CPD Dialogue on

Analysis of the National Budget for FY2013-14

Dhaka: 15 June 2013

Reflections on Nine Issues from the Post-Budget Debate

Presented by

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B A N G L A D E S H
a civil society think tank

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I. Backdrop

- The budget for FY14 is the **last one prepared** by this government which will be implemented by three regimes
- This is also the **last opportunity for** the incumbent government **to fulfill (or make progress towards fulfilling) the pledges** in the run up to the forthcoming national elections
- The budget has been prepared in the backdrop of a number of encouraging as well as challenging developments
- **Encouraging trends:**
  - Enhanced public investment
  - Moderated inflation
  - Substantial Surplus in Balance of Payments
  - Stable inflow of remittances

- **Challenging trends:**
  - Slippage in GDP growth
  - Falling private investment
  - Significant shortfall in revenue mobilisation
  - Reliance on bank borrowing for financing fiscal deficit
  - Lower domestic demand
- Overall, the economy has moved towards **a lower level equilibrium** where:
  - stability has been more or less maintained
  - objective of enhancing economic growth has been compromised
- In this backdrop, the budget for FY14 aims to:
  - Undertake fiscal consolidation backed up by high growth of revenue
  - Revert the downturn of private investment
  - Further control of inflation
  - Revitalise economic growth momentum

II. The Nine Debates

1. Is fall in private investment holding back economic growth?

1. Investment

- **Private Investment:**
  - substantially **below** the SFYP target in FY13
  - **19.0%** against **22.7%** → 3.7 percentage point short
- Target for private sector credit in FY14 was 16.0%
  - well above the present level (12.7% in March 2013)
  - projected private sector credit growth is reported to be 18.5% in FY13!
- **Public investment:**
  - one percentage point **higher** than SFYP target, i.e.
  - 7.9% (FY13 provisional) against 6.9%
- **Total investment is thus equivalent to 26.4% of GDP**
- **Missing 2.7% of investment (as % of GDP)**
- **Inflation rate:**
  - predicts to come down to 7.0% in FY14
  - target for FY13 was 7.5%
  - in April 2013 inflation rate was 7.9%

1. Growth

- **Export growth:**
  - planned to increase by 15% in FY14 (according to MTMF FY14)
  - Target for FY13 has been revised to12% - MTMF FY14
  - up to April 2013, growth was 10.1%
- **Import growth:**
  - anticipated to grow by 10% in FY14 – MTMF FY14
  - target for FY13 was 3% envisaged in MTMF FY14
  - (-) 6.1% up to March 2013
- **GDP growth in FY14:**
  - Target set at 7.2% (6.0% in FY13)
  - Sixth Five Year Plan (SFYP) sets at 7.6% in FY14
  - So GDP growth has to be 9.6% in FY14 to cover the gap between current and SFYP targets
  - Implication of GDP growth being below target:
    - the road to LMIC status has become a bit longer!
- The medium term outlook proposed by the government has predicated a very optimistic scenario in line with SFYP target
  - 8% GDP growth in FY15
  - 9.1% in FY18
- **Basis of such optimistic medium term outlook is not clear!**

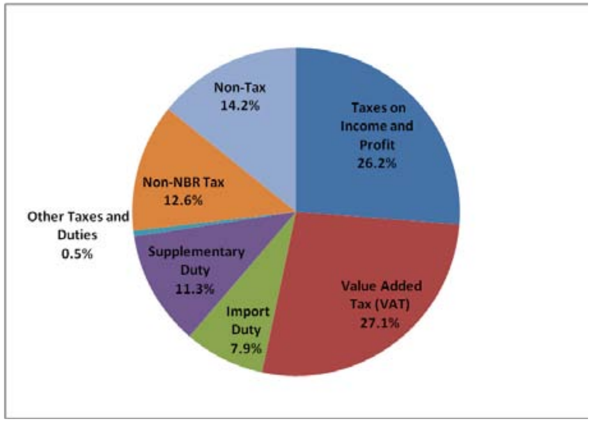
2. How credible are the revenue targets?

2. Main Features of the Proposed Fiscal Structure

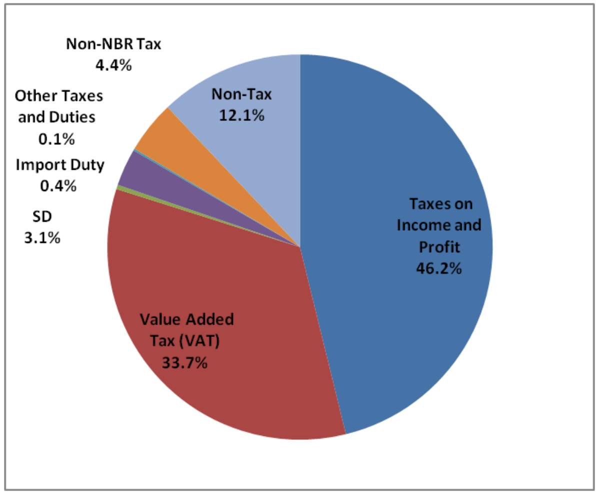
- **Revenue** projected to grow at 19.9%
- **Public expenditure** at 17.5%
  - Revenue growth **faster** than public expenditure
- **Total budget expenditure** is set at 18.7% of GDP – **Tk. 2,22,491 crore**
- **Revenue income** will be 14.1% of GDP – **Tk. 1,67,459 crore**
- **Development expenditure growth** programmed at 25.1%
- **Non-development revenue expenditure** growth envisaged at 10.3%
  - Development expenditure **grows faster** than non-development revenue expenditure
- **Size of ADP** – Tk. 65,870 crore
  - 29.6% of total public expenditure
  - 27.7% in the RBFY13,
  - 26.0% more of FY13 actual implementation - according to CPD projection
- **Budget deficit** has been projected at **4.6% of GDP**
  - was 4.8% of GDP in RBFY13
- Financing budget deficit
  - **High foreign financing** target - 22.6% growth over the RBFY13
    - anticipated gross foreign aid flow of **USD 3.8 billion**
  - Government's **net bank borrowing** will **decrease** by (-) **8.8%**
  - Borrowing from **non-banking** sector will be **2.5 times more**
- **Overambitious targets!**

2. Revenue Mobilisation

Share of Revenue FY14



Incremental Share of Revenue FY14



- **Revenue** target increased by **Tk. 24,785 crore**
- **NBR** target 1,36,090 crore
  - 21.2% growth
  - **83.7% of incremental revenue**
  - **45.7%** of incremental revenue from **income tax** – *the highest in history*
  - while **33.3%** from **VAT**
- **Import duty** target growth at a **lower rate 0.7%**
  - in view of lower collection FY13 (Jul-Apr): 0.9%
  - MTMF projects a 10% import growth in FY14
- Non-NBR revenue growth remains at subdued level
- **RBFY13:** Revenue targets are unchanged (& unattainable)
- **FY2014 revenue outlook:** Overall revenue collection **may fall short of Tk. 10,000-13,000 crore**
- **Weakest link of the budgetary framework!**

3. Is the overstated foreign financing of fiscal deficit obscuring higher bank borrowing?

3. Budget Deficit and Financing

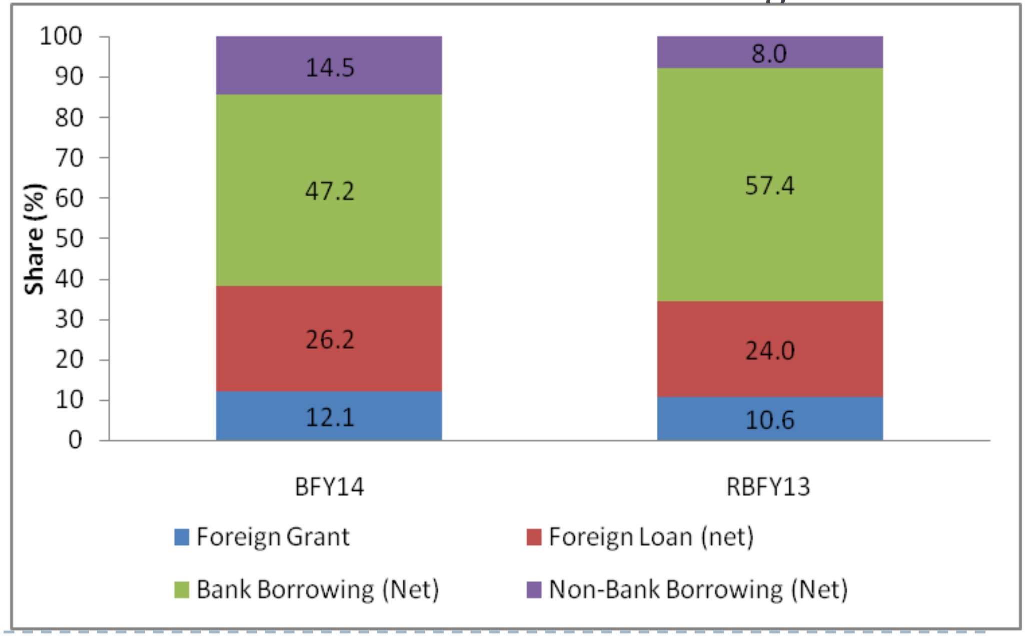
Budget Deficit and Financing

Description	BFY14		RBFY13		Growth
	Crore Tk	% of GDP	Crore Tk	% of GDP	FY14 over RB FY13
Revenue Collection	**167,459**	**14.1**	**139,670**	**13.5**	**19.9**
Total Expenditure	**222,491**	**18.7**	**189,326**	**18.2**	**17.5**
ADP	65,870	5.5	52,366	5.0	25.8
Non-ADP	156,621	13.2	136,960	13.2	14.4
Overall Deficit (Excl Grants):	**55,032**	**4.6**	**49,656**	**4.8**	**10.8**
Financing					
Foreign Grants	6,670	**0.6**	5,280	**0.5**	**26.3**
Foreign Loan-Net	**14,398**	**1.2**	**11,903**	**1.1**	**21.0**
Foreign Loan	23,729	2.0	19,951	1.9	18.9
Amortization	9,331	0.8	8,048	0.8	15.9
Domestic Borrowing	**33,964**	**2.9**	**32,473**	**3.1**	**4.6**
Bank Borrowing (Net)	25,993	2.2	28,500	2.7	(8.8)
Non-Bank Borrowing (Net)	7,971	0.7	3,973	0.4	100.6
Total Aid Requirement (Net)	**21,068**	**1.8**	**17,183**	**1.7**	**22.6**
Total Aid Req (billion USD)	**2.7**	**-**	**2.2**	**-**	**22.6**
Total Aid Req (Gross)	**30,399**	**2.6**	**25,231**	**2.4**	**20.5**
Total Aid Req (Gross) (billion USD)	**3.8**	**-**	**3.2**	**-**	**20.5**

3. Financing the Deficit

- **Domestic financing in FY14**
  - Shares 61.7% of total financing
  - 65.4% in RBFY13
- **Net bank borrowing - Tk 25,993 crore**
  - Shares 47.2%
  - 57.4% in RBFY13
  - Declined Tk. 2,507 crore in RBFY13
- **Non-bank sources- Tk 7,971 crore**
  - Shares 14.5%
  - 8.0% in RB of FY13
- **Foreign financing in FY14**
  - Shares 38.3%
  - 34.6% in RB of FY13)
- **Gross foreign aid** requirement
  - around **USD 3.8 bln in FY14**
  - USD 3.2 bln in RBFY13
  - **only USD 2.0 billion** being received during **Jul-Apr FY13**.
- An almost impossible FY13 target!

Sources of Deficit Financing



4. How appropriate are the revealed allocative priorities in overall budget and ADP?

4. Sector-wise Distribution of Total Expenditure

Sector	Share in BFY14	Share in RBFY13	Change in BFY14 over RBFY13	
	%		Crore Tk	%
Public Service	↑ **14.4**	6.8	19297.0	150.8
Fuel and Energy	5.1	↓ 5.3	1358.0	13.6
Transport and Communication	↑ **9.3**	7.0	7358.0	55.6
Interest	↑ **12.5**	12.3	4396.0	18.8
Social Security and Welfare	5.6	↓ 6.0	1097.0	9.7
LGRD	6.7	↓ 7.9	-204.0	-1.4
Education and Technology	↑ **11.7**	11.4	4532.0	21.0
Health	4.3	↓ 4.8	340.0	3.7
Public Order and Safety	4.7	↓ 5.1	824.0	8.5
Defence Services	6.5	↓ 7.1	955.0	7.1
Industrial and Economic Services	1.4	= 1.4	469.0	17.1
Housing	↑ 0.8	0.7	386.0	27.7
Recreation, Culture and Religious Affairs	0.8	↓ 0.9	-14.0	**-0.8**
Agriculture	**7.9**	↓ 10.5	-2371.0	**-11.9**
Others(Memorandum Item)	8.4	12.7	-5258.0	**-21.9**
Total Expenditure	100.0	100.0	33165.0	17.5

4. Revenue Expenditure

- Allocation for **Public Services – gets highest priority**
  - additional Tk. 19,297 crore allocated
  - Set to be **1.5 times** of RBFY13
  - **65%** of it has originated from **'Investments in Shares and Equities'**
- Second highest allocation - **Interest payments**
  - 39.3% of incremental share
  - Domestic Interest Payments
    - will increase by 20.4% in FY13
    - about 39.4% of total incremental revenue expenditure
  - Foreign interest payment will be lower!

Economic Analysis of Revenue Expenditure

Indicators	Growth FY14/RBFY13	Share B FY14	Share RB FY13	Incremental Share FY14B	Change FY14/RBFY13
Pay and Allowances	10.4	20.9	20.9	20.9	2,337
Goods and Services	14.3	13.3	12.8	17.7	1,981
Interest Payments	18.8	23.3	21.6	39.3	4,396
Domestic	*20.4*	*21.8*	*20.0*	*39.4*	*4,399*
Foreign	*-0.2*	*1.5*	*1.6*	*0.0*	*-3*
Subsidies and Current Transfers	0.9	36.2	39.6	3.6	399
Block Allocation	346.1	1.6	0.4	13.1	1,464
Acquisition of Assets and Works	12.0	4.7	4.7	5.4	601
Total Augmented Non-Development Revenue Expenditure	10.4	100.0	100.0	100.0	11,178

4. Annual Development Programme (ADP)

- Proposed **ADP** for FY14 is set to Tk. 65,870 crore
  - **5.5% of GDP** 25.8% higher than the RADP for FY13
  - 39.1% higher than actual implementation of FY13 (CPD estimation)
    - *did not happen in last decade!*
- The ADP FY14 contains **1,046 projects**
  - **Only 50 new projects** share 1.3% of allocations
    - 157 more new projects have earlier included in the RADP for FY13
  - **69%** of the projects (720 projects) are either **Carryover** or **Concluding projects**
- Project Aid component will be 37.3% of total ADP
  - shared 35.3% in RADP of FY13
  - 39.1% in original ADP of FY13
- Unapproved block allocation **- Tk. 3,437 crore** has been allocated
  - 5.2% of ADP
  - **662 unapproved investment** projects have also been listed in the ADP
- Self –financed development budget for autonomous bodies and corporations -
  - shown with the ADP for the first time
  - **Tk. 8,114 crore** has been allocated

4. Annual Development Programme (ADP)

Top 5 Sectoral Allocation in ADP (%)

Sector	No of Projects ADP FY14	Share ADP FY13	Share FY13 RADP	Share FY14 ADP	Growth (%) ADP FY14 over RADP FY13
Top Five Sectors	**581**	**63.5**	**61.4**	**68.7**	**29.0**
Transport	203	14.8	14.5	23.3	85.1
Power	54	14.4	15.0	13.7	5.7
Education & Religious Affairs	105	13.4	11.6	13.3	32.6
Rural Development & Institutions	86	11.4	11.8	10.1	-1.3
Physical Planning, Water Supply & Housing	133	9.6	8.5	8.3	11.7
Unapproved*	**662**	**2.9**	**NA**	**5.2**	**115.5**
Development Assistance	**NA**	**5.6**	**4.0**	**3.0**	**-15.2**
Total ADP	**1046**	**100**	**100.0**	**100.0**	**15.3**

*Unapproved projects are not included in the ADP

- The **top 5 sectors** have received **68.7%** of total allocation
  - Transport Sector once again received highest allocation
    - 23.3%
    - *impact of Padma Bridge!*
  - **83.4% of incremental allocation towards Transport sector is for PMBP**

The Padma Multipurpose Bridge Project (PMBP)

- Total allocation for PMBP for FY14
  - **Tk. 6,852 crore**
  - **33.4%** of the total PMBP **project cost**
  - Almost 8 times higher the allocation provided in FY13 (Tk. 804 crore)
  - **Tk.1,600 crore** has kept as **project aid** allocation in ADP FY14 (USD 200 million Indian credit)
- With the PMBP expected to absorb approximately **55.6% of the total incremental allocations in the ADP FY14** allocations
- Non-PMBP incremental allocation to be only Tk. 4,822 crore
  - other priority sectors such as **health**, **education** and the **agricultural sector** to be entertained by the amount
- Foreign exchange reserves will definitely suffer erosion
  - If no notable external financing associated to the project

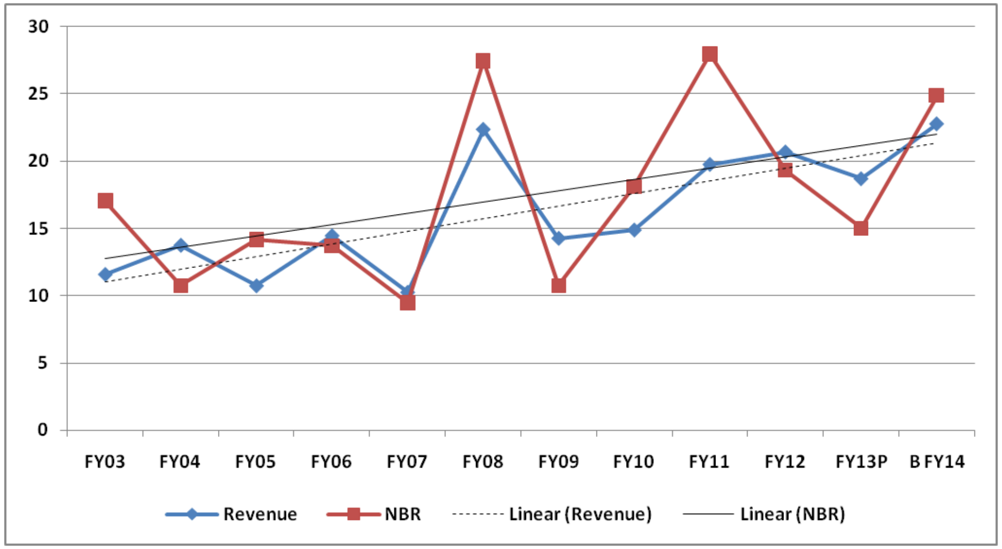
4. Annual Development Programme (ADP)

- Number of new projects in ADP FY14 was limited
  - **allocating symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive**
  - **25 `investment' projects** received **only Tk. 1 lakh** under the ADP for FY14
  - 55 investment' projects under ADP received only Tk. 1 crore for FY14
  - Most of them are from **Transport** and **Physical Planning, Water Supply &Housing** Sector

4. Defining Factors for Public Finance Framework

- Assuming **NBR growth** in FY13 at a **realistic** level **(15.0%)**
- The required growth for FY14 will **increase to 24.9% (from 21.2%)**
- **Higher than trend growth rate**

NBR and Revenue Growth Rate (%)

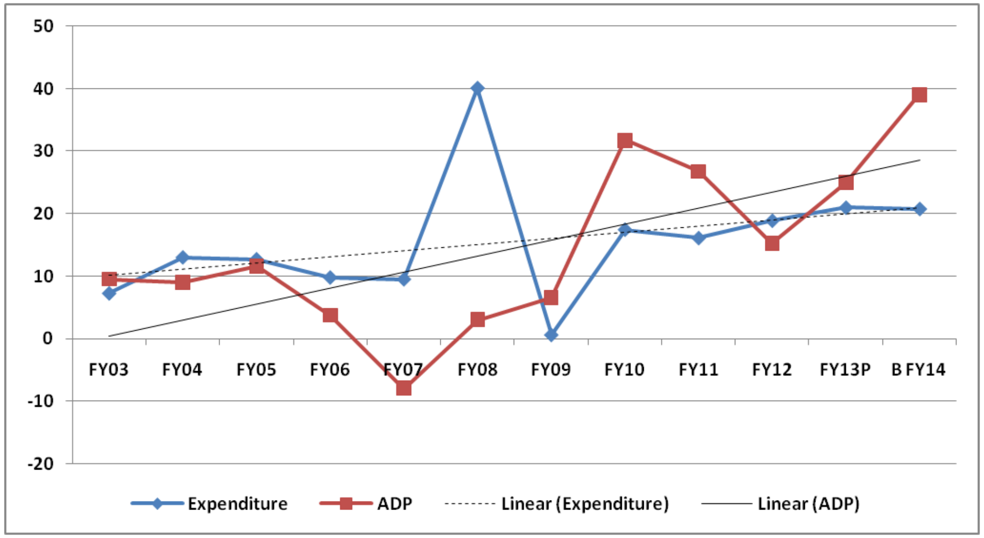


- A higher growth was attained – two unusual years!
  - Only **in FY08 (27.4% - CTG effect)** and **FY11 (28.0% - international price effect)**
- Similarly the **target growth rate for FY14** for total **revenue mobilisation** will **reach to 22.8%** (from original 19.9%)
- A much challenging task in view of economic and political reality anticipated for FY14

4. Defining Factors for Public Finance Framework

- If ADP continues to follow its trend
- The **final ADP expenditure** could **about 90% of RADP**
- In view of this, **total expenditure** will also be **<u>lower</u>**

ADP and Total Expenditure Growth (%)



- Adjusting for these two figures, **the target for FY14 becomes higher and much difficult to attain**
- Indeed, **a number of symbolic allocations may not be realised** anywhere near their targets (e.g. for PMBP and PPP)

4. Defining Factors for Public Finance Framework

- Once again it appears that we are sliding back to loose fiscal targeting - leading to weak fiscal management
- Implementation of the plan will remain the key!
  - Can **ADP implementation capacity** be enhanced significantly?
    - Particularly the foreign aid component
    - What will be the **fate of allocation for PMBP**?
  - Can **subsidy requirement** be kept under the programmed level?
  - Do we need another set of **upward price adjustment?**
  - What will be the expenditure for **PPP allocation**?
  - Will the **revenue income targets be fulfilled**? - Considering the possible shortfall in FY13
  - Will it be possible to **attract** people to invest in **non-bank** borrowing instruments?
  - Do we have to **rely on bank borrowing** once again for financing the deficit?

5. Are fiscal measures supportive of social equity and domestic industrialisation?

Personal Income Tax: Key Measures

- Threshold for tax free income increased for general taxpayers, women and senior citizens
- Reduction of minimum tax for individual tax payers living in the Paurashava
- A surcharge of 10% on individuals with assets between Tk 2 crores and Tk10 crores
- A surcharge of 15% on wealth more than Tk.10 crores

Expected Impact

- Help low income groups and reduce tax liability of marginal taxpayers
- Will help broaden the tax base
- Move towards progressive taxation

Corporate Tax

- **Tax for publicly traded mobile phone company has been increased from 35% to 40%**
  - one particular firm will be affected
  - Disincentive for being listed (spread reduced from 10% to 5 %)
- **Tax rate increased for cigarette companies**
  - Good move for revenue mobilization and public health
- **Corporate tax remains unchanged for other cases**

Undisclosed Money

- **House /Flat**
  - Can be invested by paying taxes between Tk. 750 and Tk. 7,000 per sq meter depending on the location and the size
  - For more than one house/flat an additional 20% has to be paid
- **Plot/ Land**
  - In case of plot/land, buyers can purchase by paying
    - Ten percent (10%) tax on total value of one plot
    - Twenty percent (20%) on more than one plot
- **However, earlier provisions on allowing undisclosed money remain unchanged**
- The scope for whitening undisclosed money is **morally unacceptable and economic benefits remain questionable**

Whitening of black money under different political regime

Regimes	Total Declared (Tk. In Crore)	Total Tax Collected (Tk. In Crore)	Average Declared Amount (per year)
1975-1982	70	10	10
Ershad (1982-1990)	850	185	106.25
BNP(1991-1996)	No provision	No Provision	No Provision
Al (1996-2001)	1560	109	312
BNP (2001-2006)	1000	100	200
Caretaker(2006-2008)	9682	911	4841
AL(2009-2013)	1305	38	326.25
Total	**14,467**	**1535**	**438.39**

Source: Based on media reporting (not from official source).

Import Duty

- Measures to stimulate private investment and reduce investment and working capital costs:
- **Customs duty (CD) reduced on the imports of:**
  - **capital goods** from 3% to 2%
  - **raw materials** from 12% to 10%

Regulatory duty (RD)

- Continuation of **5** % RD on goods chargeable to **25%** CD
- Proposed 5% RD on a few items which are chargeable at 10% CD
- Will enhance effective rate of protection for import-substituting industries and discourage import of these commodities

Supplementary Duty (SD)

- imposed on finished products and on few other items similar to intermediate products

Tax Holiday

- Existing tax holiday facilities have been **extended** from June 2013 to **June 2015**
  - will be beneficial for new industries if monitored effectively

Capital Market

- Withdrawal of **3% tax over extra premium** on listed company's share's face value: **withdrawal** of source tax
- **Increased threshold limit** for tax-exempted dividend income
  - from Tk.5,000 to Tk.10,000
  - Existing provision of **exemption of gain tax** will **continue**
- Withdrawal of **0.05% tax at source** in case of transfer of bonds
- **15% tax rebate on investment** in private mutual funds
- *However, these facilities will have limited impact in stabilising the trust on capital investment*
- No mention about **Tk.900 crore refinancing scheme**

- **Protection of Local industries**
  - Imposition of 60% SD on imported potato chips
  - Increase of CD to 10% on imported milk powder
  - Reduction of CD on milk tanker
  - Exemption of CD on raw materials of paper
  - Reduction of CD on acrylic yarn

- **Support to poultry industry** would contribute to rebuilding its competitiveness
- **Small and Medium Enterprises (SME)**
  - Annual turnover ceiling raised from Tk 70 lakh to Tk 80 lakh
    - will reduce tax burden
    - enhance SMEs competitiveness
- **Small and Cottage Industries**
  - Investment ceiling increased from Tk.25 lakh to Tk.40 lakh
  - Annual turnover increased from Tk.40 lakh to Tk. 60 lakh
- **Light engineering**
  - Reduction of duties on raw materials and intermediate goods

Export Promotion

- **Positive:** Tk. 2,592 crore allocated as export incentive

Leather

- Reduction of CD on selected inputs of leather (chromium, casein etc) - likely to reduce production cost

Jute

- Extension of timeline for exemption of 15% income tax for Jute Industries till June 2015 - will support newly set up industries

Ship Building

- Exemption of CD, SD and VAT for vessels above 5000 DWT capacity - will facilitate domestic production of vessels;
- Exemption of duty and taxes above 5% on anchor chain, life boat, rafts - will support local industry

Textiles and RMG

- Proposed exemption of CD on acrylic yarn - will make the fibre locally available at lower cost

Pharmaceutical Industry

- Reduction of duty on cartridge/ membrane filter - beneficial pharmaceutical industry

Tax Incidence at the Import Stage

- Collection of revenue (import duty, VAT, SD, RD) during July-April FY13 was of Tk. 26,331 crore
  - this was equivalent to about 31.7% of NBR's total collection
- CPD has examined the impact of proposed changes in CD, SD, RD and VAT (import) on import related revenues
- **The estimate shows that all the changes may increase import related revenues by 4.2% net in FY14**
- Based on import data for FY12 and changes applied in existing tariff schedule of FY13
- The basis of the assumption is 3% growth of import in FY13 and 10% in FY14, as predicted in MTBF
- Estimated revenue collection may differ if the structure of FY13 import changes significantly

6. How credible is the subsidy estimate and what are its implications?

6. Subsidy

- Subsidy for RB FY13
  - increased by 29.8%
  - mainly due to BPC and agriculture (77.8% and 58.2% of incremental, respectively)
- **Total subsidy in RBFY13 is 3.6% of GDP**
  - clearing the **backload**!
- No clear mention of the total demand proposed for FY14
- **Total subsidy for FY14** is estimated to be Tk. 28,695 crore
  - 2.4% of GDP
  - **reduced by 23.3%**
- The impact is reflected in loans and advances
  - Allocation reduced by 25.3%

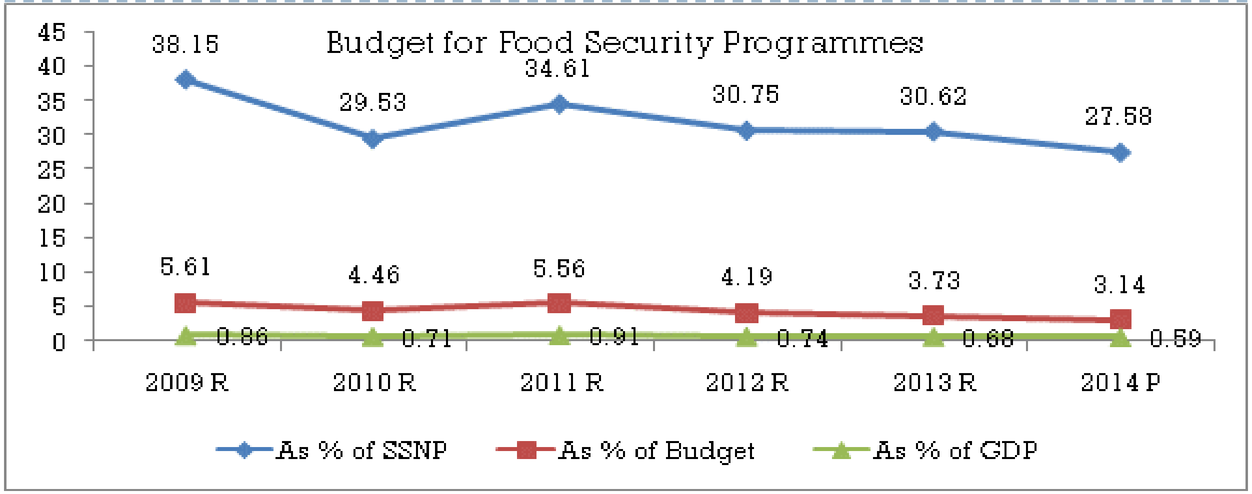
- **Sectorwise Subsidy for FY14**
  - **Agriculture** subsidy will **reduced by 25.0%**
    - **Tk. 9,000 crore** has been allocated for **FY14**
    - was Tk. 12,000 crore in the RBFY13
  - **BPC** subsidy is expected to be Tk. 7,950 crore **(-)47.8% lower**
  - Subsidy for **PDB** is expected to be Tk. 5,500 crore 6.4% higher
  - **CPD estimates only fertiliser subsidy requirements**
    - **About Tk. 8,300 crore**
- **Will it require another set of price adjustment – can the incumbent government undertake this?!**
- **Higher subsidy may be needed** for other agricultural inputs
- Subsidy allocation for SoEs is lower than the limit provided by the IMF-ECF programme

7. Are social sectors being marginalised in the recent budgets?

Social Safety Net Programmes (SSNP) Receive Lesser Attention

- In FY2014, allocation for social safety net programmes (SSNPs) is Tk. 25371.35 crores, which is 11.4% of budget **and 2.13% of GDP**
  - This is higher than the allocation in FY2013 (in nominal terms), but lower in terms of percentage share of budget and GDP
  - **Total beneficiary under coverage** (lakh-person) **decreased by 4%**
  - Only 5 new programmes added, 5 slashed but 33 of the continuing programmes got lower allocation than in FY2013
- **Additional Tk. 4800 crores are needed for SSNPs to achieve 3% share of GDP** by 2015
- Consolidation of SSNPs is needed in terms of programme allocation and selections

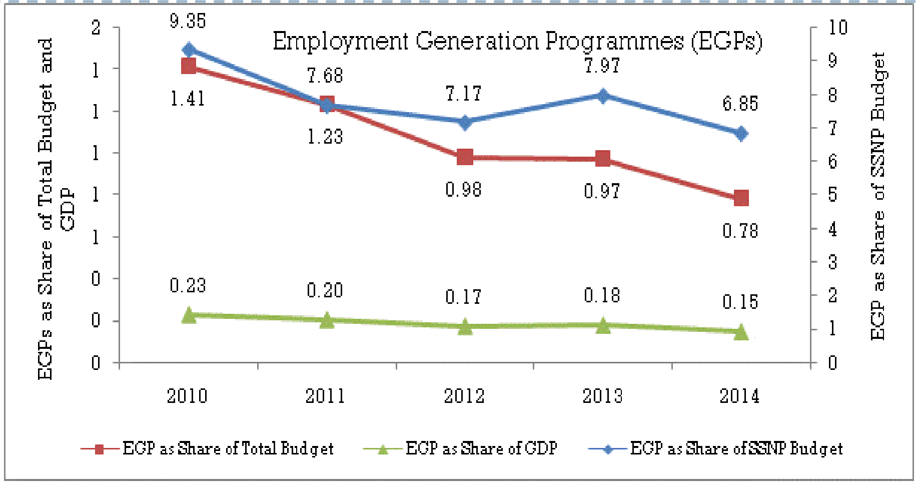
	2009 R	**2010 R**	**2011 R**	**2012 R**	**2013 R**	**2014 P**
Allocation for SSNP (Crore Tk.)	13845.27	16705.81	20893.52	21975.23	23097.52	25371.35
SSNP, Percentage of Budget	14.71%	15.12%	16.07%	13.63%	12.2	11.40%
SSNP, Percentage of GDP	2.25%	2.42%	2.64%	2.40%	2.23	2.13%
Social Empowerment, % of Budget	2.64	2.95	3.18	3.18	2.97	2.49
Social Empowerment, % of GDP	0.4	0.47	0.52	0.52	0.54	0.47
Social Protection, % of Budget	12.07	12.16	12.89	12.89	9.23	8.92
Social Protection, % of GDP	1.85	1.95	2.12	1.88	1.68	1.67



- Allocation for food security programmes in FY2014 is Tk. 6998.08 crore, which is:
  - *3.14% of total budget*
  - *27.58% of total SSN budget*
  - *0.68% of GDP*
- **Lower budget allocation for OMS** (-10.98%); **VGD** (-0.91%) and **FFW** (-2.39%) than that of FY2013 due to stable market price of rice

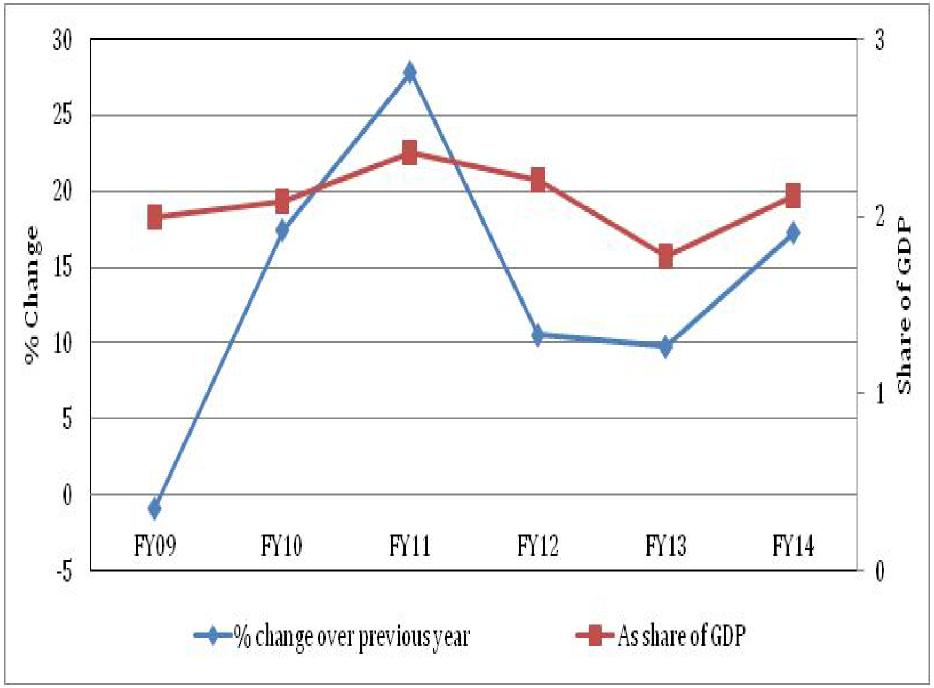
7. Social Safety Nets

- In budget FY2014, allocation in 10 major programmes under Employment Generation Programme (EGP) is Tk. 1738.50 crore which is:
  - *less than 1% of total budget*
  - *only 0.14% of GDP*



- In FY2014, total **EGP's coverage decreased by 33.64%** from FY2013.
- Within EGPs, 'Employment Generation for Ultra Poor' is the top programme in terms of its allocation (Tk. 1400 crore)
- Allocation for 'Employment for Ultra-Poor in Northern Region' in FY2014 reduced to 0(zero) from Tk. 15.31 crore in FY2013
- **Eleven (11) programmes have no allocation in FY2014**
- National Services programme does not provide any guarantee for permanent employment

- In FY14, 23.2% of the budget is allocated to social infrastructure sector, of which **19.6% is proposed for Human Resource Sector (education, health, and other related sectors)**
- Human Resource Sector receives 23% of ADP allocation for FY14

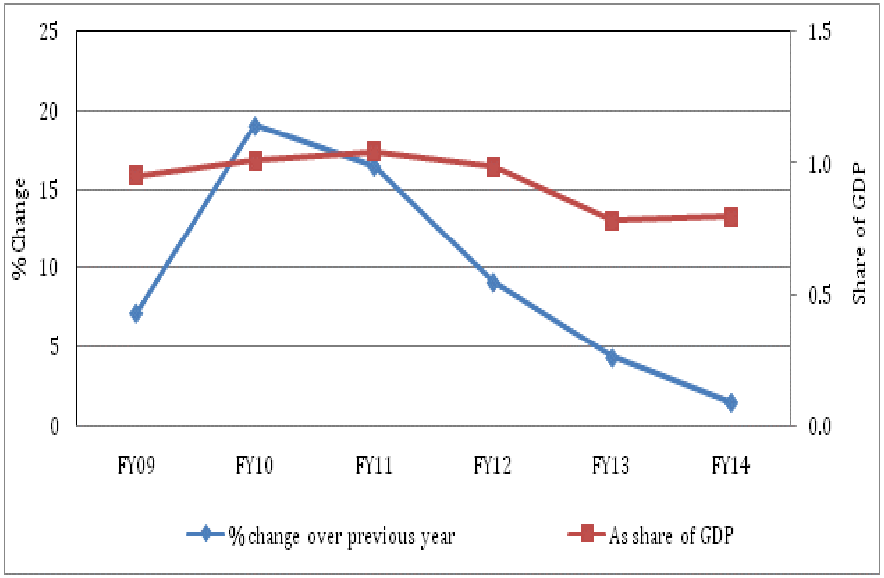


Education Sector

- In FY14, Tk. 25,093 crore has been allocated for the **Education Sector** (11.3% of the total budget, which was 9.7% in FY13)
- In ADP FY14, only one project is newly added out of 106 projects related to Education and Religious Affairs

Health Sector

- Allocation for FY14 remains the same as a share of total budget (4.3%). Tk. 9,470 crore has been allocated for FY14
- In the ADP for FY14, only 3 new projects have been initiated for Health, Nutrition, Population and Family sector



Gender Budget

- Allocation for gender budget in FY14 is Tk. 61,567 crore which is 5.18% of GDP. (expenditure is planned to increase to 27.7% of total budget for FY14 compared to 26.3% of FY13
  - 15 more ministries (to make it 40) are included in the Gender budgeting
- However, allocation for the Ministry of Women and Child Affairs has been reduced to 0.65 % of total budget in FY2014 as opposed to 0.70% in FY2013

8. Does the pilot District Budget signal any qualitative change initiated to finance local government?

8. Local Governance

- *Local Government (Union Parishad) Act 2009; Local Government (Municipality) Act 2009* and *Local Government (City Corporation) Act 2009, Upazila Parishad (Amendment) Act, 2011* have been passed which is **a good step for decentralization** of governance and increased people's participation. However, it is to be seen **how real empowerment follows.**
- Over last 5 years, the LGD share of allocation over total budget were usually above 6%, while this year it declined to 5.8% of total budget
- **Allocation for LGD in ADP also remains stagnant**. The share has decreased from 21.5% of ADP FY13 to 17% of ADP FY14
- **Talked about 11 lakh govt. officials are to be transferred to the district level administration**, the reason for this, as explained difficult to understand and Only transfer does not make bureaucracy inspirational after all

8. District Budget

- Decentralization of planning and the implementation of rural development plan at the district level will be compatible with the national objectives, regional requirements, local needs, peoples' aspirations and technical and administrative constraints
- As a part of a model initiative, District Budget for one district (*Tangail*) endorsed 0.75% of the total national budget for FY14
- A **good initiative** by the government. However, the government must be able to craft district budgets as per the needs of the district when the experiment is **replicated in all 64 districts**
- **The government must also ensure transparency and accountability of district budgets.** This will include availability of budget documents/ reports/statements, completeness of the information, facilitating understanding and interpretation of the information, timeliness of the information, audit and performance assessment, scope for legislative scrutiny, practices relating to budgeting for disadvantaged sections and practices relating to fiscal decentralisation

9. Is emerging political situation the main obstacle to budget implementation?

9. Political situation and budget implementation

- FY2014 will be operationalised at a time when **three governments** are expected to successively take charge of implementing the Budgetary proposals.
- A key deciding factor from the perspective of implementation of Budget FY2014 will be whether the budget will be **front-loaded or back-loaded**. How much effort the outgoing government will put in its residual tenure.
- The current **political uncertainties** will likely continue till a compromise is reached as regards holding of the parliamentary elections.
  - This will seriously undermine the possibility of taking advantage of the various proposals in FY2013-14 budget to stimulate investment in the economy.
- Bangladesh has not been able to attain more than 7% GDP growth in the past. Attaining the targeted growth of 7.2% will critically hinge on **raising investment-GDP ratio** and **lowering capital-output ratio**. Both of these will be a challenge and will call for important departure from BAU scenario, will not work. This will call for significant breakthrough in terms of resource generation, resource allocation, efficacy of resource use and efficacy of development administration. ***Will there be a appetite for all these in an election year?***

III Concluding Observations

Concluding observations

- Performance of Bangladesh economy is still predominantly dependent on stimulating **domestic demand** (about 85% of GDP). This will critically hinge on robust performance of domestic-market oriented activities, which in turn will depend on stimulating domestic demand and investment.
- The **global economic recovery** is expected to be slow in 2013 and 2014 with consequent adverse implications for outward-oriented investment during FY2014.
- The issue of **Padma Bridge financing** and the generation of the required resources and its likely implications for fiscal-monetary management will likely remain a continuing distraction in FY2014.
- Target for **revenue mobilisation by the NBR** has been set at high levels (particularly in view of current year's actual likely performance). In view of expected slow pace of import take-off and the lower tax incidence emanating from tax measures, it will be a challenge to attain the target. Emphasis will need to be put on raising efficacy of tax administration, on broadening tax base and gearing up income tax mobilisation efforts.

Concluding observations

- Public sector investment has performed well in FY2013. Further improvement on this will require significant effort on the part of government machinery towards better coordination, higher efficacy of implementation, **coordination between fiscal and monetary policies** and measures.
- In **agriculture sector** keeping consumers happy and providing farmers the required incentives will call for raising the efficacy of support measures in terms of input delivery, productivity enhancement and marketing support.
- **Energy, infrastructure** will remain key to attracting private sector investment. Inspite of the progress made in power sector, consumers and producers are having to bear the cost of accumulated inefficiencies. This will need to be addressed through accelerated restructuring of sources of power generation and diversity of primary energy sourcing. Appetite for making tough political decisions will be tested in this regard (coal mining; off-shore/on-shore exploration).

Concluding observations

- A major challenge will be mobilising the required 3.8 billion dollar of **foreign aid** for underwriting the deficit financing. The second challenge here will be the ensuring that the development administration has the capacity to use this significantly higher amount of resources.
- The increasing share of **bank borrowing** in deficit financing could crowd-out private sector borrowing and is likely to further raise interest burden in the economy particularly at a time of high non-performing loans afflicting the banking system.
- The government will have to undertake a number of measures in line with the **IMF-ECF conditionalities**. Raising power tariff, ceiling on borrowings, reducing subsidies are a few. It will need to be seen how the government accommodates the attendant tensions in this regard.
- The fiscal framework may need to be revisited to undertake **mid-course corrections** if at some point key targets appear to be off the mark.

THANK YOU