Media Briefing

An Analysis of the National Budget for FY2013-14

07 June 2013

CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

CPD IRBD 2013 Team

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CONTENT

- Introduction
- Public Finance Framework
- Overview of Fiscal Measures
- Sectoral Measures
- Social Sector
- Social Safety Net Programmes
- Election Pledges and Reforms
- Concluding Remarks

Introduction

Setting the Benchmarks

- The budget for FY14 is the **last one prepared** by this government which will be implemented by three regimes
- This is also the **last chance for** the incumbent government **to fulfill (or make progress towards fulfilling) the pledges** in the run up to the forthcoming national election
- The budget has been prepared in the backdrop of –
  - Enhanced public investment
  - Moderated inflation
  - Substantial Surplus in BoP
  - Stable inflow of remittances

Setting the Benchmarks

- At the same time -
  - 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, whilst the objective of enhancing economic growth has been compromised
- The objectives of the budget for FY14 seems to be
  - Undertaking fiscal consolidation backed up by high growth of revenue
  - Reverting the downturn of private investment
  - Further control of inflation
  - Revitalising economic growth momentum

Macroeconomic Targets

- Target for GDP growth rate in **FY14** has been set **at 7.2%** (**6.0% in FY13**) – which was **7.6% in SFYP**
- **To cover** the present gap between **SFYP** target and record of GDP growth performance, **9.6%** GDP growth in **FY14** will be required
- Implication of GDP growth being below target – the **road to LMIC** status has become **a bit longer!**
- **Private Investment** is substantially **below** the SFYP target in FY13
  - 19.0% against 22.7% → 3.7 percentage point short
  - Target for private sector credit in FY14 (16.0%) was kept well above the present level (12.7% in March 2013) – projected growth is reported to be 18.5% in FY13!
- **Public investment** on the other hand is one percentage point **higher** than SFYP target
  - 7.9% (FY13 provisional) against 6.9%
- **Missing 2.7% of investment (as % of GDP)**

Macroeconomic Targets

- Export is expected to increase by 15% in FY14 (over 12% in FY13 – upto April 2013, 10.1% growth was attained)
- Import on the other hand is anticipated to grow by 10% in FY14 (over 3% in FY13 – (-) 6.1% upto March, 2013)
- The budget also predicts inflation rate to come down to FY14 at 7.0%
- Target for FY13 was 7.5% (7.9% in April 2013)
- It can also be seen that the medium term outlook proposed by the government has predicated a very optimistic scenario in line with SFYP target - e.g. 8% GDP growth in FY15 and 9.1% in FY18
- **On one hand GDP growth will accelerate while inflation will systematically slide**
- Similarly, the budget deficit will reduce (as % of GDP) while the financing will be more from foreign sources
- **Basis of such optimistic medium term outlook is not clear!**

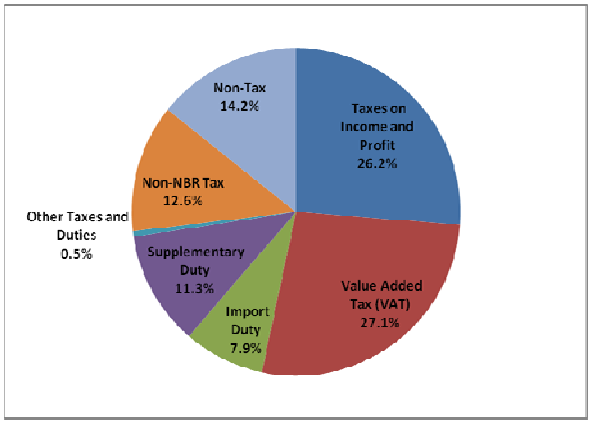
Public Finance Framework

Main Features of the Proposed Fiscal Structure

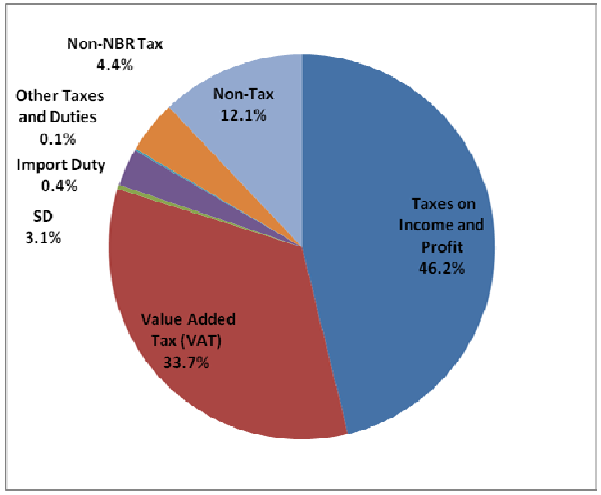
- **Revenue** (19.9%) projected to grow **faster** than **public expenditure** (17.5%)-
  - Total budget expenditure is set at 18.7% of GDP
  - Revenue income will be 14.1% of GDP
- **Development expenditure** (25.1%) programmed to **grow faster** than non-development revenue expenditure (10.3%)
- **ADP** - 29.6% of total public expenditure (27.7% in the RBFY12, 26.0% in FY13 to be the actual figure according to CPD projection)
- **Budget deficit** has been projected at **4.6%** of GDP (4.8% in RBFY13)
- Balance in financing budget deficit will be restored –
  - **High foreign financing** target (22.6% growth over the RBFY13) has been set with anticipated gross foreign aid flow of **USD 3.8 billion**
  - Government's **net bank borrowing** will **decrease** by (-) **8.8%**
  - Borrowing from n**on-banking** sector will be **2.5 times more**
- **Overambitious targets!**

Revenue Mobilisation

Share of Revenue FY14



Incremental Share of Revenue FY14



- FY14 budget targets an additional **Tk. 24,785 crore revenue**
- **NBR** to take the lead role (with **83.7% of incremental revenue**) with 21.2% growth
- **45.7%** of incremental revenue from **income tax** – the highest in history; while **33.3%** from **VAT**
- **Import duty** collection target is at a **lower rate** – in view of lower collection this year, while MTMF projects a 10% import growth
- Non-NBR revenue growth will remain at a subdued level
- **Revenue targets are set over the unchanged (& unattainable) targets for RBFY13**
- **Overall revenue collection may fall short of Tk. 10,000-13,000 crore**
- **Weakest link of the budgetary framework!**

Sector-wise Distribution of Total Expenditure

Sector	Share in BFY14	Share in RBFY13	Change in FY14B over FY13R	
	%		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

Public Expenditure

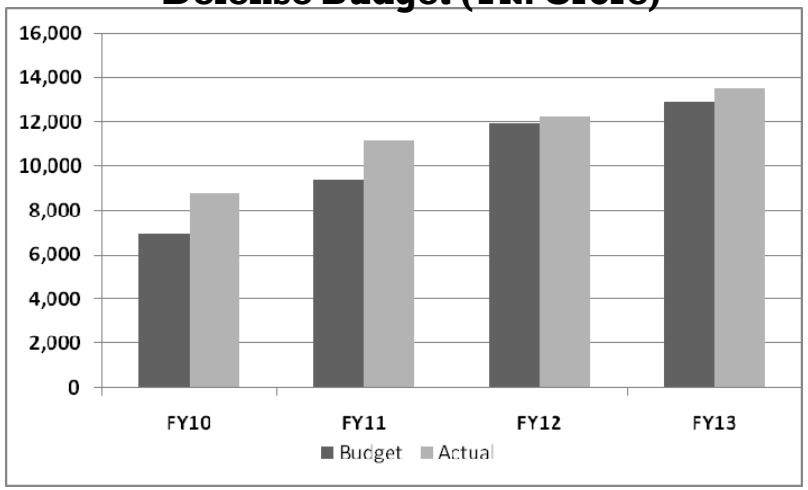
- Allocations for **Public Services** is set to **be 1.5 times** of RBFY13
  - Of additional Tk. 19,297 crore, **65% is originated from 'Investments in Shares and Equities'**
- Interest payments remains the sector with second highest allocation – 39.3% of incremental share
  - Domestic Interest Payments 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 FY13/RBFY12	Share B FY13	Share RB FY12	Incremental Share FY13B	Change FY13/RBFY12
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

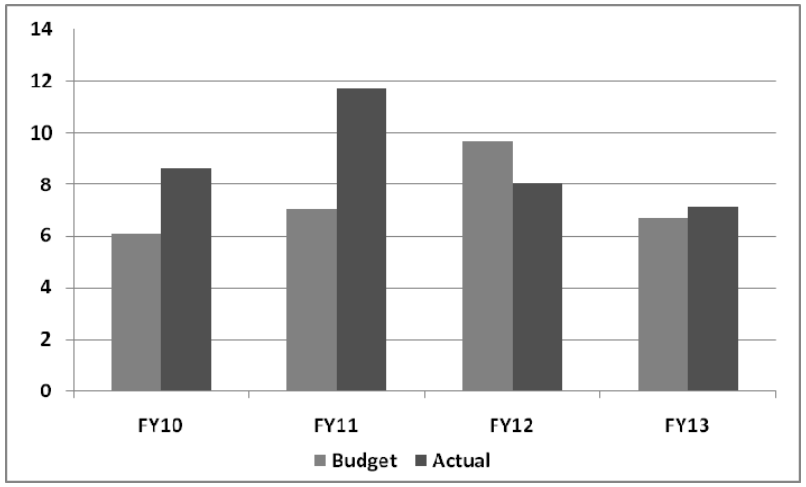
Defense Budget

Defense Budget (Tk. Crore)

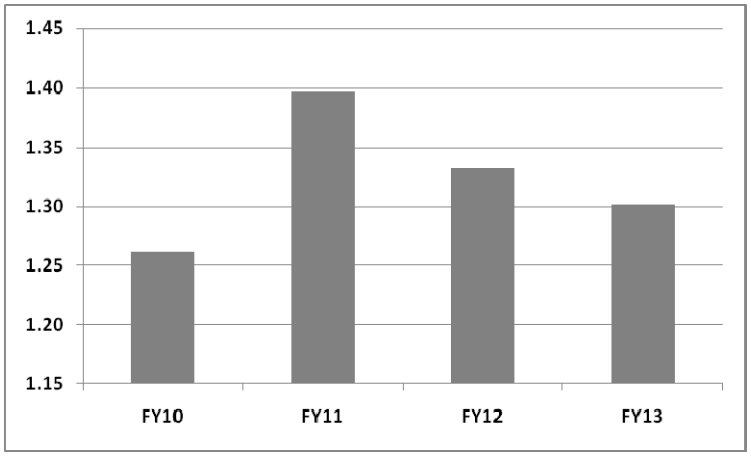


- Explicit allocation for Defense services is 6.5% of total expenditure (7.1% in RBFY13)
- One may expect this allocation to increase at the end of the year, following the past trend

Defense Budget as % of Total Budget



Defense Budget as % of GDP



Subsidy

- Total 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 FY2014
- **Total subsidy** is expected to be Tk. 28,695 crore (2.4% of GDP)
  - **reduced by 23.3%**
- The is reflected in loans and advances ((-) 25.3% reduction)
- **Agriculture** subsidy will be **reduced by 25.0%**
- **BPC** subsidy is expected to be Tk. 7,950 crore ((-) **47.8% lower**)
- PDB subsidy for is expected to be Tk. 5,500 crore (6.4% higher)
  - **Will it require another set of price adjustment – can the incumbent government undertake this?!**
- Subsidy allocation for SoEs is lower than the limit provided by the IMF-ECF programme

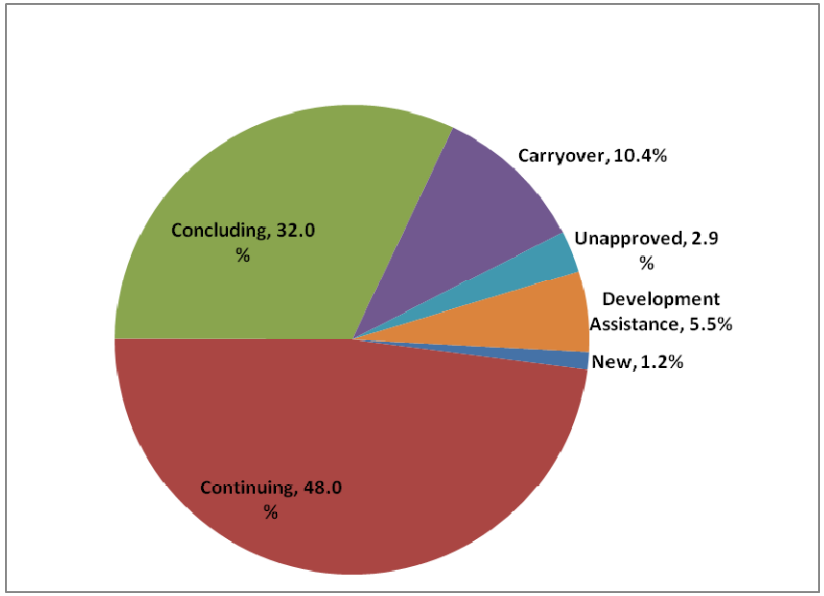
Annual Development Programme (ADP)

- **ADP** of Tk. 65,870 crore (**5.5% of GDP**) has been proposed for FY14
  - 25.8% higher than RADP for FY13 and 19.8% higher than ADP FY13
  - Project Aid component will be 37.3% of total ADP (35.3% in RADP of FY13 and 39.1% in original ADP of FY13)
  - 39.1% higher than actual implementation of FY13 (CPD estimation) – did not occur in last decade
  - Tk. 3,437 crore (5.2% of ADP) has been allocated to unapproved block allocation
- Self –financed development budget of Tk. 8,114 crore has been allocated for autonomous bodies and corporations - shown with the ADP for the first time

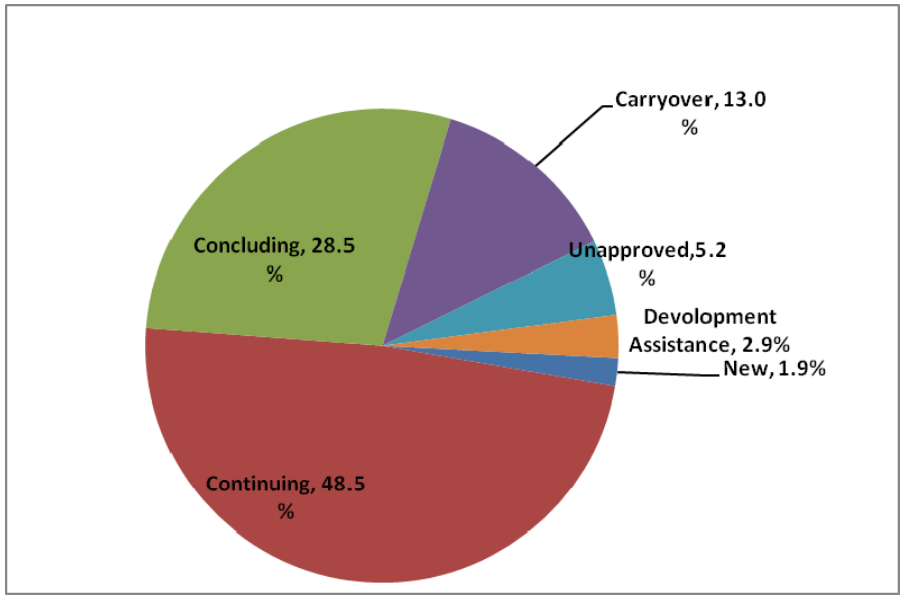
Annual Development Programme (ADP)

- The ADP contains **1,046 projects; another 662 unapproved** projects has also listed in the ADP

Structure of ADP FY13



Structure of ADP FY14



- Only 50 new projects are included- 1.3% of total ADP;
  - 157 more new projects have earlier included in the RADP for FY13

Annual Development Programme (ADP)

- **305 carryover projects** consist of **13.0%** of the total allocation (10.4% in FY13)
- 415 projects with 28.5% of total allocation expected to conclude in FY14 according to their project completion timeline
  - Combining these two categories, about 720 projects (about 69% of projects) are expected to be completed
  - Many of these projects may fail to meet their deadlines
- Planning Commission identified some **305** of these projects to be **completed in FY14**
  - However, 110 projects (36.1%) have been carried forward to this list from 'expected to be completed' list for ADP FY13

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**

Annual Development Programme (ADP)

The Padma Multipurpose Bridge Project (PMBP)

- Total allocation for PMBP for FY14 is **Tk. 6,852 crore i.e. 33.4%** of the total PMBP **project cost**
  - Almost 8 times higher the allocation provided in FY13 (Tk. 804 crore)
  - Tk.1,600 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 and non-PMBP incremental allocation to be only Tk. 4,822 crore, allocation for other priority sectors such as health, education and the agricultural sector need to be entertained.
- Foreign exchange reserves will definitely suffer erosion if there is no notable external financing associated with the project.

Annual Development Programme (ADP)

- It appears that, number of new projects in ADP FY14 was limited - however, the practice of **allocating symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive**
- **25 `investment' projects under ADP received only Tk. 1 lakh for FY14**
  - **Of which 16 are from `Transport' Sector** while 6 are from `Physical Planning, Water Supply &Housing' Sector
- 55 investment' projects under ADP received only Tk. 1 crore for FY14
  - Of which 16 are from `Transport' Sector while 9 are from `Physical Planning, Water Supply &Housing' Sector

Budget Deficit and Financing

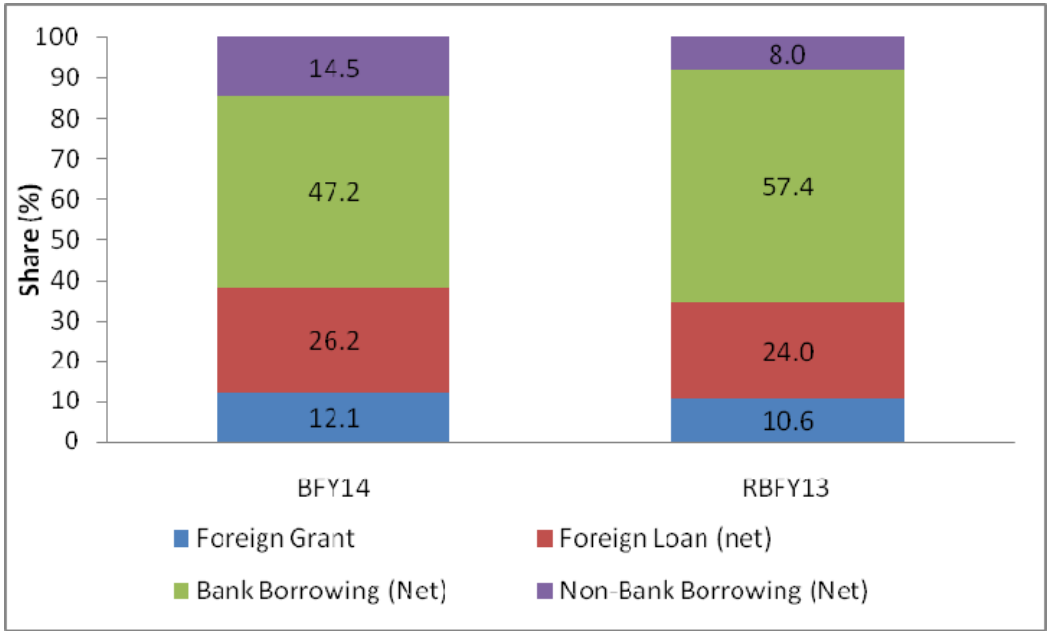
Budget Deficit and Financing

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	**2.7**	**-**	**2.2**	**-**	**22.6**
Total Aid Req (Gross)	**30,399**	**2.6**	**25,231**	**2.4**	**20.5**
Total Aid Req (Gross)	**3.8**	**-**	**3.2**	**-**	**20.5**

Budget Deficit and Financing

- Share of **domestic financing 61.7%** (65.4% in RBFY13)
- **Tk 25,993 crore** (47.2%) will come from the **bank borrowing** (57.4% in RBFY13)
- Net bank borrowing will decline by Tk. 2,507 crore from RBFY13
- Tk 7,971 crore (14.5%) will come from non-bank sources (8.0% in RB of FY13)
- Share of foreign financing will be 38.3% in FY14 (34.6% in RB of FY12)
- **Gross foreign aid** requirement will be around **USD 3.8 bln (USD 3.2 bln in RBFY12)** – an almost impossible target in view of **only USD 2.0 billion** being received during **Jul-Apr FY13**.

Sources of Deficit Financing



Contingent Liabilities

- **Contingent Liabilities** in last two years increased substantially – as of March 2013 contingent liabilities stood at **Tk. 69,339 crore**
  - Of which, **BPC (43.4%);** BADC (10.3%); BKB (8.2%); and BPDB (7.3%) and BCIC (7.3%)
- Indeed contingent liabilities as of March was 36.6% of total budget (6.7% of GDP) – still quite high
- **Needs rationalisation**.

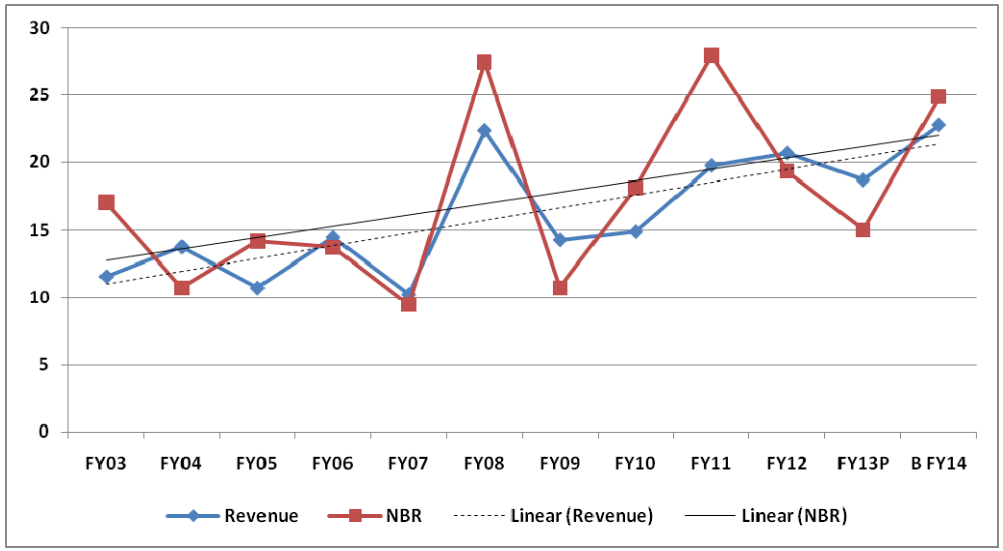
Contingent Liabilities

Item	Jun-10	Jun-11	Mar-12	Mar-13
Contingent Liabilities (Tk. Crore)	**29192**	**36445**	**64562**	**69339**
of which BPC (Tk. Crore)	*8500*	*12599*	*34012*	*30120*
Contingent Liabilities as % of GDP	4.2	4.6	7.1	6.7
Contingent Liabilities as % of Budget	28.7	28.4	42.4	36.6

Defining Factors for Public Finance Framework

- If we make **NBR growth** attainment in FY13 at a **realistic** level (**15.0%)** the required growth rate for FY14 will **increased to 24.9% (from 21.2%)**
- **Higher than trend growth rate**

NBR and Revenue Growth Rate (%)

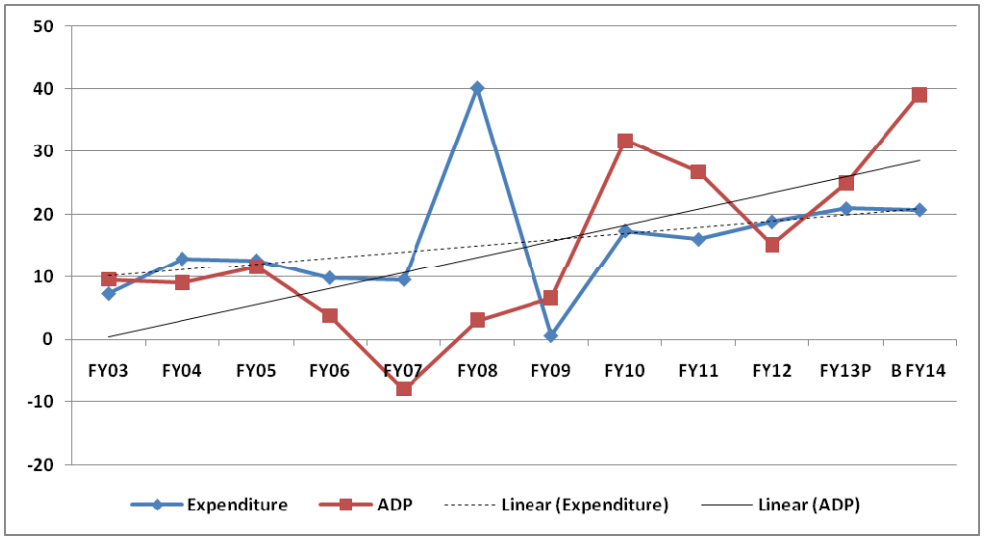


- Only **in FY08 (27.4% - CTG effect)** and **FY11 (28.0% - international price effect)** a higher growth was attained – two unusual years!
- Similarly the target growth rate for total revenue mobilisation reached to 22.8% (from 19.9%)
- A much challenging task in view of economic and political reality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

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 lower

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)

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?

Overview of Fiscal Measures

OVERVIEW OF FISCAL MEASURES

Personal Income Tax

- Personal **income tax threshold** has been increased to **Tk. 220,000** from 200,000
  - Will be helpful for low income earners
  - However, taxable **threshold in Bangladesh is lower** than **India**
  - It is to be noted that the threshold for India is Rs. 200,000 (equivalent to Tk. 274,000)
  - But India has a higher marginal rate on personal income tax – 30% in India vs 25% in Bangladesh
- Threshold for women and senior citizens have been revised upward to Tk. 2,50,000 from Tk. 2,25,000
  - Good move considering the necessity of reducing tax liability of marginal taxpayers.

OVERVIEW OF FISCAL MEASURES

Personal Income Tax

- **Reduction of minimum tax for individual** tax payers living in the **Paurashava** area of district town (Tk. 3,000 to Tk. 2,000) and the **Upazilas** (Tk. 3,000 to Tk. 1,000)
  - Will help broaden the tax base

Surcharge

- In FY12, 10% **surcharge** was imposed on **income in excess of Tk. 2 crores**
- In FY14, 10 % surcharge will be imposed on individuals with assets between Tk. 2 crores to Tk. 10 crores
- Additionally, 15% surcharge will be imposed for wealth on individuals having more than Tk.10 crores in FY14
  - Progressive taxation towards more equity

OVERVIEW OF FISCAL MEASURES

Corporate Tax

- Tax for **publicly traded mobile phone company** has been increased from **35% to 40%**
  - One particular firm will be affected
  - **Erosion of incentive 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

Black Money Whitening

- The FY 2013-14 budget proposed extension of the scope for whitening **undisclosed income** for investment in the **real estate** sector at a flat rate of **10%**
- Holders of undisclosed money can invest in this sector by paying taxes between Tk. 750 to Tk. 5,000 and Tk. 1,000 to Tk. 7,000 depending on location and size
- In case of plot/land, buyers can purchase by paying 10% tax on total value
  - Tax will be 20% in case of more than one plot/land
- However, the provision on allowing undisclosed money in the **capital market** has **not** been **extended**

OVERVIEW OF FISCAL MEASURES

- **Black Money Whitening**
- The scope for whitening black money is **morally unacceptable and economic benefits remain questionable**
- The opportunity benefits only some particular sector(s)
- Only Tk. 38 crores was received as tax as against the total whitened amount of Tk. 1,305 crores during 2009-2013

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).

OVERVIEW OF FISCAL MEASURES

Import Duty and Supplementary Duty

- The present **3% customs duty** on the import of **capital goods** reduced to **2%** and 1**2%** on **raw materials** reduced to **10%**
  - Should be helpful in terms of stimulating private investment
  - Will reduce the investment cost and working capital cost
- Provision of **5 % regulatory duty** on goods chargeable **to 25% customs duty** will be continued
- Regulatory duty on few items which are chargeable at 10% customs duty has been proposed at 5%
  - Will enhance effective rate of protection for import-substituting industries and discourage import of these commodities

OVERVIEW OF FISCAL MEASURES

Import Duty

- Full **exemption** of **customs duties** applicable to **essential goods** such as rice, pulse, wheat, onion, agricultural inputs, life-saving drugs and industrial raw material like cotton will **continue**
  - Will benefit consumers
  - Exemption of customs duties on agricultural inputs (fertilizer, insecticides, seeds) will help the agricultural sector
  - Exemption of customs duties for some industrial raw materials such as cotton will promote textile industry.

Table: Changes in various duties in FY2013-14

Types of Duty	Raised	Reduced	Waived
Customs Duty	23	51	0
Supplementary Duty	22	0	40
Specific Duty	6	0	0
Concessionary Benefit by SRO	36	4	0
Regulatory Duty	43	8	0

OVERVIEW OF FISCAL MEASURES

Value Added Tax (VAT)

- Existing uniform trade **VAT** at the rate of **4%** at all levels of **wholesale and retail sales** will remain unchanged
- 15% would be applicable for traders who are willing to pay VAT on actual value addition
  - This is in preparation for the introduction of the new VAT rate from 2016

OVERVIEW OF FISCAL MEASURES

Tax Holiday

- Existing tax holiday facilities has been **extended** from June 2013 to **June 2015**
  - Will be helpful for new industries
  - There has been **criticism** in the past with regard to **misuse of tax holiday** facilities and also its effectiveness
  - Proper implementation is necessary to ensure that the facility is not misused

Duty and Taxes on Vehicles

- No major amendment in tax structure of motor cycles, except that tax has been reduced on roller chains
- No modifications in the tax structure for reconditioned vehicles but restructuring of the depreciation rate
  - Cars older than three years will be comparatively cheaper, while cars less than two years old would be relatively highly priced

Tax Incidence at the Import Stage

- At the import stage, collection of revenue (import duty, VAT, SD, RD) during July-April FY13 was of Tk. 26,331 crore (this was 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 net **increase import related revenues by 4.2% 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 FY12 import changes significantly

OVERVIEW OF FISCAL MEASURES

Tax Administration

- Modernize tax administration and management
  - Increase of manpower, including senior officials and logistics support has been proposed
  - A survey needs to be carried out regarding the human resource required in view of potential number of taxpayers
- The fully advanced and automated ASYCUDA World software will replace the existing PSI system on a pilot basis
  - This would be an effective tool which will provide a harmonized platform for the entire tax department
- Establishment of Management Information System for Taxation (MIST)
  - Tax information and Service Centers have been set up - A good initiative

OVERVIEW OF FISCAL MEASURES

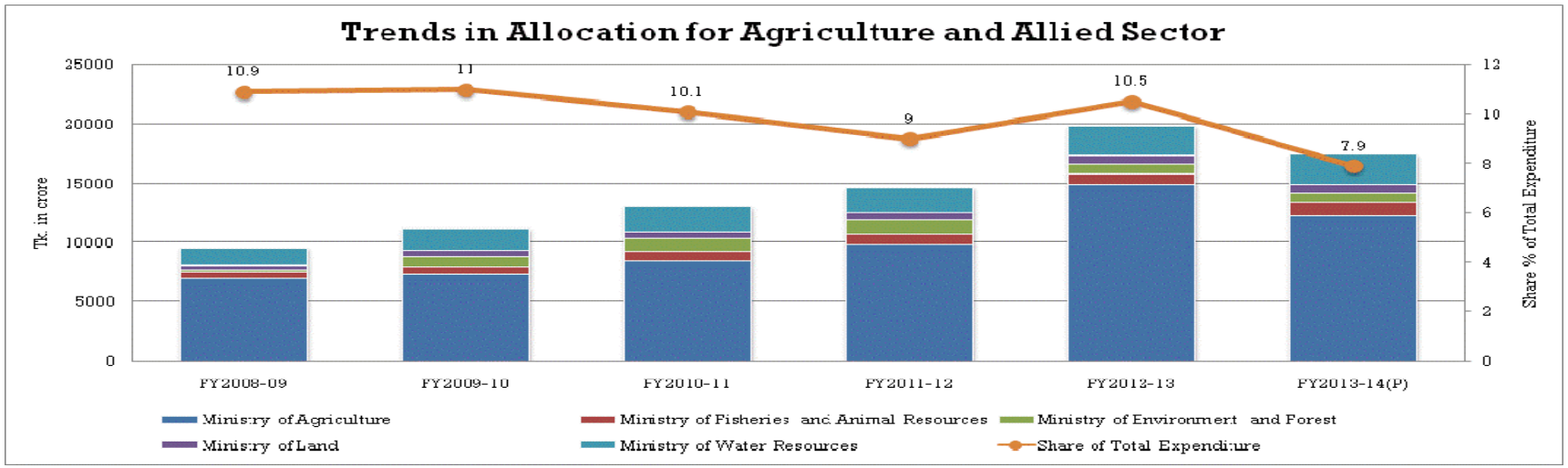
Tax Administration

- Improving the tax compliance culture and tax payer services
  - **Introduction of** Alternative Dispute Resolution (**ADR**) to speed up tax related disputes
- Coordination and cooperation between the Customs, VAT and income Tax department will be ensured
  - This is needed to plug against tax avoidance and raise tax revenue
- Ensure transparency in tax administration
- Needless to mention that the tax administration in Bangladesh is plagued by narrow tax base, evasion of tax and inefficient tax administrations.
- It remains to be seen to what extent this proposal will be realized.

Sectoral Measures

Lower Allocation for Agriculture

- Allocation for **agriculture** and allied sectors in FY2014 budget (non-development and development) is Tk. 17,471 crores, which is 11.95% lower than the revised budget of FY2013
  - 7.9% of total budget expenditure
  - 11.95% lower than the revised budget of FY2013
- **Allocation** for the Ministry of Agriculture is **reduced** to Tk. 12,270 crores in the proposed budget from Tk. 14,878 crores in FY2013 budget, mainly **due to cutback of agricultural subsidy**



- Subsidy is sufficient only for fertilizer
- An amount of **Tk. 9000 crore has been allocated** as **subsidy** for the **agriculture** sector
- **CPD estimates** that **Tk. 8300 crore** may be required as subsidy only for fertilizer
- So, a **higher subsidy may be needed** for other agricultural inputs

Agricultural Subsidy for Fertilizers

Fertilizer	Price (USD/Ton)	Insurance and freight charge (USD/Ton)	Imported Cost (USD/Ton)	Cost (Tk./Kg)	Administered Price (Tk./Kg)	Demand for FY2014 (lakh ton)	Subsidy (Crore Tk.)
DAP	491.6	50	541.6	43.7	27	5	1665.84
UREA	396.6	60	456.6	36.8	20	13.5	1680.65
			0.0	9.5	20	10	-1050.00
TSP	435.0	100	535.0	43.1	22	7.3	2112.64
MoP	390.8	100	490.8	39.6	15	7.1	2456.34
Others	410.0	80	490.0	39.5	25	0.8	1449.89
Total						43.7	8315.35

Climate Change & Disaster Management

- Bangladesh **Climate Change Trust Fund** (BCCTF): Implementation of 112 projects in the past fiscal year is satisfactory but **very little fund utilized (Tk. 255 crore),** casting doubt on the weight of these interventions
  - Need more capacity building and involvement of union and upazila level stakeholders
  - Need to finance rigorous systems for monitoring and evaluation as well as for project selection
- Steps toward early warning system by mobile phones a good sign
- Development of the legal and institutional framework for disaster management has picked up – the Disaster Management Act, 2012 has empowered UP level committees
- FY2011 pledge to protect 20k ha of land from salinity every year and salinity forecasting not being followed – salinity is a high risk of climate change

Climate Change & Disaster Management

- Expecting results from the six Bangladesh Climate Change Resilience Fund (BCCRF) projects esp. WB-funded afforestation programme
  - Seek projects that serve dual purposes of climate resilience and income generation
- Construction of the 74 flood shelters and 100 cyclone shelters and revision of the Building Code is urgent – disasters in the meantime (Sidr, Aila, Savar collapse) have claimed many lives
- Develop comprehensive database of climate refuges

Industry

- The budget has proposed a number of measures to stimulate industrial sector and to promote private sector investment. These have tried to address the concerns of decelerating growth of private investment
  - How far these measures will be effective will depend on a number of factors? a) evolving political scenario till the national election; b) commensurate improvement in physical and infrastructural facilities; c) extent of improvement in consumers' demand and purchasing capacity and d) dynamics of the global economy external demand
- A number of proposed **measures is likely to facilitate new investment** as well as to help retain or improve competitiveness of different industries
  - Continuation of **tax holiday** (**17 industrial undertakings**, 17 physical infrastructure, jute goods, fabric & dyeing, poultry, fisheries, shrimp, fish etc.): *CPD had earlier proposed such measure in its FY14* budget proposals
  - **Reduction of CD on capital machineries & intermediate products**, imposition of SD on finished products and on few other items similar to intermediate products: *CPD had proposed such measures*

Industry

- **Local industries** have been **given protection** and support through the following changes in tariffs and duties. Some of these are import-substituting.
  - Through (a) **imposition of CD/SD on imports**; (b) **withdrawal/ reduction of SD** on domestic production; and (c) **reduction of CD in imported input**
  - Imposition of 60% SD on imported potato chips, increase CD to 10% on imported milk powder and reduction of CD over milk tanker,
  - Exemption of CD over raw materials of paper and reduction of CD over acrylic yarn
  - Increase SD over float glass and reduction of CD over cobalt dioxide for glass industry, and reduction of CD of raw materials for ceramic industry
  - Increased specific duty on billet (adverse impact on real estate sector)
  - Exemption of CD on alloy steel and exemption of RD on CR coils
  - Imposition of CD over LPG cylinder, and reduction of import duty on generator parts
- A number of proposed changes in the fiscal measures may have adverse impact on domestic industries
  - Reduction of SD on imported SIM cards; reduction of SD on imported consumer goods (sweet biscuits, waffles and wafers, and rusks and toasted bread)

- **Proposed measures** in **support of poultry industry** would contribute to rebuilding its competitiveness
  - Tax exemption for another two years; reduction of duties on raw materials and spare parts; ADP allocation of Tk.3.65 crore for poultry farmers of 22 districts and Tk.1.52 crore for HPAI (avian influenza)

Changes in Total tax Incidence of Selected Products

HSCODE	Description	Change	HSCODE	Description	Change
04021099	Milk And Cream In Granules Or Solid Forms <=1.5% Fat,Conc. Or Sweetned,Nes	19.0	19053100	Sweet biscuits	-33.2
25171010	Flint/grinding pebbles imported by VAT registered ceramic products manufacturing	-26.2	19053200	Waffles and wafers	-33.2
28220000	Cobalt Oxides And Hydroxides; Commercial Cobalt Oxides	-20.1	19054000	Rusks, Toasted Bread And Similar Toasted Products	-33.2
72082730	imported by vat regd.iron/steel product & transformer manufacturer industry	-0.8	20052000	Potatoes, Preserved Other Than By Vinegar Or Acetic Acid, Not Frozen	169.6
85131010	LED lamps including rechargeable LED lamps	-20.1	52081100	Unbleached Plain Woven Fabrics Of Cotton With>=85%Cotton, =<100g/M2	-32.4
85447000	Optical Fibre Cables Made Up Of Individually Sheathed Fibres	-23.2	55020010	Artificial filament tow imported by VAT registered manufacturing industries	-0.8
73110010	Containers For Compressed Or Liquefied Gas,Of Iron/Steel, >5000l,Ckd	27.9	73110010	Containers For Compressed Or Liquefied Gas,Of Iron/Steel, >5000l,Ckd	27.9
85423910	SIM card	-16.2	85235200		

SMEs

- Proposed **rise in annual turnover ceiling from Tk 70 lakh to Tk 80 lakh** for tax purposes will reduce tax burden and would have positive implications for SMEs' competitiveness
- Increase investment ceiling of small & cottage industries from Tk.25 lakh to Tk.40lakh for tax exemption: annual turnover from Tk.40 lakh to Tk. 60lakh: Positive initiative
- Proposed upward revision of VAT eligibility on turnover of small traders, wholesalers and shopkeepers: May not have significant adverse impact because hike is not significant

Light Engineering

- Reduction of CD on capital machineries & intermediate products will reduce overall production cost
- Exemption of CD and RD on alloy pig iron, non-alloy pig iron, flat rolled products, carbon filter etc. will reduce production cost

ADP Allocation in Industrial Sector

- Proposed allocation for the industrial sector in ADP14 is Tk.2313.9 crore which is 12% and 20.8% higher than ADP13 and RADP13 respectively
  - One single project i.e. Shahjalal Fertilizer Project received over 2/3rd of total allocation (43% to be competed by FY14)
- 40 projects will be implemented in FY14; inclusion of 1 new project (BSCIC Industrial Park,Bhairab)
  - Timely completion of projects remains a concern (e.g. strengthening and modernization of BSTI and SARSO); Time period is extended for 9 projects

ADP Allocation in SMEs

- Adequate allocation will be required for quick implementation of a number of projects: Sirajgonj Industrial Park (47%; FY15), Gopalgonj (82%; FY14) and Mirsarai Industrial estate (81%; FY14)
- Progress in implementation of a number of projects is not up to the mark.: Comilla Industrial Estate (0.98%; FY14); BSCIC Special economic Zone (15%; FY15)

Export Promotion

- Proposed allocation of **Tk. 2,592 crore** (8% of total subsidy in FY14) as **export incentive: Positive**
- Leather: **Proposed reduction of CD on selected inputs of leather** (chromium, casein etc) is likely to reduce production cost
  - Leather Estate Project: Poor allocation for relocation of leather estate to Savar resulted in only 28% of completion of the project till now(original completion date: 30,June 2012)
- Jute: Proposed extension of timeline for exemption of 15% of the income tax for Jute Industries till June, 2015 will support newly set up industries
  - Slow progress as regards a number of projects: HYV jute and seed production project (36% till FY2014); Applied Jute Research project (52.5% till March, 2013)
- Ship Building: **Proposed exemption of CD, SD and VAT for vessels** above 5000 DWT capacity will facilitate domestic production of vessels up to 5000 DWT; exemption of duty and taxes above 5% on anchor chain, life boat, rafts will support local industry

Industry

- Textiles and RMG: Proposed exemption of CD on acrylic yarn will make the fibre locally available at lower cost which will facilitate development of spinning mills
  - **Reduction of SD for a number of woven/knit fabrics would reduce leakages through bond facilities and reduce smuggling**
- 10 vocational institutes, strengthening of the knittred textiles colleges and support to RMG sector under BWTG programme should be properly implemented as per the revised timeline
- Pharmaceutical Industry : Completion of *API Industrial Park Project* will be further delayed (48.5% in FY14; extended till 2015)
  - Reduction of duty on cartridge/membrane filter for the pharmaceutical industry was likely to benefit local companies

ICT

- **Significant downward revision of ICT budget in RADPFY13 (63%)**
  - ADP allocation for FY14: Tk.757.6 crore, 56.6% higher than FY13 and 153.2% higher than RADP for FY13
- No mention about ICT Development Fund (Tk.700 crore) as mentioned in AL's Election Manifesto
  - ICT Skill Trust Fund has been proposed with an allocation of Tk.50 crore for skill development to train10,000 professionals in next two years: Positive initiative
  - Attention needed for timely completion of SASEC Information Highway, Software Technology Park, and connection to the 2nd Sub-marine Cable: HTP, Kaliakoir (FY16): Delayed; New timetable

ICT

- Reduction of CD on computer accessories is appreciated (web camera, server rack)
  - Proposed reduction of CD on optical fibre and its raw materials will help quality optical fibre to be available at cheaper price
  - Reduction of SD on SIM cards will little impact on telephone sector; rather it would affect local SIM producers
- Development of National e-governance architecture under A2I Programme needs to be expedited

Capital Market

- A number of **tax proposals** will **benefit** different groups of stakeholders in the **capital market**
  - Withdrawal of **3% tax over extra premium** on listed company's share's face value: **withdrawal** of source tax
    - Total withdrawal of any interface between capital market and tax administration is not good
  - Withdrawal of **0.05% tax at source** in case of transfer of bonds
  - **15% tax rebate on investment** in private mutual funds
  - **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**
- However, these facilities will have **limited impact** in stabilising the capital market

Capital Market

- However, the timeline with regard to investment of **undisclosed money in the capital market discontinued** after 30 June 2013
- **'Financial Reporting Act'** needs to be finalised soon
  - Effective functioning of demutualised stock exchanges needed
- **SEC should prepare a code of conduct for institutional investors** to encourage them towards long term investment
  - **No mention about Tk.900 crore refinancing scheme**

Industrial Workers

- A total of 11 projects will be implemented under the labour and employment sector
  - Total allocation : Tk.370.1 crore; 31% higher than RADP13
- **Fresh allocation has been made in several projects two years after their inclusion in the ADP: CPD had earlier proposed**
  - Reform and modernization of 3 industrial relations and 22 Worker Welfare Centres and 5 zonal and 4 regional offices of factory inspection authorities
- Necessary allocation is required for other projects
  - Reconstruction of Dhaka divisional labour office for multipurpose usage (Labour tower) and re-establishment and modernization of 8 labour welfare centres

Industrial Workers

- **No mention about building dormitories for workers: Such projects could be implemented under PPP initiative**
- Reduction of CD on fire extinguishers will support improvement of safer workplace in the industrial sector
- Project on 'Promotion of social and environmental standard in the industries (PSCE)' needs to be emphasized
- **One would have expected some concrete information as regards measures to prevent re[eat Rana Plaza.**

Power and Energy

- ADP allocation for power sector in FY14: Tk.9053 crore (17.2% of total allocation)
  - 14.6% and 5.7% higher than ADP and RADP in FY13 respectively
- **A total of 54 projects will be implemented in FY14**
  - **5 power generation plants to be completed in FY14:capacity 1480 MW**
  - Proper monitoring is required for timely completion of projects
- **Four private sector projects are ongoing**: Chittagong (Mohra) 50 MW, Potenga, Chittagong 100 MW, Ghorarshal, Narshindi 100 MW, Ashugonj 50 MW: Proper monitoring is required
- Proposed reduction of CD on solar lantern and LED lamp will help access by low income group people and will reduce kerosene subsidy
- Exit plan for quick rentals is not yet clear
  - Subsidy for power sector will remain high in FY14 (Tk.5500 crore (p))

Power and Energy

- The plan **does not indicate significant diversification in energy sources** as was originally envisaged

Plan for Fuel Use (%) in Power Generation

FY	Gas	Coal	Liquid Fuel	Water	LNG	Import
2012-13	76.42	2.86	18.69	2.12	--	--
2013-14	77.02	1.92	16.67	1.86	--	2.53
2014-15	79.37	1.66	12.5	1.66	--	4.82
2015-16	79.34	6.98	6.09	1.5	1.58	4.5

Source: Budget FY2013-14

Primary Energy: Gas

- Total allocation is Tk. 2255.0 crore in FY14; 40.2% and 62.7% higher than ADP and RADP in FY13 respectively
- A number of projects for gas exploration is being implemented: A number of IOC projects is expected to be completed by 2013: additional supply of 300 MMcf gas
- BAPEX need to be strengthened for on-shore gas exploration

Local Government

- In the 2013-14 budget speech, '**Devolving power to the Local Government'** is reflected as one the three major issues. (other two being a. Special initiatives and b. Administrative Reform Program)

- *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.**

- Transfer of tasks to the upazila parishads supported increase coordination of activities; visible successes are yet to yield
- Appointment of administrators at the district level may increase citizens involvement in the development activities, but how it fits in with the overall LG system is not clear.

Table: Allocation for LGD in the Total Budget (2008-09 to 2013-14)

Ministry/ Division	Budget 2013-14	Revised 2012-13	Budget 2012-13	Revised 2011-12	Budget 2011-12
Local Government Division	12,961	13,220	12,433	10,393	10,909
% of total budget	5.83	6.98	6.48	6.45	6.67

Table: Growth rate of allocated total LGD budget

Ministry/ Division	Growth of 2013-14 over RB 12-13	Growth of RB 2012-13 over original 12-13	Growth of original 2012-13 over RB 11-12	Growth of RB 11-12 over original 11-12
Local Govt. Division	-1.96	6.33	19.63	-4.73

- Over the last 5 years, the LGD allocation percentages of total budget were usually above 6%, while this year it declined to 5.83 percent of total budget.
- For the last two consecutive years, allocation in revised budget was enhanced over the original outlay.
- **Total allocation for LGD amount (12,961 crore) decreased** from last year (2012-13) revised budget (13,220 crore) by 1.96%

Local Government

Table: Allocation for LGD in Annual Development Programme (2009-10 to 2013-14)

Ministry/ Division	Budget 2013-14	Revised 2012-13	Budget 2012-13
Local Govt. Division	11,195	11,274	10,815
% of total ADP	17.0	21.5	19.7

- **Allocation for LGD in ADP remain stagnant**, though the share has decreased from 21.5 percent to 17 percent of ADP.
- This trend was also observed in Development assistance -decreased from 5.56 percent to 2.95 percent.
- **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
- Budget does not address the real issues of LG's in- ensuring improved services to the people through capacity enhancement.

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. A development administrative structure at the district level has to be built up which will have the dual function of planning and implementation of rural development programmes.
- **District Budget for Tangail is 0.75% of the total national budget**
- Out of the 56 ministries, expenditures of 39 are involved in the Tangail district budget

District Budget

Major Areas of Expenditure	As a percentage of Total District Budget
Education	17.06
Primary and Mass Education	11.40
Disaster Management and Relief	8.76
Local Government	8.71
Health and Family Welfare	8.32
Food	6.61
Cumulative share of the top six	60.86
Total Development	33.16
Total Non-Development	66.84

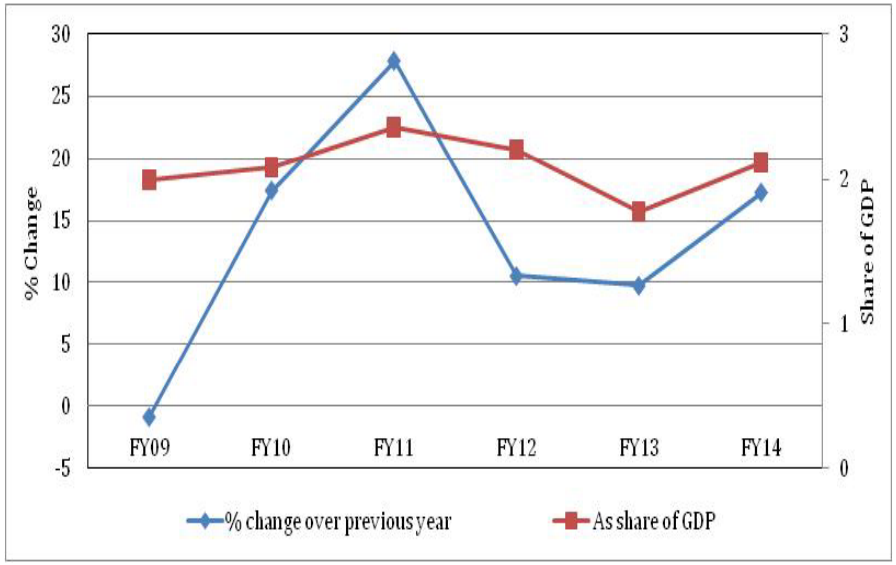
District Budget

- District budgets are implemented in India and Nepal among other countries
- It will allow the government to have greater control over district administration and hence, could result in more efficient use of resources and better implementation of law and order
- This is 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 Tangail 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

Social Sector

Education

- In FY2014, 23.17% of 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 FY2014



- In FY2014, Tk. 25,093 crores (11.28% of total budget) have been allocated for the **education sector**
  - *It was Tk. 18.360 crores (9.70 % of total budget) in FY2013*
  - *The allocation is **2.11% of GDP** in FY2014 compared to 1.77% in FY2013*
- In ADP FY2014, only one project is newly added out of 106 projects related to Education and Religious (of which 85 investment projects and 21 technical assistance projects)

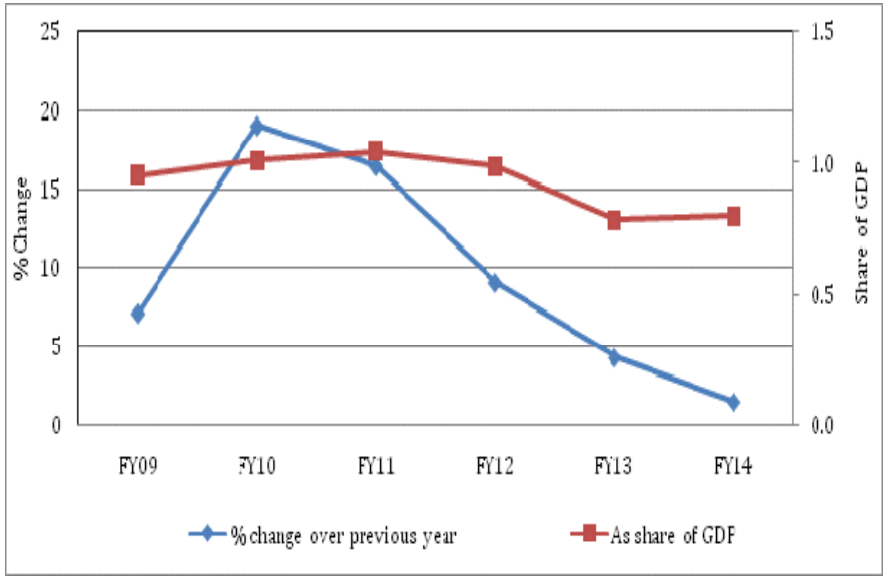
Initiatives to be taken to eradicate illiteracy by 2014

- Raise teacher-student ratio
- Set guidelines for inclusive education for all
- Implement Primary Education Development Program-3 (PEDP-3)
- Establish Primary Teacher Training Institutes (PTIs)
- Plann to bring more than 7 lakh children under the 'Education for All' program between 2013 and 2017
- Establish of model schools at upazila levels

Successfully Implemented Initiatives

- 100 % free books at primary level
- Nationalization of 26,193 registered private, community and other primary schools
- Schooling programme for urban working children
- Enacted Private University Act, 2009
- 100 % stipend in slums and monga/cyclone/river erosion areas
- Enacted "Prime Minister's Education Assistance Trust Act 2012'
- Established 'Prime Minister's Education Assistance Foundation'
- Initiatives taken to nationalize the jobs of 1,03,845 primary school teachers.

- Allocation for FY2014 is Tk. 9,470 crores or 4.26% of total budget as opposed to Tk. 8,150 crores (4.3% of total budget) in FY2013
- *This is about **0.79% of GDP** which is **lower than previous year's share** (less than 1% of GDP)*



- In the ADP of FY2014, only 3 new projects have been initiated for Health, Nutrition, Population and Family sector(total 45 projects of which 35 investment projects, 8 technical assistance projects and 2 JDCF projects)

Major Achievements

- National Health Policy 2011 has been formulated
- Child mortality rates reduced to 53 per thousand live birth in 2011 from 65 per thousand in 2008
- Proposal has been made to enhance the existing value slabs of cigarettes from premium to lower segment by 21.21%, 19.32%, 13.13% and 15.70% respectively
- Implementation of e-Health programme and internet connection to 800 government hospitals and medical centers

Gender Budget at a Glance

- Allocation for gender budget in FY2014 is Tk. 61567 crore which is **5.18% of GDP**.
- Gender related expenditure has increased to 27.67% of total budget in FY2014 compared to 26.26% in FY2013
- 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
- Gender budget for 40 ministries (FY2014) has been proposed as against 25 ministries in FY2013. However except for Education, Health and Rural Development, in most cases, development of women is only vaguely related to the priority spending programmes

Special Initiatives for Women

- Allocation of **Tk. 80 crores in Women Development Fund** for female entrepreneurs
- In FY2014, Tk. 364.32 crores have been allocated for the allowance of 10 lakh widows and divorced/abandoned women's allowance. This is 10% higher than FY2013
- Tax free income threshold for women has been increased to Tk. 250,000 for Tk. 225,000

Allocation for Children in the Budget

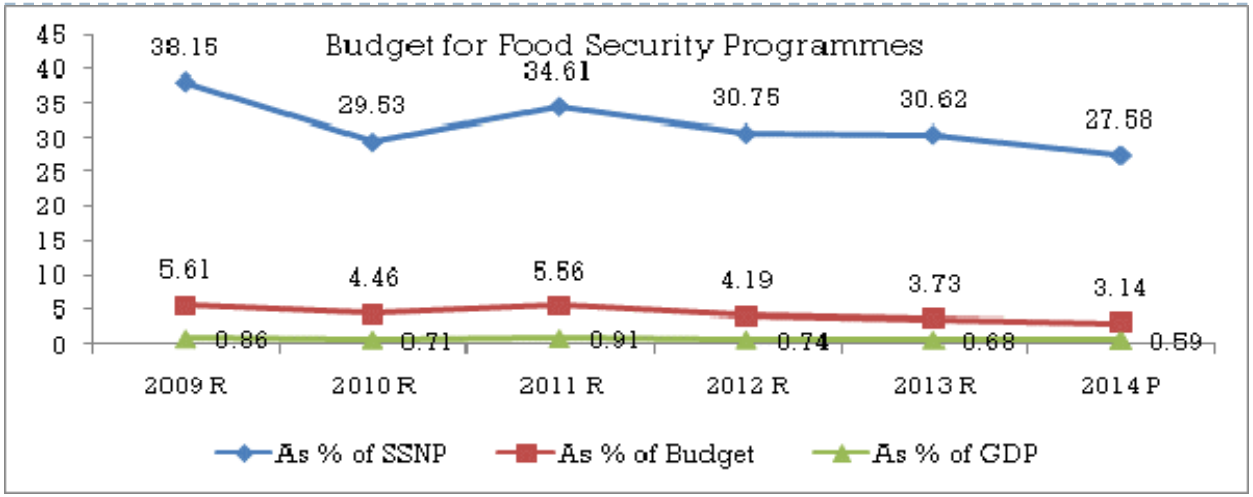
- Investing in children is equivalent to investing in the future
- Children have given improved allocation compared to recent years
  - 4.7% of total budget in FY14 (this was 3.6% in FY2013, 4.6% in FY2006)
  - 0.9% of GDP in FY2014 (revised upward from 0.7% in FY2013)
- Figures include both projects under ADP and SNPs from non-development budget. Projects concerning children directly and indirectly are included in the calculations. For example, projects for maternal health are included as these can indirectly affect the child's health

Social Safety Net Programmes

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

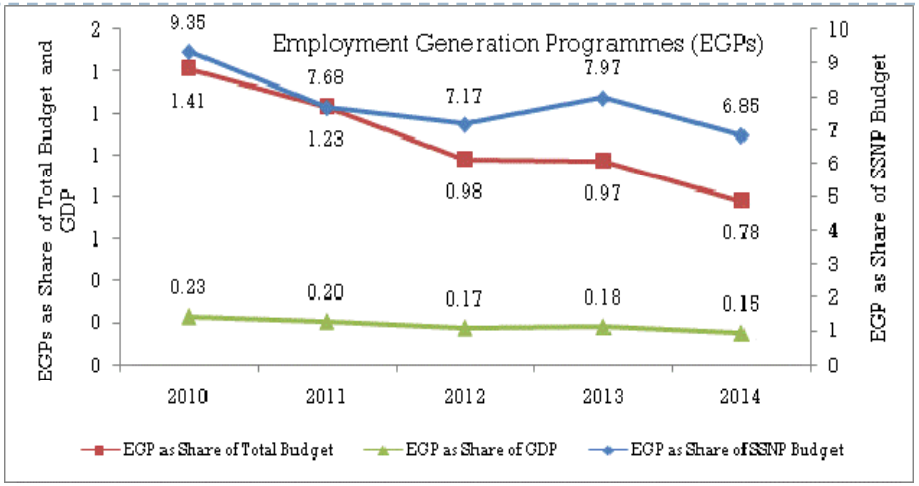
	2009 R	2010 R	2011 R	2012 R	2013 R	2014 P
Allocation for SSNP (Crore Tk.)	13845.27	16705.81	20893.52	21975.23	23097.52	25371.35
SSNP, Percentage of Budget	14.71%	15.12%	16.07%	13.63%	12.2	11.40%
SSNP, Percentage of GDP	2.25%	2.42%	2.64%	2.40%	2.23	2.13%
Social Empowerment, % of Budget	2.64	2.95	3.18	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

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

Election Pledges and Reforms

Implemented and Ongoing Policies/Programmes: Reforms in Economic and Legal/Institutional Sector

- **Implemented Programmes (335):** More reform programmes in economic areas (217) than the legal and institutional reforms (118);
- **Ongoing Reform Initiatives (260):** Reforms in economic areas (235) are more than the legal and institutional reforms (25);
- The number of **ongoing reform** initiatives are not more than the completed programmes but still the number is big.

Major Missing Programmes:

Some programmes should have been completed by 2013

- Digitisation of Land Registration
- Establishment of Economic Zone
- Establishment of Competition Commission
- Formation of Accreditation Council to monitor education standard of the private universities
- Construction of Dhaka Elevated Express Way Railway Sector Project
- Construction of Dual Gauze Double Lines between Dhaka-Tongi, Joydevpur and Dhaka-Narayanganj
- Construction of Elevated Express from Hazrat Shahjalal International Airport to Chandra, Dhaka - Ashulia

Major Missing Programmes:

- Approval of Anti Corruption (Amendment) Bill
- Construction of Tunnel in the Karnaphuli River, Chittagong
- Amendment of Bangladesh National Building Code
- Refinancing facilities to SME sector
- Strengthening of Local Government by decentralisation of the Central Government
- Enforcement of Performance Based Evaluation System
- Formulation of Civil Service Act
- Formulation of Financial Reporting Act and establishment of Financial Reporting Council

Concluding Remarks

Key Challenges of Implementation of Budget FY2014

- 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?*

Key Challenges of Implementation of Budget FY2014

- 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.

Key Challenges of Implementation of Budget FY2014

- 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).

Key Challenges of Implementation of Budget FY2014

- 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.

GOOD LUCK