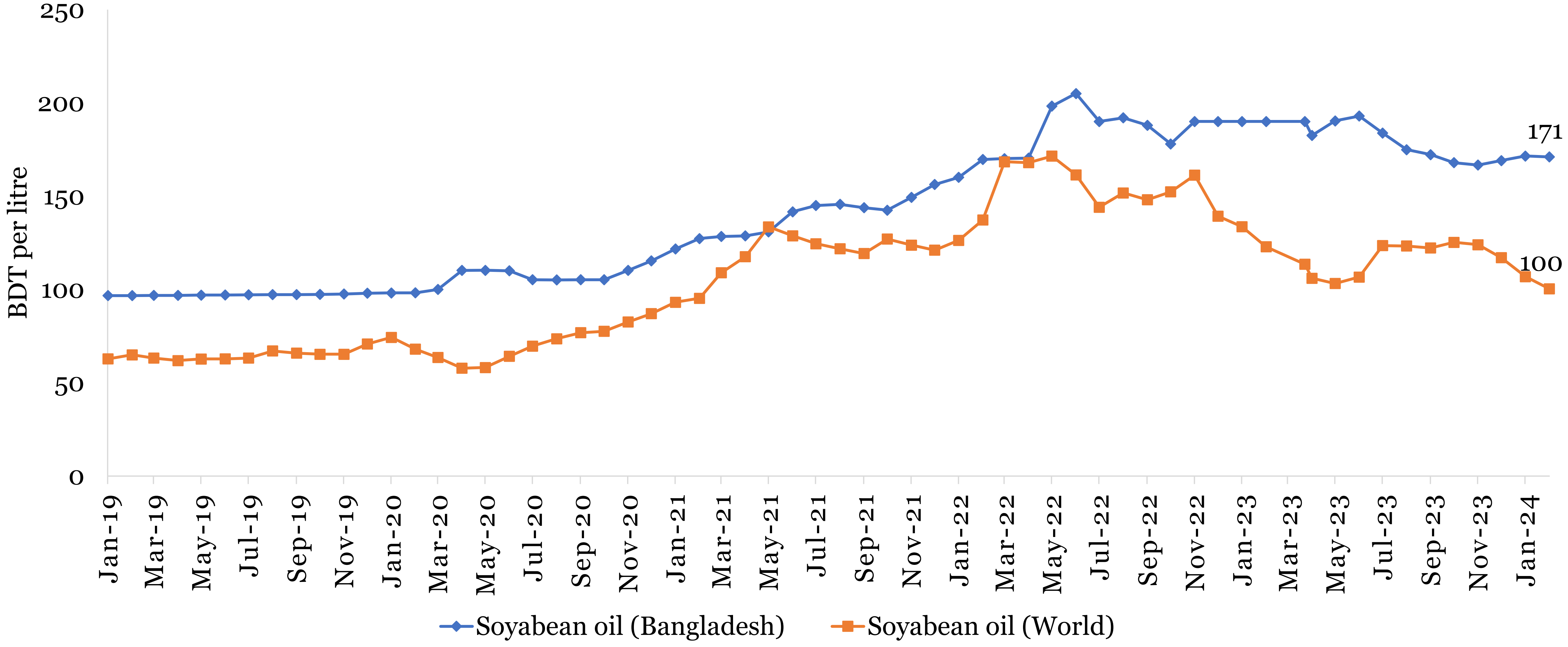
High prices only in Bangladesh?

- International comparison of prices shows that the price of essential food items do not fall in Bangladesh, even when the international prices fall
- Additionally, the data also shows that the price of some essential food items remain consistently over the international prices
- These numbers indicate that the inflation prevailing in Bangladesh at present may not necessarily be imported inflation, as is commonly presumed
- On the contrary, **the inflation in Bangladesh appears to be a largely domestic phenomenon**
- As a result of these price increases, the cost of living has increased rapidly causing immense suffering to low income and fixed income households

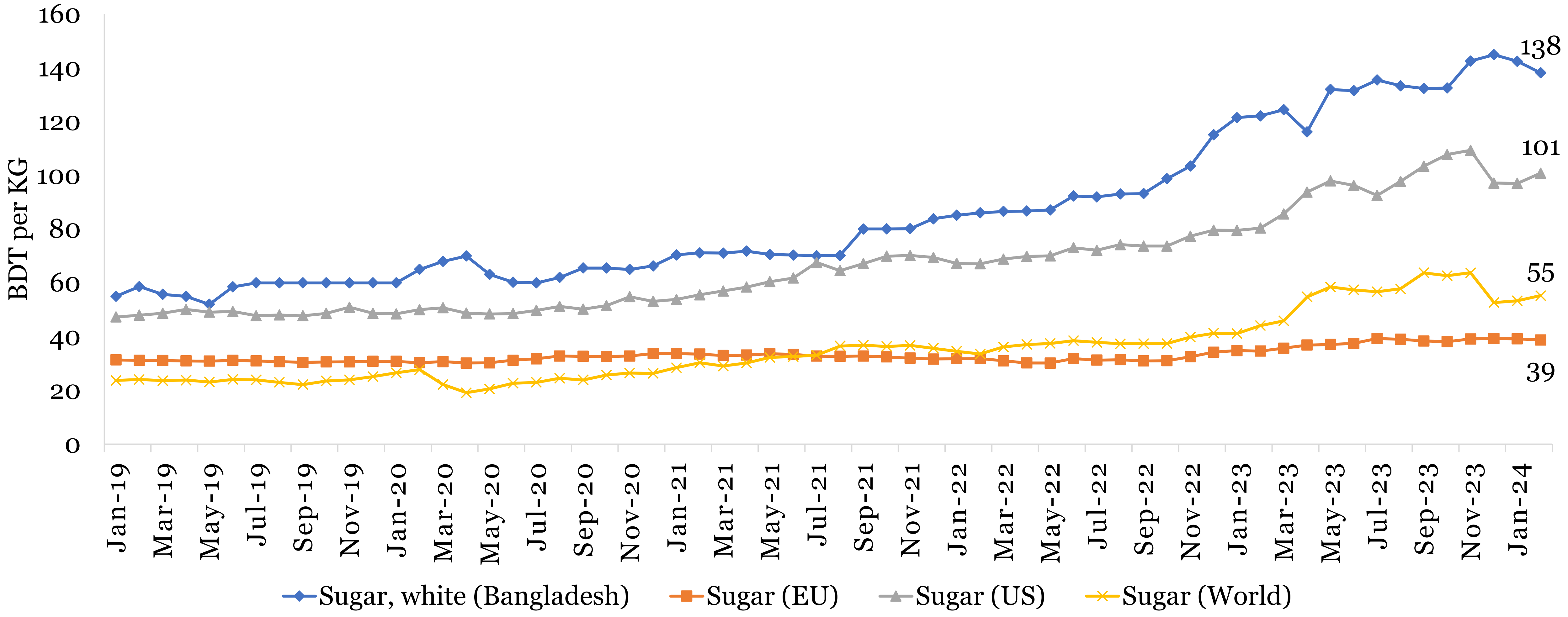
Price of soyabean oil

Figure: Price of soyabean oil in Bangladesh and international markets (in BDT per litre)



Price of sugar

Figure: Price of sugar in Bangladesh and international markets (in BDT per kg)



How inflation is eroding purchasing power of money in Bangladesh

	Nominal Salary (in BDT)	Nominal increment (in %)	12-month average general CPI inflation rate in July (in %)	Real increment (in %)	Real Salary (in BDT)
2009	100	5	6.04	-1.04	
2010	105	5	7.63	-2.63	97.4
2011	110	5	9.11	-4.11	93.4
2012	116	5	8.14	-3.14	90.4
2013	122	5	6.99	-1.99	88.6
2014	128	5	7.28	-2.28	86.6
2015	134	5	6.35	-1.35	85.4
2016	141	5	5.84	-0.84	84.7
2017	148	5	5.45	-0.45	84.3
2018	155	5	5.78	-0.78	83.7
2019	163	5	5.48	-0.48	83.3
2020	171	5	5.64	-0.64	82.8
2021	180	5	5.54	-0.54	82.3
2022	189	5	6.33	-1.33	81.2
2023	198	5	9.20	-4.20	77.8

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Some programmes where allocation decreased in the budget for FY24

Description	RBFY23 (BDT in crore)	FY24 (BDT in crore)	Change (in %)
Vulnerable Group Feeding (VGF)	1542.19	1089.79	-29.3
EGPP	2107.62	1780.00	-15.5
Open Market Sales (OMS)	2338.34	2110.04	-9.8

- In view of high prices of essential food items, **reduced budget allocation for the above programmes will affect the poor**

Safety nets too small and too shallow

Some programmes where allocation is less than BDT 100 per beneficiary per month

Name of programme	Allocation per beneficiary per year (in BDT)	Allocation per beneficiary per month (in BDT)
Essential Service Delivery & Community Based Health Care	16	1
Urban Resilience Project (DNCC & DDM)	28	2
Construction of Multiple Disaster Shelters	89	7
Maternal, Neonatal, Child and Adolescent Health/ National Nutrition Services	106	9
Cash Transfer Modernization (CTM)	110	9
H T.B, Leprosy, Communicable and Non-communicable Disease Control	111	9
School Feeding Programmes in poverty stricken areas	124	10
Various Relief Goods (Cloths, Blankets, Biscuits, Corrugated Iron Sheets, Tents, Baby Food, Cattle-Food etc.) / Relief Goods	225	19
Stipends for Undergraduate and Postgraduate students	258	22
Improvement of work environment in readymade garment sector/ elimination of risky child labor in Bangladesh and welfare facilities and skill development activities for workers	268	22
Tottho Apa: Empowering Women Through ICT towards Digital Bangladesh / Tattha Apa: Empowerment of women through information communication technology with the aim of building a digital Bangladesh	335	28
Multi-Sectoral Programme to Prevent Violence against Women (4th Phase)	432	36
Maternal, Child, Reproductive and Adolescent Health	577	48
Vulnerable Group Feeding (VGF)	605	50
Service and Assistance Center for Disabled	635	53
Agricultural Rehabilitation	984	82
Trust for the protection of the Persons with Neuro-developmental Disabilities. / Neuro-Developmental Disability Protection Trust	1145	95

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

Recommendations

- The Minimum Wage Board should consider **increasing the minimum wages in all industries** so that workers earning minimum wages may at least afford basic food
- Instead of relying on only the withdrawal of import tariffs and other taxes on essential items, it is crucial **to identify and address obstacles that hinder the smooth operation of the market**
- To create fiscal space, the government should reduce wastes, use resources efficiently, and stop economically wasteful payments such as capacity payments to IPPs

Recommendations

- ❑ **Competition Commission's role should be strengthened.** Required skilled professionals should be hired to this end, particularly with a view to monitoring markets for essential commodities on a regular basis
- ❑ The Commission should create a **database**, monitor the operations of prominent market players on a regular basis, investigate market control and manipulation (if any), and take appropriate actions
- ❑ An **adequate budget** should be earmarked for the Commission to perform these duties
- ❑ To this end, the Ministry of Commerce should also work in tandem with the Commission
- ❑ The Bangladesh Competition Commission should **adopt a strong stance against cartels** and a **zero-tolerance policy towards collusive practices**
- ❑ Furthermore, the **Competition Act 2012 should be revised** to directly address monopolies and include specific anti-trust clauses, along with concrete penalties for violators

Recommendations

- The volume of essential commodities sold through the open market system (OMS) should be increased. The government should set higher targets for foodgrain procurement and food distribution programmes. To this end, adequate resources should be allocated in the FY25 budget. Furthermore, the distribution of these commodities must be managed efficiently and without corruption so that only the eligible can obtain the essential items at lower prices
- Government should provide additional support for subsidised credit programmes for the agriculture sector (both crop and non-crop) to incentivise production during the next fiscal year
- Government should continue providing stimulus to the small and medium enterprises to help them survive the difficult times
- Government should extend the scope of direct cash/kind assistance programmes for low-income population groups

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

5. Fiscal and financial measures for clean energy

5.1 Fiscal and budgetary measures for clean energy use in the power and energy sector

- National budget needs to focus increasingly on **fiscal and financial measures** for enhancing clean energy use with a view to lessening the **fiscal pressure as well as addressing climate vulnerabilities**
- Promoting clean energy in Bangladesh largely depends on creating a **favourable business environment conducive** for the private sector **to make investment in different segments** of the renewable energy **supply chain**
- Ensuring business-friendly environment requires **reducing existing discriminatory fiscal and financial policies** in favour of using fossil-fuel based energy
- An equal opportunity for using renewable energy could be created not only through ensuring fiscal and budgetary support for related technologies but also **through withdrawal of fiscal and budgetary support over fossil-fuel based technologies**
- This section highlights fiscal and financial issues for using clean energy **from the following five perspectives**:
  - Fiscal and budgetary measures for clean energy use in the power and energy sector
  - Fiscal measures for clean energy use in the industrial sector
  - Fiscal measures for clean energy use in the agriculture sector
  - Fiscal measures for clean energy use in the transport sector
  - Financing clean energy

5.1 Fiscal and budgetary measures for clean energy use in the power and energy sector

ADP for the Renewable Energy Projects

- The **underfunding on renewable energy-based projects** in the public expenditure is a critical concern
  - During FY24 ADP allocation on renewable energy-based power and energy projects comprises **only about 2.47% of the total ADP allocation** on power and energy sector
  - Out of 99 approved power and energy related projects in ADP 2024, **only 5 projects are related with renewable energy** (Table 5.1.1)
  - Lack of sufficient **budget allocation could delay completion** of some of the projects (Table 5.1.1)

Recommendations:

- Upcoming national budget (FY25) **should allocate more resources to implement more renewable energy-based projects**. Following unapproved projects should get priority in case resource allocation in the next budget
  - Construction of 20 MWp Solar Photovoltaic Grid-Connected Power Plant at Barapukuria (July 2023-June 2025)
  - Construction 7.6 MWp Solar Photovoltaic Grid-Connected Power Plant at Kaptai Hyrdo Power Station, Kaptai, Rangamati (July 2023-June 2025)
  - Construction of 50 MWp Solar Photovoltaic Grid-Connected Power Plant at Rangunia (July 2023-June 2025)
- Allocation of more funds **is required for the improvement of the coastal transmission** system to enhance the efficiency of solar power generation

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

Table 5.1.1: Renewable Energy based Major Development Projects for FY24

Project name	Allocation FY24 (In Lakh Taka)	Maximum Completion Rate
Sonagaji 50MW solar power plant building	22000	89%
Technical support project for renewable energy resource assessment and piloting	1465	98%
TA for strengthening and development of sustainable power sector in Bangladesh	2800	40%
Agriculture irrigation through solar driven pump	35122	93%
100 MW solar power plant building in Madarganj	72984	54%

Source: ADP 2023-24

IRBD Independent Review of Bangladesh's Development

5.1 Fiscal and budgetary measures for clean energy use in the power and energy sector

Fiscal Measures

- ❑ Tax incentives **for renewable energy investments are currently not competitive** with those for fossil fuel-based power plants, which **can enjoy a tax holiday of up to 10 years**
  - Additionally, the tax waiver **offered to utility-scale solar projects does not extend sufficiently** to small-scale rooftop solar initiatives

Recommendations:

- Increase the tax holiday for **renewable energy-based power plants from 5 to 10 years**
  - **Provide a 100% duty waiver for small-scale** rooftop solar projects, similar to utility-scale projects
  - The tax framework for **solar inverters and other solar power-related accessories results in a high total tax incidence (TTI),** with rates reaching up **to 58%,** which may hinder the adoption and implementation of solar energy solutions (Table 5.1.2)

- ❑ Furthermore, the VAT rates on solar machinery and **appliances are still considerably high at 15%, and the** customs duties on specific solar power-operated appliances are also high

Recommendations:

- Lower the **cumulative tax rate on solar inverters,** including customs duty, VAT, advance income tax, and advance tax
  - **Reconsider the 15% VAT on** solar-based machinery and appliances to make them more affordable
  - **Eliminate the 1% customs duty** on solar-powered water distillation plants and the 10% duty on solar water heaters with insulated storage tanks

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

Independent Review of IRBD Bangladesh's Development

5.1 Fiscal and budgetary measures for clean energy use in the power and energy sector

Table 5.1.2: Disaggregated tax structure of solar related accessories

List of Machineries Imported		**HS Code**	**Duty tax rate**					
Types	Description		**CD**	**SD**	**VAT**	**AIT**	**RD**	**AT**
Solar PV Module	Solar PV Module with Accessories	85414300	1%	0	15%	5%	0%	5%
Solar Inverter	Inverter with Accessories	85044090	10%	0	15%	5%	0%	5%
Interconnection Cables and connectors	DC cables: Panel to Inverter	85446000	25%	0	15%	5%	3%	5%
Structure	Rooftop structure RCC Part	76109090	25%	0	15%	5%	3%	5%
Others	Rooftop structure Tin Shed Rail Joiner	76109090	25%	0	15%	5%	3%	5%
Others	Walkway for rooftop Solar power plant	73089099	25%	0	15%	5%	3%	5%
Others	Cleaning Material	96039000	25%	0	15%	5%	3%	5%

Source: NBR, 2024

5.1 Fiscal and budgetary measures for clean energy use in the power and energy sector

- Private sector power generation companies in Bangladesh **can access tax exemptions and benefits** outlined in specific statutory regulatory orders (SROs) if they have power sale or purchase agreements with the government

Recommendations:

- Remove the stipulation 'Power Generation **Companies who have achieved Commercial Operation'** and grant the text ‘exemption to any companies’

- According to the Net Metering Policy, companies can **sell surplus solar power to local utilities** via tripartite agreements, meeting the conditions for tax facilities provided by SRO-70-AIN/2020
  - Additionally, companies operational by June 30, 2024, are tax-exempt on income from power generation, while those operational by June 30, 2025, can access various tax exemptions if they comply with **the Private Sector Power Generation Policy**

Recommendations:

- Any Company Generating or Producing Electricity through Renewable Energy under the Net Metering Guideline **2018” to be inserted into the SRO**
  - Any Company Generating or Producing Electricity through Renewable Energy under the Net Metering Guideline 2018 **fully exempted from income tax**
  - There is, however**, a discrepancy in how solar modules and related equipment** are classified under the income tax rules, leading to issues with customs

- Despite amendments to SROs and income tax rules stating that certain imported goods, **like capital machinery**, are exempt **from Advance Income Tax (AIT),** solar power components are not recognised as such by customs, necessitating immediate clarification

Recommendations:

- Customs **should acknowledge** Solar Modules, Inverter, Structure & DC Cable as capital machineries

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5.2 Fiscal measures for clean energy use in the industrial sector

- The industrial sector, particularly the garment and textile sectors**, is progressively adopting solar energy** to reduce operational costs and comply with global environmental standards
  - At present, **1,941 rooftop solar installations are primarily in the industrial sector,** with a notable achievement of 84.6 MW through net metering (SREDA)
  - Solar energy adoption could lead to substantial savings, with **an estimated 2,000 MW of rooftop** solar potentially saving the **government Tk 52.3 billion to Tk 110.32 billion annually (IEEFA)**
  - The garment and textile sector alone could **generate 400 MW of power through efficient** solar energy use (IDCOL, 2020)

Recommendations:

- **Revision is needed for the current policy on Net Energy Metering (NEM)**, which currently limits capacity to 70% of the sanctioned load, with a cap not exceeding 10 MW
  - **Implement guidelines** that promote streamlined and standardised net metering processes across all regions, ensuring transparency and efficiency
  - **Conduct a comprehensive mapping exercise** to assess the solar energy potential across all industrial sectors
  - **Align the customs duty on solar inverters** with that of solar panels, reducing it from 37% to 1% (Table 5.2.1)
  - **Establish a uniform, low TTI for all solar-related products and equipment,** targeting a TTI of 1% to 5% (Table 3)
  - **Offer subsidies or tax exemptions for initial costs of installing solar systems with a focus on supporting SMEs** – installation items include aluminum structure for solar system, photosensitive solar device, glass fibre required for solar installation, DC cable and automatic regulating controlling instruments

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5.2 Fiscal measures for clean energy use in the industrial sector

Table 5.2.1: Duty structure of solar equipment in Bangladesh

HS Code	Description	Customs Duty (CD)	Supplementary Duty (SD)	Value-added Tax (VAT)	Advanced income tax (AIT)	Regulatory Duty (RD)	Advanced Trade Vat	Total Tax Incidence (TTI)
85414900	**Photosensitive semiconductor devices, Light-emitting diodes (LED) NES**	5	0	15	5	0	5	31%
85414100	**Photosensitive semiconductor devices, including, Light-emitting diodes (LED)**	5	0	15	5	0	5	31%
85414200	**Photovoltaic cells not assembled in modules or made up into panels**	0	0	15	5	0	5	25%
85414300	**Photovoltaic cells assembled in modules or made up into panels**	1	0	15	5	0	5	26.2%
85030010	**Parts Of Photovoltaic Generators Of Heading No 85.01 Or 85.02**	1	0	15	5	0	5	26.2%
85017210	**Photovoltaic DC generators**	1	0	15	5	0	5	26.2%
85018090	**Photovoltaic AC generators**	1	0	15	5	0	5	26.2%
85044090	**Other Static converters**	10	0	15	5	0	5	37%
85044010	**Mobile battery less than 6V (charger)**	25	0	15	5	3	5	58.6%
85049010	**Electrical transformers, static converters, Tap Changer**	5	0	15	5	0	5	31%
85049090	**Parts Of Transformers, Inductors and Static Converters, Nes**	25	0	15	5	3	5	58.60%
85131010	**Solar-powered lanterns/lamps having no provision for electrical power**	0	0	15	5	0	5	25%
85161010	**Solar water heater with insulated storage tank**	10	0	15	5	0	5	37%
84194020	**Solar power-operated water distillation plant**	1	0	15	5	0	5	26.20%

Source: NBR, 2024

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5.3 Fiscal measures for clean energy use in the agriculture sector

Installation of Solar Irrigation Pumps

- ❑ Bangladesh **heavily relies on 1.34 million diesel** and more than **430,000 electric** pumps for irrigation, costing over $1 billion annually in diesel expenses, with government subsidies
  - Farmers' irrigation **costs with diesel or electric pumps range from Tk 3,000 to Tk 4,000 per bigha**, whereas **solar irrigation presents a more economical option** at Tk 2,500 to Tk 2,800 (Khan et al, 2021)
- ❑ Transition to solar irrigation **is slow - 2,971 Solar Irrigation Pumps (SIPs)** are in operation with an installed capacity of **55.063 MWp, albeit representing just 0.22% of total pumps (SREDA)**
  - The IDCOL **has been involved in replacing diesel pumps with Solar Irrigation Pumps (SIPs)** with the target of deploying 45,000 solar irrigation pumps by 2031

Recommendations:

- A **faster implementation of installing solar irrigation pumps** will require more fund to replace the remining diesel-based power pumps

Fiscal Measures

- ❑ A low customs duty **of 1% on essential solar pump components** is beneficial, but added VAT, AIT, and other taxes increase the overall cost, discouraging widespread adoption (Table 5.3.1)
  - While government policies favour solar over non-solar pumps through lower duty rates, the Total Tax Incidence (TTI) over 23% still poses a significant barrier

Recommendations:

- **Revise tax duty structure for Solar Irrigation Pump (SIP)** equipment, including waiver of custom duties, exemption of VAT on pumps, and providing relief from advanced income and trade taxes on solar panels and pumps to potentially lower the Total Tax Incidence (TTI) to 1-5% (Table 5.3.1)

5.3 Fiscal measures for clean energy use in the agriculture sector

Fiscal measures

Recommendations:

- **Standardise tax rates across all components and products necessary** for solar irrigation systems such as PV panels, converts, pumps etc.
- **Promote grid-integrated Solar Irrigation Pumps (**SIPs) to enable energy export during non-irrigation periods
- **Establish mechanisms to subsidise** grid connection costs for smaller and poorer farmers covering ancillary services and security management
- **Introduce battery energy storage systems** as optional equipment for grid-connected solar systems post-2031 to enhance grid stability and provide ancillary services

Table 5.3.1: Duty Structure for Solar Irrigation Related Products

HS Code	Description	Customs Duty (CD)	Supplementary Duty (SD)	Value-added Tax (VAT)	Advanced income tax (AIT)	Regulatory Duty (RD)	Advanced Trade Vat	Total Tax Incidence (TTI)
84137000	**Other Centrifugal Pumps**	1	0	15	2	0	5	23.20%
84138100	**Other Liquid Elevators Pumps**	1	0	15	5	0	5	26.20%
84136000	**Rotary Positive Displacement Pumps**	1	0	15	5	0	5	26.20%

Source: National Board of Revenue, 2024

5.3 Fiscal measures for clean energy use in the agriculture sector

Fiscal measures

- At present the **National Board of Revenue (NBR) classifies solar irrigation products under** broader definition in few HS codes which are subject to a higher duty structure (Table 5.3.1)

Recommendations:

- It could be beneficial to **design separate duty structures with explicit 8-digit Harmonised System (HS)** codes for solar irrigation products, as is the practice in certain countries, such as India (Table 5.3.2)

Table 5.3.2: HS code for solar irrigation pumps and accessories practised in India

HS Code	Description
84135029	SF-1 solar PV irrigation pump version: 1.5 (900 ltr/hr @ 6mtr lift) pump unit
84137010	Solar submersible pump set (solar ssp4000-120-8-380v(4x4)38mm solar cont.(4.0hp3p (w/og) poly crystal
84137099	Rotomag 2 HP solar surface pumps model MBP 60, 1800sp
84137010	Solar submersible pump accessories(poly crystalline solar panel (250w)) solar submersible pump
84137010	Solar submersible pump accessories(solar stand assly for 4 plate)

Source: Zauba

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5.4 Fiscal measures for clean energy use in the transport sector

CBU internal combustion (ICE) cars and hybrid cars

❑ In the current market structure, most Bangladeshi **buyers opt for completely built-up (CBU)** imported reconditioned cars, **mostly from Japan**

- Reconditioned cars generally have **worse emission standards** and fuel efficiency compared to new cars
  - There are discrepancies **in the duty structure of CBU internal combustion** (ICE) cars with that of hybrid cars in terms of promoting green technologies (Table 5.4.1 and 5.4.2)
  - A customer **shift towards hybrid vehicles from reconditioned** and newly imported ICE vehicles can noticeably reduce short-term carbon emission

Table 5.4.1: Motor vehicles (ICE) and other motor cars including Station Wagon, CBU

Engine size	Current SD
Up to cylinder capacity 1600cc	45%
1601-2000 cc	100%
2001cc-3000cc	250%
30001cc- 4000cc	500%
4001cc and higher	500%
Microbus	
1801cc-2000cc	20%
2000cc and above	45%

Source: NBR, 2024

Table 5.4.2 : Hybrid Motor vehicles and other motor cars including Station Wagon

Engine size	Current SD
Up to cylinder capacity 1800cc	20%
1801-2000 cc	45%
2001cc-2500cc	60%
2501cc- 3000cc	100%
3001c-4000cc	150%
Higher than 4000cc	350%
Microbus	
1801cc-2000cc	30%
2000cc and above	60%

Source: NBR, 2024

5.4 Fiscal measures for clean energy use in the transport sector

Recommendations:

- The next budget **should focus on promoting imported new** hybrid cars which have better emission standards and fuel efficiency than internal combustion engine cars (new or reconditioned)
- SD on hybrid vehicles needs to **be further reduced to create parity** with the cost of ICE cars, especially the reconditioned ones

- ❑ Gasoline cars emit more **than 350 grams of CO_2 per mile driven over their lifetimes** whereas Hybrid and plug-in hybrid versions score around 260 grams per mile of carbon dioxide
- ❑ The current regulation states that **imported reconditioned cars can not be older than 4 years**

Recommendations:

- This **should be decreased to 3 years from 4 years to further discourage** reconditioned car import
- The SD on hybrid microbuses **are 30% and 60% for vehicles** with engine size of 1801cc-2000cc and over 2000c respectively
- These figures are **still higher than their ICE counterparts (20% and 45% respectively**)

Recommendations:

- The SD on hybrid microbuses should **be lowered than it is now on ICE microbuses**
- Euro **standard 5 should be uniformly introduced** as the emission standard for the transport sector vehicles

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5.4 Fiscal measures for clean energy use in the transport sector

Electric Vehicle

- In Bangladesh, the **current tax structure for electric vehicles (EVs)** is determined by the BRTA Electric Motor Vehicle Registration and Operation Guidelines 2023
  - The Guidelines **equates 1 KW of electric motor capacity** to 20cc of internal combustion engine for annual tax purposes (Table 5.4.3)
  - This comparison has **resulted in a tax disparity** that affects affordability. For instance, affordable EVs come with engines ranging from 100KW to 150 KW
  - Furthermore, the total tax incidence on lithium batteries **in Bangladesh is 89%,** double that of India, which hinders the country's potential as an EV assembler and manufacturer
  - The existing tax incidence on EV imports, **including a 99% import duty, 20% supplementary duty (SD),** and a fixed advance income tax of BDT 3 lakh per unit, brings the total cost of EV ownership close to **traditional vehicles** in the same price range, providing little incentive for consumers to switch to EVs

Table 5.4.3: Annual tax structure of EV

Engine or Motor Capacity (1 kw = 20cc)	Current annual tax (BDT)
Up to 1500 cc or 75kw	25,000
1500 – 2000 cc or 75-100kw	50,000
2000 – 2500 cc or 100-125kw	75,000
2500 – 3000 cc or 125-150kw	1,25,000
3000 – 3500 cc or 150-175kw	1,50,000
Above 3500 cc or 175kw	2,00,000

Source: BRTA, 2024

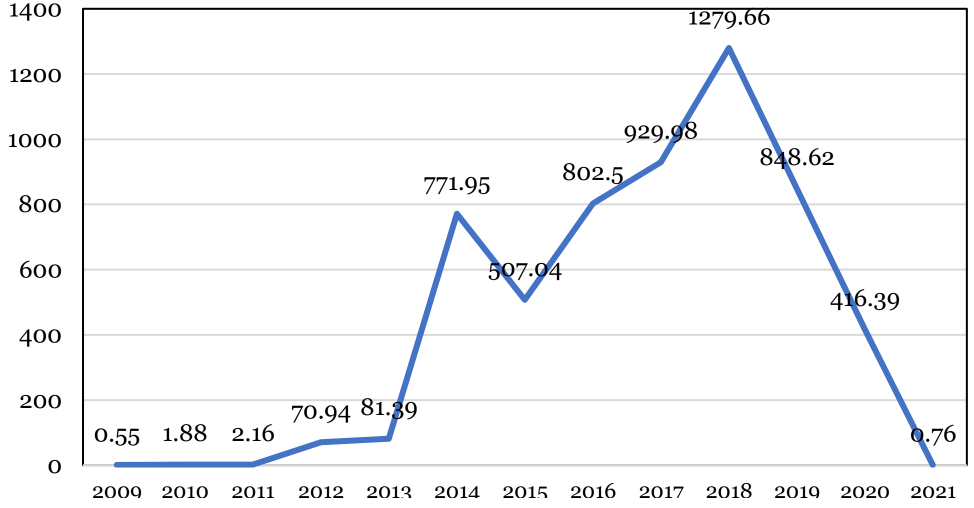
Recommendations:

- **Align the 'cc to KW' rate in EVs so that it aligns** with the purchasing power between EV and ICE/Hybrid vehicle owners
  - **Lower the TTI on lithium** batteries to encourage local assembly and manufacturing of EVs
  - **Reduce the 99% import duty on EVs** to be more in line with regional competitors
  - Evaluate **BDT 3 lakh per unit AIT on** EVs to ensure it does not disproportionately affect the consumers
  - Restructure the **annual tax for EVs so** that it is within the price range of existing 1000-2000cc ICE vehicles

5.5 Financing clean energy

- ❑ Ensuring energy financing would be crucial for Bangladesh to achieve its clean **energy target of 40% by 2041**
    - According to a report of Change Initiative (2023), Bangladesh would require **an amount of USD 26.5 billion** to achieve this target of 2041. However, from 2016 to 2022, the country received **only USD 6.71 billion**
    - The report also mentions that the country has the potential to secure funding **of around USD 38.4 billion**
- ❑ Since 2000 to till the date, Bangladesh has been receiving **support** for its power sector from different development partners (DPs)
    - In the last 23 years, the power sector received an amount of **USD 5,562 mil** from the development partners in the form of grants or loans of **which only USD754 mil** went to renewable energy-based power sector (Table 5.5.1)
- Figure 5.5.1 indicates a notable surge in development partner support for **the power sector in the earlier years** mainly **in fossil-fuel based electricity** sector development, followed **by a consistent decline since 2018**

Figure 5.5.1: Disbursed ODA by DPs in the power sector (in million USD)



Source: ERD

Table 5.5.1: Subsector wise ODA disbursement in the power sector since the year 2000

Sub-Sector	# Project	Amount (USD)	%
Distribution	7	583.60	9.55
Generation	8	1,149.17	18.80
New and Renewal Source of Energy	13	754.56	12.34
Not Applicable	17	2,324.59	38.02
Transmission	5	901.90	14.75
Funding channelled through			
Govt. Sector	44	4,885.94	79.92
Non-Govt. Sector	5	676.03	11.06

Source: ERD

5.5 Financing clean energy

- Past data indicates that various development **partners have funded diverse projects** within the power sector, encompassing renewable and clean energy initiatives
  - ADB and JICA, two major development partners mainly disbursed funds **for non-renewable energy** development (Table 5.5.2)
  - **39% of the committed** support from the DPs for the power sector is still to be disbursed (Table 5.5.2)

Recommendations:

- In the upcoming year, the government needs **to ensure the disbursement of the remaining support** and explore additional funding sources
- The government **should intensify negotiations** to secure funds from bilateral, multilateral, and regional sources as outlined in the following table (Table 5.5.3)
- Different global climate funds and clean energy and green technology **funds should be the priority of the government**

Table 5.5.2: DPs wise disbursement of support in the power sector since the year 2000

Name of the development partners	Total Commitment (In BDT mil)	Total Disbursed (In BDT mil) up to 2023	% of Disbursed for clean and renewable energy	% of Disbursed for efficiency	% of Disbursed for others
Asian Development Bank	3096.5	1601.90	0	77	23
Department for International Development	27.88	26.86	100	0	0
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	5.41	4.72	100	0	0
European Union/European Commission	8.04	2.80	0	100	0
French Development Agency	112.27	73.28	0	100	0
Global Environment Facility	4.73	5.11	87	13	0
Japan Fund for Poverty Reduction	2.00	0.80	0	100	0
Japan International Cooperation Agency	3398.00	2006.07	5	3	92
Korea International Cooperation Agency	2.69	2.33	100	0	0
Kreditanstalt Fuer Wiederaufbau	245.25	54.62	14	13	73
Norwegain Agency for International Development	3.87	0.60	0	0	100
OPEC Fund for International Development	30.00	2.34	0	0	100
United Nations Development Programme	5.13	0.11	0	0	100
United Nations Industrial Development Organization	0.05	0.05	0	0	100
World Bank	1536.55	1356.66	18	0	82

Source: ERD (2024)

5.5 Financing clean energy

Table 5.5.3: Different Climate Funds Available for Bangladesh

Name of the fund	Type of fund	About
Green Climate Fund (GCF)	Multilateral	The fund established under the UNFCCC to support climate mitigation and adaptation projects in developing countries.
Global Environment Facility (GEF)	Multilateral	The fund provides grants to developing countries for projects that benefit the global environment, including climate change mitigation and adaptation
Climate Investment Funds (CIFs)	Multilateral	The fund supports climate resilience and low-carbon development in developing countries through concessional financing
Adaptation Fund	Multilateral	The fund provides funding for concrete adaptation projects and programs in developing countries that are parties to the Kyoto Protocol
Clean Technology Fund (CTF)	Multilateral	It supports the demonstration, deployment, and transfer of low-carbon technologies in developing countries
The World Bank's International Development Association (IDA)	Multilateral	The fund provides concessional loans and grants to the world's poorest countries to support development projects, including those related to climate change.
The World Bank's Energy Sector Management Assistance Program (ESMAP)	Multilateral	The fund provides technical assistance and knowledge sharing to help countries transition to sustainable energy solutions
Renewable Energy Performance Platform (REPP)	Multilateral	It facilitates private investment in renewable energy projects in developing countries
The United Nations Development Programme (UNDP) Climate Change Adaptation Fund	Multilateral	Supports adaptation projects in vulnerable communities, focusing on building resilience to climate change impacts
The European Union's Climate Finance Instruments	Multilateral	The fund provides financial support to developing countries for climate change mitigation and adaptation projects.
The Global Energy Efficiency and Renewable Energy Fund (GEEREF)	Multilateral	GEEREF invests in specialist renewable energy and energy efficiency private equity funds in emerging markets.
The Asia-Pacific Climate Finance Fund (APCF)	Multilateral	The fund supports the development and implementation of innovative, scalable, and commercially viable financial risk management products that increase investments in climate change mitigation, adaptation, and disaster risk management in ADB's DMCs.
The Nordic Development Fund (NDF) Climate and Energy Fund	Multilateral	The Nordic Development Fund provides financing and expertise for climate change mitigation and adaptation projects in developing countries
The Japan International Cooperation Agency (JICA) Climate Change Mitigation Fund	Multilateral	JICA provides financial and technical assistance to developing countries to support various projects related to climate change mitigation, adaptation, and resilience building
The German Federal Ministry for Economic Cooperation and Development (BMZ) Climate Finance Program	Bilateral	BMZ's Climate Finance Program aims to support developing countries in their efforts to mitigate and adapt to climate change
The Climate Resilience and Adaptation Finance and Technology Transfer Facility for South Asia (CRAFT)	Regional	This facility aims to support climate resilience and adaptation efforts in South Asian countries
New Development Bank (NDB)	Multilateral	The NDB focuses on financing projects in key sectors such as transportation, energy, water resource management, urban development, and environmental protection.
Belt and Road Initiative (BRI) Green Investment:	Multilateral	Within the broader BRI framework, China has allocated funds specifically for green projects, including renewable energy infrastructure, sustainable transportation, and environmental conservation initiatives along the Belt and Road routes.

Source: Authors' compilation

6. Fiscal policy for protecting public health

Budget allocation in health sector

- In Bangladesh, the budget allocation for the health sector has been **less than 1% of GDP for the past 20 years**, indicating that health was never a priority sector for the government
- On the contrary, in 2020, at least 44 LDCs spent more than 1% of the GDP on healthcare
- Bangladesh's **government expenditure on health** as a share of GDP was the **fourth lowest among 44 LDCs** in 2020, with only Djibouti, Benin, and Gambia spending less on health than Bangladesh in 2020
- On top of this, Bangladesh's **out-of-pocket expenditure on health per capita** at purchasing power parity was the **seventh highest among 44 LDCs in 2020**
- Bangladesh's out-of-pocket expenditure as a percentage of current health expenditure was 74% in 2020, showing an increasing trend for the past two decades
- It is necessary to increase both budget allocation and utilisation of the health sector. Implementation of fiscal measures is crucial to improve public health which can in turn maximise social welfare

Source: World Health Organization Global Health Expenditure database.

A single and specific tax on cigarettes: BDT 10 per stick

- The government should **eliminate the tiers of cigarette taxation and replace those with a single universal system**
- We propose implementing a **uniform specific excise duty of BDT 10 per cigarette stick** on all cigarettes in FY25

Proposed tax structure for cigarettes (per pack of 10 cigarettes)

<table>
<tr><th colspan="6">Current tax structure for cigarettes in FY24</th><th colspan="5">Proposed tax structure in FY25</th></tr>
<tr><th></th><th colspan="2">Retail price</th><th colspan="3">SD</th><th></th><th colspan="2">Retail price</th><th colspan="2">Specific excise duty</th></tr>
<tr><th>Tier</th><th>Pack of 10 (in BDT)</th><th>Per stick (in BDT)</th><th>Per pack of 10 (in per cent)</th><th>Per pack of 10 (in BDT)</th><th>Per stick (in BDT)</th><th>Tier</th><th>Per pack of 10 (in BDT)</th><th>Per stick (in BDT)</th><th>Per pack of 10 (in BDT)</th><th>Per stick (in BDT)</th></tr>
<tr><td>Low</td><td>45</td><td>4.5</td><td>58</td><td>26.10</td><td>2.61</td><td rowspan="4">Universal</td><td rowspan="4">Market based</td><td rowspan="4">Market based</td><td rowspan="4">100</td><td rowspan="4">10</td></tr>
<tr><td>Medium</td><td>67</td><td>6.7</td><td>65</td><td>43.55</td><td>4.35</td></tr>
<tr><td>High</td><td>113</td><td>11.3</td><td>65</td><td>73.45</td><td>7.34</td></tr>
<tr><td>Premium</td><td>150</td><td>15.0</td><td>65</td><td>97.50</td><td>9.75</td></tr>
</table>

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

A single and specific tax on Bidi: BDT 3 per stick

CPD proposes a specific excise tax of **BDT 3 per stick** for all Bidi to be implemented in FY25

Proposed tax structure for Bidi

<table>
<tr><th colspan="6">Current tax structure in FY24</th><th colspan="5">Proposed tax structure in FY25</th></tr>
<tr><th></th><th colspan="2">Retail price</th><th colspan="3">SD</th><th></th><th colspan="2">Retail price</th><th colspan="2">Specific excise duty</th></tr>
<tr><th>Type of bidi</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th><th>Per pack (in per cent)</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th><th>Type of bidi</th><th>Per pack (in BDT)</th><th>Per stick</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th></tr>
<tr><td>Non-filtered 25-stick handmade bidi</td><td>18</td><td>0.72</td><td>30</td><td>5.40</td><td>0.22</td><td rowspan="5">All</td><td rowspan="5">Market based</td><td rowspan="5">Market based</td><td>75</td><td rowspan="5">3</td></tr>
<tr><td>Non-filtered 12-stick handmade bidi</td><td>9</td><td>1.33</td><td>30</td><td>2.70</td><td>0.23</td><td>36</td></tr>
<tr><td>Non-filtered eight-stick handmade bidi</td><td>6</td><td>1.33</td><td>30</td><td>1.80</td><td>0.23</td><td>24</td></tr>
<tr><td>Filtered 20-stick handmade bidi</td><td>19</td><td>1.05</td><td>40</td><td>7.60</td><td>0.38</td><td>60</td></tr>
<tr><td>Filtered 10-stick handmade bidi</td><td>10</td><td>1.00</td><td>40</td><td>4.00</td><td>0.40</td><td>30</td></tr>
</table>

A single and specific tax on Jarda and Gul: BDT 6 per gram

- CPD proposes a **specific excise duty of BDT 6 on per gram of Jarda and Gul** to be implemented in FY25
- Such a specific tax on Jarda and Gul should be increased by at least BDT 1 each year, to account for annual inflation and income growth

Proposed tax structure for Jarda and Gul

<table>
<tr><th colspan="6">Current tax structure in FY24</th><th colspan="5">Proposed tax structure in FY25</th></tr>
<tr><th></th><th colspan="2">Retail price</th><th colspan="3">SD</th><th></th><th colspan="2">Retail price</th><th colspan="2">Specific excise duty</th></tr>
<tr><th>Type of product</th><th>Per 10gm (in BDT)</th><th>Per gm (in BDT)</th><th>Per 10 gm (in per cent)</th><th>Per 10 gm (in BDT)</th><th>Per gm (in BDT)</th><th>Type of product</th><th>Per 10gm (in BDT)</th><th>Per gm (in BDT)</th><th>Per 10gm (in BDT)</th><th>Per gm (in BDT)</th></tr>
<tr><td>10gm jarda</td><td>45</td><td>4.5</td><td>55</td><td>24.75</td><td>2.47</td><td>10gm jarda</td><td rowspan="2">Market based</td><td rowspan="2">Market based</td><td rowspan="2">60</td><td rowspan="2">6</td></tr>
<tr><td>10gm gul</td><td>23</td><td>2.3</td><td>55</td><td>12.65</td><td>1.26</td><td>10gm gul</td></tr>
</table>

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

Health Development Surcharge and VAT on cigarettes and other tobacco products

➢ We propose that that the **Health Development Surcharge** on cigarettes and other tobacco products to be **increased from 1% to 5%**, and the **VAT** on cigarettes and other tobacco products to be **increased from 15% to 20%** in FY25

Proposed Health Development Surcharge and VAT on cigarettes and other tobacco products

	Current Tax Structure for FY24		Proposed Tax Structure for FY25	
	Health Development Surcharge (in per cent)	VAT (in per cent)	Health Development Surcharge (in per cent)	VAT (in per cent)
Cigarettes	1	15	5	20
Biri	1	15	5	20
Jarda	1	15	5	20
Gul	1	15	5	20

Corporate tax on tobacco product manufacturing companies

- The effective tax for a publicly listed tobacco company **decreased by 1 percentage point in 2022**
- CPD proposes that the **corporate tax on all companies manufacturing tobacco products** to be **increased** from 45% in FY22 to **50% in FY25**, and the associated **surcharge** to be increased from 2.5% in FY22 to **5% in FY25**
- The National Board of Revenue (NBR) should not give highest taxpayer award or any other social recognition to any individual or company involved in the tobacco business

Proposed corporate tax on tobacco product manufacturing companies

	Current tax structure in FY24		Proposed tax structure for FY25		Proposed tax structure for FY26	
Type of company	**Corporate tax (in %)**	**Surcharge (in %)**	**Corporate tax (in %)**	**Surcharge (in %)**	**Corporate tax (in %)**	**Surcharge (in %)**
All companies manufacturing tobacco products	45	2.5	50	5	55	7.5

High opportunity cost of tobacco cultivation

- **Tobacco leaf cultivation used up 99,600 acres of arable land** in Bangladesh in 2020-21
  - The quantity of **boro rice** that could be produced on this land could meet the demand of additional **12.5 Lakh** people for a **whole year**
  - The quantity of **wheat** that could be produced on this land could sustain the wheat demand of additional **1 crore 84 lakh** people for a **whole year**
- Tobacco leaf export has more than doubled in the last fiscal year
- **CPD believes the 25% tax on export that was waived for tobacco companies operating in export processing zones (EPZs) must be reinstated in FY25**

A hard tax on soft drinks and energy drinks

- Carbonated soft drink and energy drinks contain a substantial amount of sugar which is a major cause for obesity, diabetes, and tooth decay
- Typically, **a single can of a soft drink** which is around 355 millilitres, contains **39 grams of sugar** is equivalent to roughly about **10 teaspoons of sugar**, while the World Health Organisation (WHO) recommends that adults **should not consume more than 6 teaspoons of sugar daily to lead a healthy lifestyle**
  - Currently, the beverage and carbonated industry is subjected to a 25% SD for carbonated soft drinks, 35% SD for energy drinks, and 15% VAT applicable for both

A hard tax on soft drinks and energy drinks

- For soft drinks and energy drinks, **CPD recommends that the government should put a specific excise duty of BDT 0.10 per ml or BDT 100 per litre**
- Placing a specific excise duty on soft drinks and energy drinks **will provide the government with substantial revenue** and also minimise the risks of related diseases and health expenditures of the general people
- This will also allow the economy to achieve SDG target 3.4 which aims to **reduce non-communicable diseases** by one-third by 2030

Proposed Tax Structure for Soft Drinks and Energy Drinks

Current Tax Structure for FY24			Proposed Tax Structure for FY25			
Beverage	**SD (%)**	**VAT (%)**	**Beverage**	**Specific excise duty (BDT per ml)**	**Specific excise duty (BDT per litre)**	**VAT (%)**
Soft drinks	25	15	Soft drinks	0.10	100	20
Energy drinks	35	15	Energy drinks	0.10	100	20

Tax on sanitary napkins: a gender tax harming women and girls

- **Menstrual hygiene is a fundamental right for women and girls which is violated when menstrual hygiene products are subjected to all kinds of tax**
- Locally produced **sanitary napkins and similar sanitary products** are subjected to **high prices** because of **high total tax incidence (TTI) on imports of raw materials** required for their manufacture
- According to Bangladesh Customs, SD on imported raw materials required for manufacturing sanitary napkins, such as air laid paper was 20%, VAT and advance income tax (AIT) on other necessary raw materials were 15% and 5%, respectively in FY22

Tax on sanitary napkins: a gender tax harming women and girls

❑**CPD proposes that:**

- **TTI on imported raw materials required to produce sanitary napkins should be zero by exempting all form of VAT, CD, SD AIT, RD, AT and AIT**
- Raw materials used to produce sanitary napkins fall under 12 HS codes, including 48239094, 35052000, 35069110, 39069000, 39199020, 39201020 and 40021100
- TTI of all these raw materials **should be made zero** to ensure affordable sanitary napkins for women and girls from all levels of income
- The **TTI on imported sanitary napkins** in FY22 was **127.72%**, which is recommended to **be reduced to 31.93% in FY25** so that the product remains low-priced, but at the same time the domestic manufacturers of sanitary napkins receive some level of tariff protection

IRBD Independent Review of Bangladesh's Development

Tax on medicines in view of LDC graduation

- Under the VAT and Supplementary Duty Act 2012, the government imposed 2.4% VAT on pharmaceuticals including medicines at local trading stage and 15% VAT on import of pharmaceutical ingredients and raw materials for production
- As an LDC, Bangladesh's pharmaceutical industry is currently enjoying facilities under WTO's Trade Related Property Rights (TRIPS) pharmaceutical waiver
- The TRIPS pharmaceuticals waiver will be withdrawn starting from 2026, so Bangladesh will lose the LDC-specific support measures under this agreement
- CPD recommends that the **VAT on medicines should be exempted starting from FY26** to ensure that medicines continue to be affordable to all even after the loss of TRIPS waiver in 2026

7. Fiscal policy for incentivising education

Budget allocation in the education sector

- The Eighth Five-Year Plan states that the education budget should grow from 2% of GDP in FY19 to 3% of GDP by FY25
- However, the education budget was only 1.76% of GDP in FY24
- Bangladesh's average education expenditure as a percentage of GDP from 2016 to 2022 was the **fifth lowest among 41 LDCs** (The World Bank, 2023)
- On average, **at least 35 LDCs spent 2% or more of their GDP on education** from 2016 to 2022
- Growth in total actual expenditure on education in Bangladesh decreased by 12% between FY21 and FY22
- The **education budget utilisation decreased** from 95% in FY19 to 87% in FY22

Rethinking taxes on education

- While the government has exempted Bengali medium schools, and later private universities from paying VAT on tuition fees, the **VAT on English medium schools continues to be at 5%**
  - The existing VAT puts an additional burden on the parents of middle-income households
  - **Therefore, the VAT on tuition fees for English medium schools should be exempted in FY25**
- English medium schools follow international curriculum, and their students are assigned to read imported foreign books. At present the **total tax incidence on imported books is 73.96%**
  - This puts further strain on families from middle-income households and impedes the efforts made in order to achieve SDG 4, which aims for inclusive and quality education for all
  - **Therefore, all taxes on imported foreign books should be exempted**
- Currently, a 15% corporate income tax rate applies to private universities, medical colleges, dental colleges, engineering colleges, and colleges imparting information technology education
  - **This rate should be reduced to 10% in FY25**

Independent Review of IRBD Bangladesh's Development

Proposal for increased budget allocation for all education stipends

➢ **CPD proposes an increase in the allocation for all education stipends to be implemented in the budget for FY25**

Name of stipend	Current stipend structure in FY24			Proposed stipend structure in FY25	
	Number of beneficiaries (in crore)	Total budget allocation (in crore BDT)	Allocation per beneficiary per year (in BDT)	Total budget allocation (in crore BDT)	Allocation per beneficiary per year (in BDT)
Student stipend for primary education level	1.4	2569.24	1,835	16,800	12,000
Stipends for secondary, higher secondary and madrasah education level students	0.6003	1398.00	2,329	7,204	12,000
Stipends for undergraduate and postgraduate level students	0.013	3.36	258	234	18,000
Stipends for students of technical education institutions	0.0831	451.05	5,428	1,994	24,000
Stipends for physically challenged students	0.01	112.74	11,274	240	24,000
Stipend for improving the livelihood of transgender, Bede and disadvantaged community	0.0031	30.00	9,677	74	24,000
Total for stipend programmes	2.1095	4564.39		26,546	

- Our proposed stipend reform will benefit more than 2 crore students at all levels and cost the government an additional BDT 26,546 crore

8. Fiscal measures for the environment

Budget for a breath of fresh air

- The PM 2.5 concentration in Bangladesh's air was **13.2 times higher than the World Health Organization's (WHO) safe air quality guideline** as of 26 March 2023 (IQAir, 2022)
- On average, an individual in Dhaka city spent BDT 4,000 per year to diagnose and treat symptoms associated with air pollution, as revealed by the CPD Green Cities Initiative survey in 2023
- Bangladesh has made unconditional commitment to reduce greenhouse gas (GHG) emissions by 6.73% in five sectors namely, power, transport, industry, waste and land use by 2030 as per its Nationally Determined Contribution (NDC) document
- According to the updated NDC of Bangladesh, USD 14.6 billion and USD 89.9 billion are required to deliver unconditional and conditional commitment respectively in the transport sub-sector of the energy sector from 2021-2030 (MoEFCC, 2021)
- **To achieve these GHG emission reduction targets, Bangladesh needs to implement a variety of tax and regulatory measures**

Fisch measures to reduce air pollution

- An extensive policy that considers **VAT exemption on all types of equipment in a renewable power plant**, especially solar power plants, should be considered from FY25
- An **incentive tariff can be considered for electricity generated from renewables** according to the Renewable Energy Policy 2008. This policy allows *electricity generated from renewable sources to be priced 10% higher than the highest purchase price of electricity generated from fossil fuel sources*
- A **1% surcharge on the goods produced by industries polluting the environment** should be implemented in FY25
- The government should **phase out fossil fuel subsidies from FY25**
- A **formal feed-in tariff policy exclusively for renewable energy needs to be implemented in FY25** so a clear incentive package reaches all types of potential renewable energy producers, regardless of their generation capacity

Independent Review of Bangladesh's Development (IRBD)

Fiscal measures to reduce air pollution

- In order to reduce air polluting originating from the transport sector, the government should reform the advance income tax (AIT) structure on private motor vehicles so that the **AIT on fossil fuel driven motor vehicles** is **5% to 50% higher than the AIT on hybrid and fully electric vehicles**, depending on the size the vehicle's engine and electric motor

Table: Proposed advance income tax structure for the owners of private motor cars in FY25

Type and engine capacity or electric motor power of motor car	AIT for hybrid and fully electric vehicles (in BDT)	AIT for conventional fossil fuel vehicles (in BDT)
A car or a jeep, not exceeding 1500cc or 75kw	25,000	26,250
A car or a jeep exceeding 1500cc or 75kw but not exceeding 2000cc or 100 kW	50,000	55,000
A car or a jeep exceeding 2000cc or 100 kw but not exceeding 2500cc or 125 kW	75,000	90,000
A car or a jeep exceeding 2500cc or 125 kw but not exceeding 3000cc or 150 kW	125,000	162,500
A car or a jeep exceeding 3000cc or 150 kw but not exceeding 3500cc or 175 kW	150,000	210,000
A car or a jeep exceeding 3500cc or 175 kW	200,000	300,000
A microbus	30,000	36,000

Independent Review of Bangladesh's Development

Fiscal measures to reduce air pollution

- The government should also **consider imposing an AIT on motorcycles from FY25**, depending on the size of the motorcycle's engine

Table: Proposed advance income tax structure for the owners of motorcycles in FY25

Type and engine capacity of the motorcycle	Yearly AIT (in BDT)
A motorcycle with an engine of up to 100cc	1,500
A motorcycle with engine from 101cc to 150cc	3,000
A motorcycle with an engine above 150cc	5,000

CPD (2024): CPD's Recommendations for the National Budget FY2024-25

Plastic pollution getting out of hand

- A survey of 500 households in Dhaka found that 73% of respondents thought that plastic pollution became significantly worse in the last 2 to 3 years (CPD's Green Cities Initiative, 2023)
- In the CPD's Green Cities Initiative survey, 57% of respondents reported that their local neighbourhood exhibited extremely high levels of plastic pollution
- Alarmingly, **87% of the plastic waste generated in Bangladesh was inadequately managed**, which led to the country becoming the tenth largest contributor of mismanaged plastic waste in the world in 2010
- The **Ganges River**, which runs through Bangladesh and into the Bay of Bengal, was estimated to be the **second largest river source of plastic inputs into the ocean worldwide** in 2015

Independent Review of iRBD Bangladesh's Development

Fiscal measures to reduce plastic pollution

- **Introducing a plastic tax on producers:** The government should consider bringing plastic products made with less than 30% recycled plastic under taxation. Such a measure will encourage plastic recycling and reduce the use of virgin plastic
- **Reinstating 5% of supplementary duty on plastic bags:** The 5% supplementary duty on plastic bags, which was withdrawn in FY23, should be reinstated immediately
- **Increasing customs duty on plastic waste:** The relatively low customs duty on plastic waste needs to be raised. This will raise the cost of importing plastic waste, causing plastic makers to find their raw materials domestically and boosting domestic plastic recycling
- The budget for FY25 should **allocate additional funding for the Joint Rivers Commission to establish a bilateral plastic waste reduction initiative with India**
  - The Government of India should also contribute to this initiative with funding, as well as technical and logistical support, in order to ensure the reduction of plastic waste in the 54 transboundary rivers shared between Bangladesh and India

9. Conclusions

Conclusions

- The national budget for FY25 will be placed at a time when the country is facing formidable challenges in a number of areas
- Restoring macroeconomic stability is the main challenge facing the policymakers, who must be cognisant of the present economic realities and identify concrete measures to address the attendant challenges
  - The macro-budgetary framework for FY25 must focus on curtailing the rate of inflation and stabilising the exchange rate
  - Instead of GDP growth, protecting the interests of vulnerable and disadvantaged groups should take the central stage
  - Complementarity between the fiscal and monetary policies will need to be ensured by the Ministry of Finance and Bangladesh Bank
- The government will also need to focus on deep rooted structural issues given improvement in macroeconomic performance is contingent upon the solution of these issues

Conclusions

- While being cognisant of current realities and designing commensurate measures are important initial steps, implementing the said measures and carrying out the necessary reforms usually turn out to be bigger challenges
- For the policies to produce the intended effects, good governance and discipline are key
- Some hard choices will have to be made on the part of the policymakers
- *For a political government, the first year of a five-year tenure can be the best time to make some rather unpopular but necessary choices*

Thank You

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