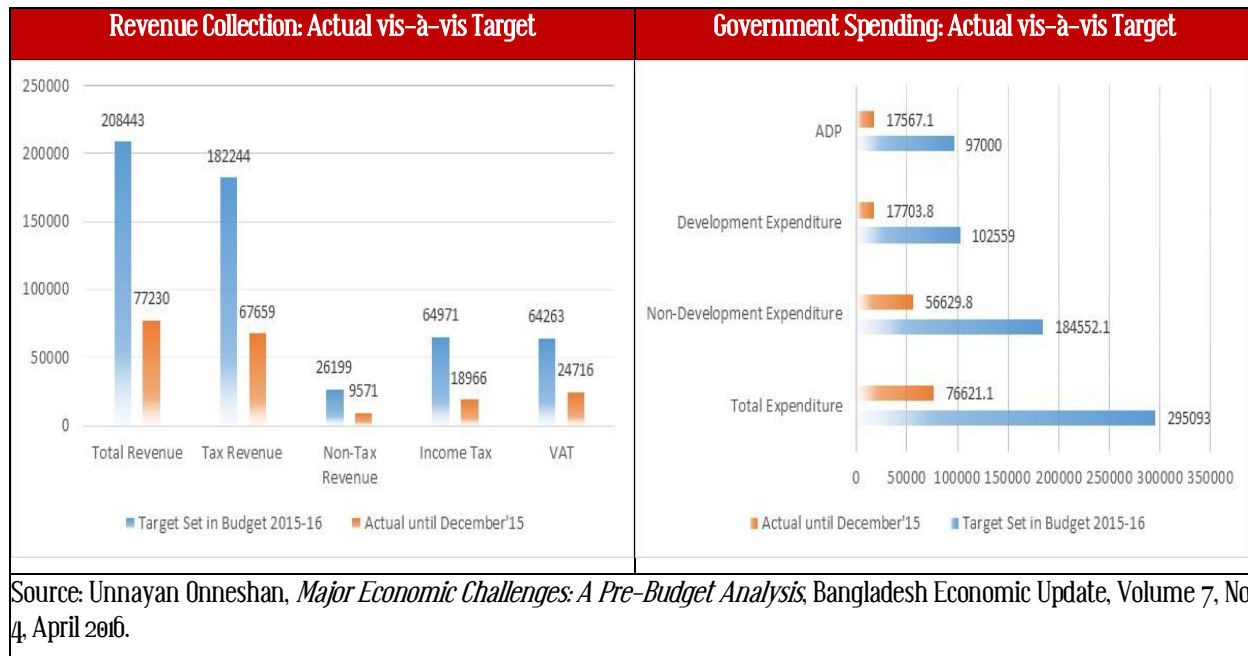


Bangladesh Economic Update
Major Economic Challenges: A Pre-Budget Analysis
April, 2016



The Unnayan Onneshan (UO), an independent multidisciplinary think tank, in its pre-budget issue of Bangladesh Economic Update, April 2016, calls for far-sighted actions toward formulating 2016-17 budget against the backdrop of poor implementation status of 2015-16 budget.

The current size of the economy demands larger national budgets, but the country's incapacity to efficiently implement the current budgets does not suggest a prospect of substantial increase in the size of national budgets in the coming years, comments the UO.

In addition, taking account of the poor implementation status of allocations for physical and social infrastructure, and high youth unemployment rate, the think tank puts particular emphasis on the move toward expanding productive capacity in the economy through ensuring quality investment in physical and social infrastructure and thus creating job for the youth.

The research organization shows that only 30.7 percent of the total non-development budget has been implemented during the first six months of FY 2015-16 while only 41 percent of the total annual development program (ADP) has been implemented during the first nine months (July'15 – March'16) of the current fiscal year. However, the National Economic Council has recently been revised the development budget at Tk. 91000 crore from Tk. 97000 crore.

Meanwhile, the collection of tax revenue lags far behind the target set in the budget 2015-16. Only 52.1 percent of the total target of tax revenue has been collected during the first eight months of the current fiscal year.

The update represents a critical analysis of the major economic challenges in regard to revenue collection, government expenditure, budget balance, foreign grants, remittance, industrial term loans, and inflation, which the economy has underwent during the FY 2015-16, and must take into account before declaring the budget for FY 2016-17.

Noting the current state of economy and development, and recent trend in growth in gross domestic product (GDP), the think tank doubts that government's recent estimation of 7.05 percent of growth in GDP is likely to be achieved at the end of the current fiscal year.

Observing the shortfall in collecting revenue vis-à-vis the target, the UO finds that in FY 2015-16, the target of the collection of revenue was set at Tk. 208443 crore, whereas the actual amount of revenue collection has stood at Tk. 77230 crore during the first half of the current fiscal year, representing only 37.05 percent of the target.

Taking account of unsatisfactory implementation of government expenditure, the research organization evinces that the actual amounts of non-development expenditure and development expenditure have stood at Tk. 56629.8 crore and Tk. 17703.8 crore during the first half of FY 2015-16 against the whole fiscal year's target of Tk. 184552.1 crore and Tk. 102559 crore respectively, representing only 30.7 percent and 17.3 percent of respective targets.

Referring to the surplus in overall budget balance and resultant negative financing during the first half of the current fiscal year due to poor implementation of both development and non-development budgets, the think tank shows that against the target of Tk. 80857 crore in FY 2015-16, the actual budget deficit has become Tk. -832.8 crore, meaning that there exists surplus in the budget balance.

Referring to declining foreign grant, the UO demonstrates that the total foreign grant has stood at Tk. 223.5 crore during July-December period of FY 2015-16 against the target of Tk. 5800 crore for the whole fiscal year.

In terms of industrial term loan, the think tank finds that the disbursement of total industrial term loans during the second quarter (October-December) of FY 2015-16 decreased by 4.43 percent and stood at Tk.1788.78 crore as compared to Tk.18644.13 crore during the corresponding period of the previous fiscal year.

Pointing out the declining inflows of remittance, the research organization shows that remittance receipts decreased by 1.76 percent during July-March of FY 2015-16 and stood at USD 11.06 billion compared to the corresponding period of the previous fiscal year. Remittance receipts also decreased by 3.04 percent on year-on-year basis, and stood at USD 1.29 billion in March 2016 compared to the corresponding month of the previous fiscal year.

In terms of inflation, the think tank evinces that the twelve-month average inflation decreased to 6.10 percent in March 2016 from 6.15 percent in February 2016 due to decrease in food inflation from 5.70 percent in February to 5.49 percent in March 2016, although the point-to-point general inflation increased to 5.65 percent in March 2016 from 5.62 percent in February 2016 due mainly to increase in point to point food inflation to 3.89 percent from 3.77 percent.

Calling for prudent and farsighted fiscal management, the research organization states that the proposed actions for FY 2016-17 should be able to bring about fiscal discipline in implementation of government expenditure on the one hand, and to increase income through reforming the tax system on the other.