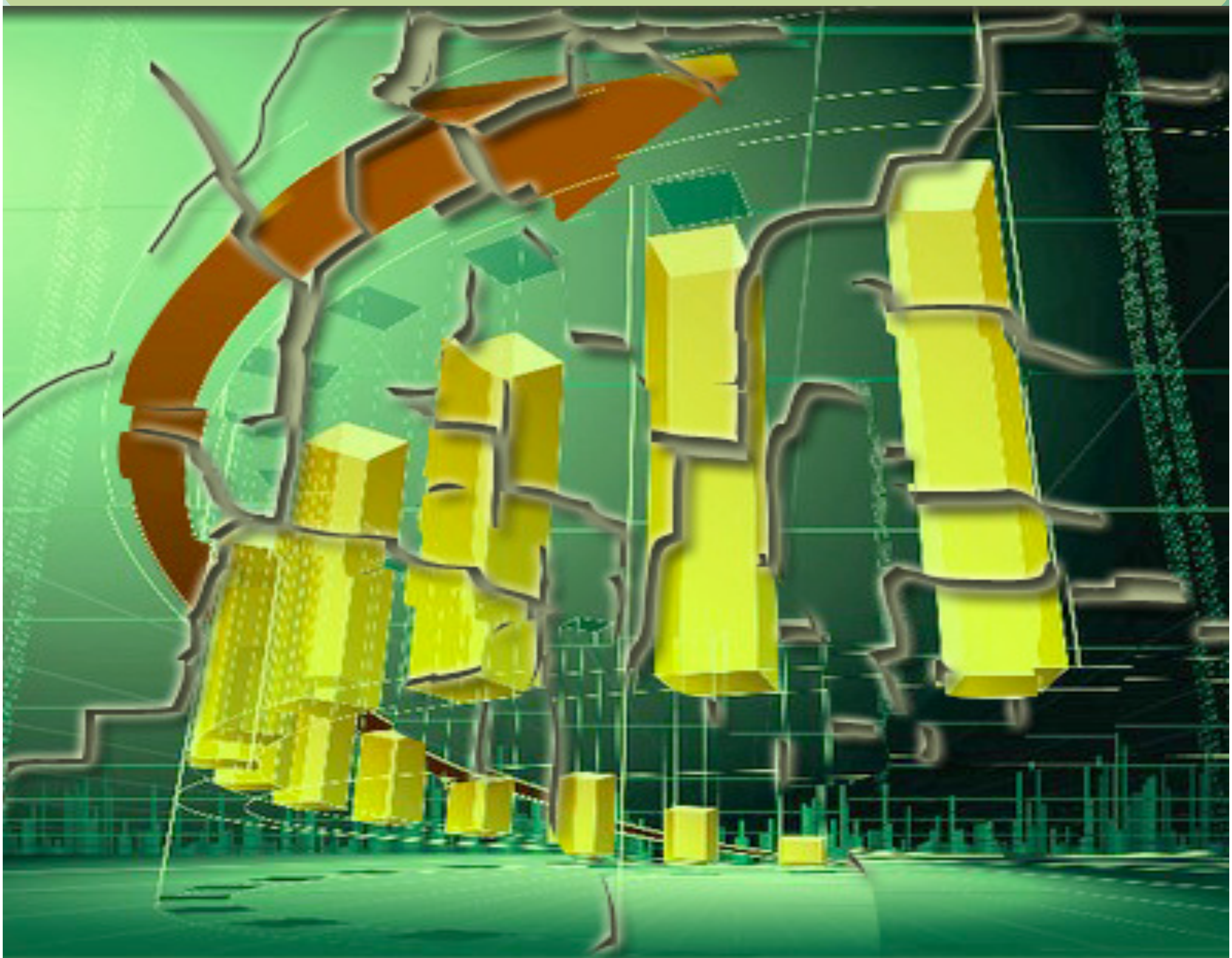
# Business as Usual Budget in Exceptional Circumstances

A RAPID ASSESMENT OF NATIONAL BUDGET 2016-17



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# 1. INTRODUCTION

The proposed national budget for the year of 2016-16 has to deal with a number of challnges. Inadequate savings and investment and increasing gap between these two coupled with capital flight and regulatory unpredictability in economic management have appeared to be the major challenges in the economy. In addition, lack of any significant breakthrough in agriculture as regards innovation and technological advancement in the post-green revolution period, absence of product diversification in manufacturing and consequential lack of creation of employment opportunity in the sector are cause of concern. Discretion and complexity in domestic resource mobilization and increased inequality in wealth creation, and failure of consumption-led expansion strategy in creating multiplier effect in the economy may pose serious challenges to the achievement of targeted rate of growth of 7.2 percent in gross domestic product (GDP) in the FY2016-17.

In view of the current economic structure of Bangladesh, allocation of resources must be channeled efficiently into the productive sectors in order for the economy to get higher returns in terms of expanded productive capacity and resultant increased gross domestic product (GDP). In recent years, the low implementation status of the national budgets has further accentuated the lack of political will induced shortfall in achieving targeted rate of economic growth in the country.

The characteristic of the national budgets – long on targets, short in reality – is mainly due to the lack of political will in the country. In recent years, the low implementation status of the national budgets has further accentuated the lack of political will induced shortfall in achieving targeted rate of economic growth in the country.

A budget of Tk. 340,605 crore has been proposed for the FY 2016-17 setting the target of growth in GDP at 7.2 percent. The target of revenue collection has been set at Tk. 242,752 crore of which NBR tax revenue is Tk. 2,03,152 crore, non-NBR tax revenue is Tk. 7,250crore, and non-tax revenue is Tk. 32,350crore. The amount of non-development expenditure has been proposed at Tk. 215,744crore, whereas the development expenditure has been set at Tk. 1,17,027 crore of which Tk.1,10,700 crore has been allocated for Annual Development Programme (ADP) which is 5.6 percent of GDP. The overall budget deficit has been estimated at Tk. 97,853crore (excluding grants), which is five percent of GDP. In financing the deficit, Tk. 30,789crore will be collected from foreign sources, whereas Tk.61,548 crore will be collected from domestic sources. As far as the domestic sources of financing deficit are concerned, Tk. 38,938crore will be collected from the banking system and Tk. 22,610crore will be collected from Non-Banking source (of which Tk. 19,610 will come from savings certificates and Tk. 3,000 from other sources). Dependence of government on the banking system in financing the deficit may, however, cause private investment to fall further and inflationary pressure to rise in the current fiscal year.

This rapid assessment reviews the policy measures introduced for FY 2016-17 to ascertain whether these could address the above points and stimulate the economy to create more jobs, reduce poverty and lessen inequality. This also examines the feasibility of budgetary targets and probes into any possible sources of tensions between fiscal and monetary policies.

This assessment begins with a brief description of macroeconomic context of the country. The following section provides outlook on growth, investment, and inflation for the next fiscal year in light of the proposed budgetary measures, with a sub-section explaining the reasons for stagnation in investment. The next section delves into the effectiveness of budgetary measures in increasing productivity with a special focus on the real sectors such as agriculture and industry. The penultimate section discusses the efficacy of social sector spending with particular emphasis on education, health, poverty reduction, and inequality. The final section recommends issues for discussion by parliamentarians in the floor of the House during the budget session.

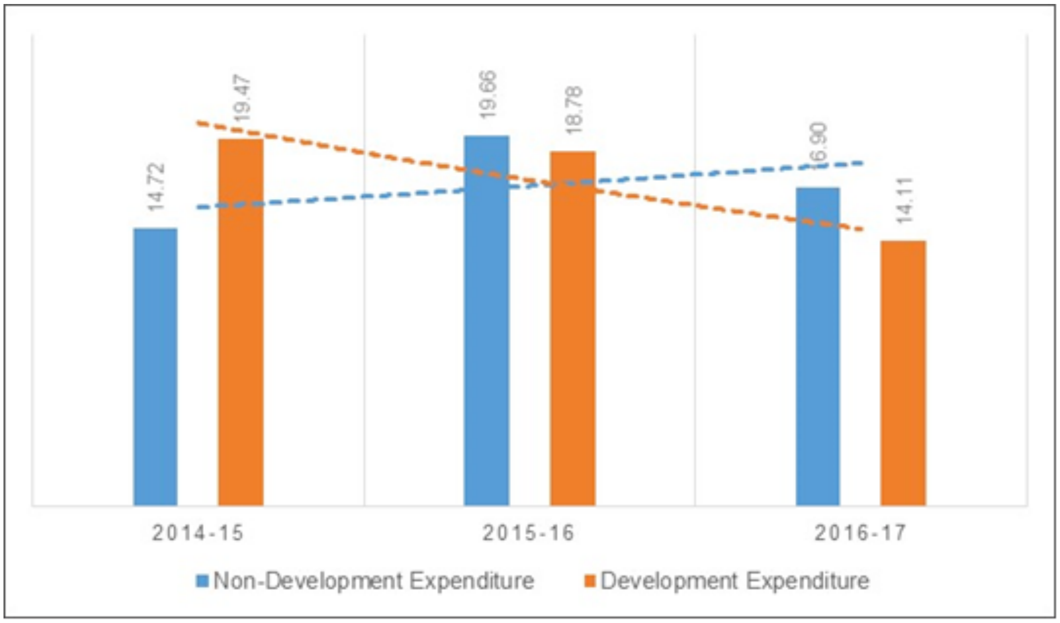
## 2. FISCAL INDICATORS

### 2.1. Expenditure

.Non-development expenditure increased from Tk. 134449 crore in FY 2013-14 to Tk. 154241 in FY 2014-15, Tk. 184559 crore in FY 2015-16 and Tk. 215744 crore in FY 2016-17 representing 14.72 percent, 19.66 percent and 17 percent increase in FY 2014-15, FY 2015-15, and FY 2016-17 respectively.

Meanwhile, development expenditure increased from Tk. 72275 crore in FY 2013-14 to Tk. 86345 in FY 2014-15, Tk. 102559 crore in FY 2015-16 and Tk. 117027 crore in FY 2016-17 representing 19.47 percent, 18.67 percent and 14.11 percent increase in FY 2014-15, FY 2015-15, and FY 2016-17 respectively.

Figure 1: Increase in Expenditure




Source: Ministry of Finance, 2016

In FY 2015-16, total expenditure on interest payment is estimated to take the highest position, which amounts to be Tk. 351 billion. In FY 2014-15, the total expenditure on interest payment stood at Tk. 298 billion, that is, in FY 2015-16, total expenditure on interest payment is assumed to increase by 17.8 percent. In FY 2016-17, total expenditure on interest payment is estimated Tk. 39,951 crore of which Domestic Interest Payment would be Tk. 38,240 crore and Foreign Interest would be Tk. 1,711 crore.

**2.2. Revenue**

Revenue earning of government largely depends on the collection of taxes. Although an increasing trend of collection in tax revenue continues, the country still lags behind other developing countries in collecting taxes. Of the total revenue collection targeted at Tk. 2,42,752 crore in FY 2016-17, Tk. 2,10,402 crore is supposed to be collected from taxes and Tk. 32,350 crore is supposed to come from non-tax revenue. Thus, in FY 2016-17, total revenue is expected to be scaled up to 12.4 percent of real GDP. This figure is only 2.1 percentage points higher than the revised budget estimates of FY 2015-16. However, taking account of the business as usual scenario the research organization projects that the collection of revenue vis-à-vis the target may reach Tk. 216428 crore in FY 2016-17.

Figure 2: Revenue Collection


Source: Ministry of Finance, 2016

On the other hand, total expenditure is planned at Tk. 3,40,605 crore, which is 28.74 percent higher than the revised budget estimates of FY 2015-16.

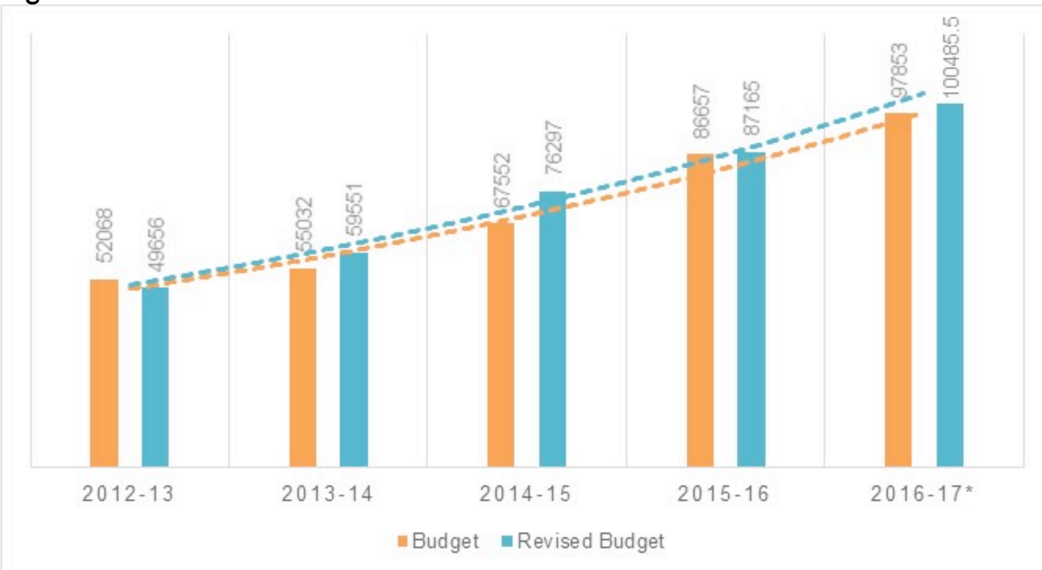
Although both the total revenue and total expenditure assume increasing trend, an increasing gap between the two is obvious. In FY 2014-15, the rate of growth in revenue and expenditure was 16.38 percent and 23.46 per cent respectively. The budgetary target, therefore, seems to be ambitious for both revenue earning and government expending.

Moreover, actual collection of tax revenue has been seen to have fallen short of target in recent years. Actual NBR tax revenue surpassed the targeted amount from FY 2007-08 to FY 2011-12, but in FY 2013-14, actual collection stood at Tk. 111423 crore against the target of Tk. 136090 crore. Similarly in FY 2014-15, the revised collection of NBR tax revenue was Tk. 135028 crore whereas the target was Tk. 149720 crore.

### **2.3.** Fiscal **Deficit**

The overall budget deficit has been estimated at Tk. 97,853 crore (excluding grants), which is five percent of GDP. In financing the deficit, Tk. 30,789 crore will be collected from foreign sources, whereas Tk. 61,548 crore will be collected from domestic sources. As far as the domestic sources of financing deficit are concerned, Tk. 38,938 crore will be collected from the banking system and Tk. 22,610 crore will be collected from Non-Banking source (of which Tk. 19,610 will come from savings certificates and Tk. 3,000 from other sources). The projected revised deficit in FY 2016-17, however, stands at Tk. 100485.5 crore.

Figure 3: Trend in deficit




Source: Ministry of Finance, 2016

In order to finance the deficit, the government relies on both domestic and foreign sources. In FY 2016-17, deficit in budget is estimated at Tk. 97,853 (excluding grants) crore, of which Tk. 61,548 crore is supposed to come from domestic sources and Tk. 30,789 crore is supposed to come from foreign ones (including grants). Borrowing from banking sector is planned at Tk. 38,938 crore in FY 2016-17.

There are two sources of debt financing; one is external and another is internal. Bangladesh bank, scheduled banks, and non-bank financial institutions are the main sources of the domestic borrowings. In FY 2016-17, total public borrowing from banking sector is assumed to be Tk. 38,398 crore and this amount is Tk. 7302 crore higher than that in the budget of previous fiscal year. This high public borrowing from banking sector signals that capacity of deficit financing through revenue collection is not increasing sufficiently. Furthermore, implementation of the budget of Tk. 3,40,605crore in the FY 2016-17 tends to increase domestic borrowing by a larger amount than the proposed amount since financing the deficit from foreign sources may not reach the targeted amount, thereby causing higher inflationary pressure in the economy on the one hand and retrenchment of allocation from social sectors on the other.

Table 1: Domestic Borrowing

| Year | Net borrowing of the Govt. from the banking system | Net non-bank borrowing of the Govt. from the public | Total domestic financing | Outstanding Domestic debt (end period | Outstanding domestic debt as % of GDP@ at current market price |
|---|---|---|---|---|---|
| 2007-08 | 11531.50 | 4008.68 | 15540.18 | 94010.79 | 17.22 |
| 2008-09 | 10527.40 | 4405.51 | 14932.91 | 108943.70 | 17.72 |
| 2009-10 | -4376.00 | 12256.14 | 7880.14 | 116823.84 | 16.92 |
| 2010-11 | 19384.10 | 3012.93 | 22397.03 | 139220.87 | 17.68 |
| 2011-12 | 18875.00 | 2327.38 | 21202.38 | 160423.25 | 17.54 |
| 2012-13 | 17873.00 | 2887.71 | 20760.71 | 181183.96 | 17.46 |
| 2013-14 | 6705.90 | 14153.94 | 20859.84 | 202043.80 | 17.11 |
| 2014-15 | 31221 | 12056 | 43277 | 230516.35 | 15.23 |
| 2015-2016(July-March) | -9763.30 | 23180.04 | 13416.74 | 243933.09 | |
| 2016-17(Budget) | 38398 | 22610 | 61548 | - | - |

Source: Ministry of Finance, 2016

**2.4. Taxation**

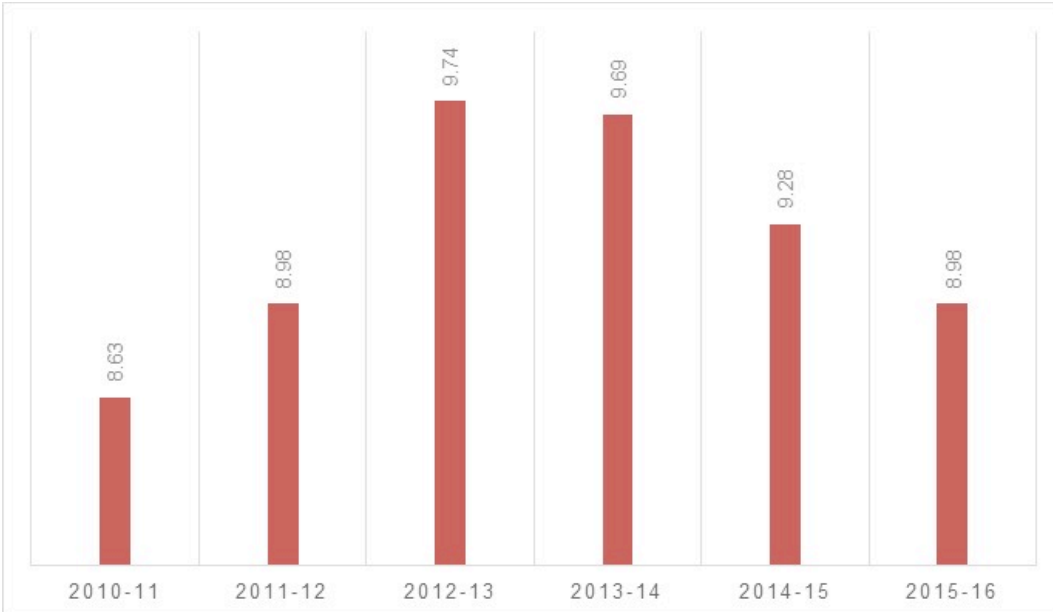
Collection of revenue from Value Added Tax (VAT) has been the main source of total revenue collection in the country, whereas two other sources of tax revenue were income tax and import and supplementary duty. In the FY 2016-17, the government has targeted income tax as the main source of revenue earning, though the indirect sources of revenue (i.e. VAT and import and supplementary duty) comprise the greater amount of revenue earnings. In the budget of FY 2016-17, Tk. 71,940 crore of revenue will be earned from income and corporate tax, whereas Tk. 72,764 crore as revenue earning will come from VAT and Tk. 52,525 crore will be earned from import and supplementary duty. These statistics, however, show that the government collects large revenue from the indirect sources vis-à-vis the direct sources. This regressive tax structure is, however, not up to the mark of addressing income inequality and barriers to wealth creation in the economy.

The most basic challenge has been the overall weakness of the policy framework, which is characterised by an enormous range of exemptions, incentives and special regimes. These range from the existence of simplified regimes associated with VAT, to significant scope within the law for tax officials and political elites to grant comparatively discretionary benefits. This directly undermines revenue collection, but equally complicates administration, undermines equity in the system and introduces significant scope for officials to exercise discretion in both policy and administration.

The discretion enjoyed by tax officials, as well as the overall inefficiency of data management within the NBR, has been exacerbated by a high degree of administrative fragmentation. The relative absence of data sharing across departments severely undermines administration, and opens space for collusion, arbitrariness and abuse, while fragmentation also creates additional costs for taxpayers.

The end result of these weaknesses is a tax system characterised by an extremely high degree of informality and discretion, and by the corresponding prevalence of negotiated tax liabilities. While large businesses submit tax returns to the government, they are emphatic that these tax returns represent merely a starting point for subsequent negotiations with tax officials. Over time, most firms accept this reality, and enter into implicit agreements with tax officials that involve regular informal payments and the informal negotiation of liabilities between tax officials, lawyers and auditors. The most notable feature of experiences in Bangladesh is, however, thus not the nature of the challenges, but the near total absence of reform despite widespread acknowledgement of the problems. Whereas major tax reform has occurred across much of the developing world in recent decades, the same problems have persisted for decades in Bangladesh.

Figure 4: Tax-GDP ratio



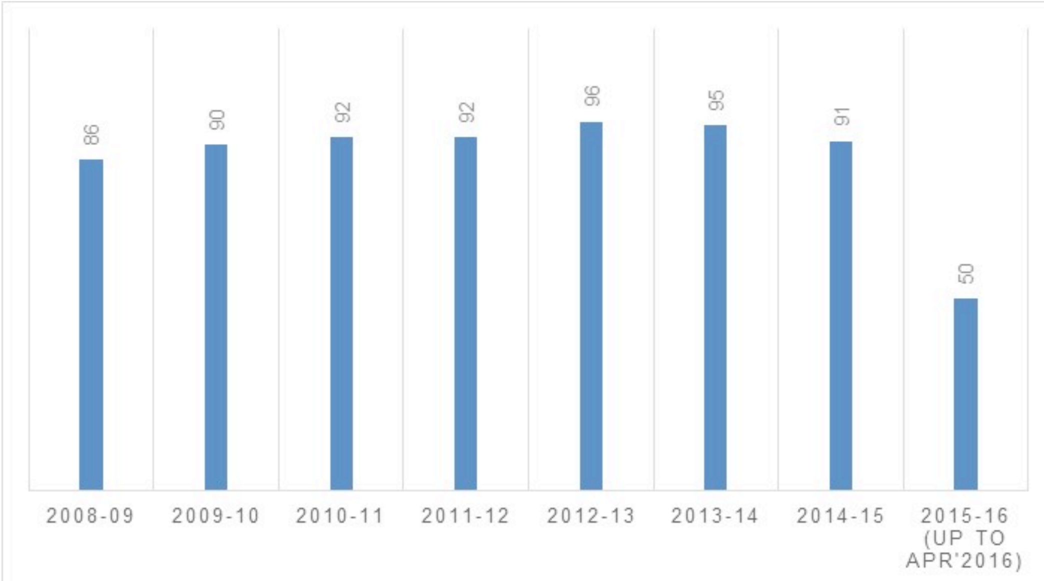

Source: Ministry of Finance, 2016

The most striking fact that has to be considered in reforming the tax system is to provide recognition to the general public as tax payers. General public, in addition to paying direct taxes, has to pay large amount of VAT as consumers. As a result, a large portion of indirect taxes comes from the pockets of consumers, exerting immense pressure on their purchasing power and thereby making them worse off. In this circumstance, in addition to providing the public with recognition of paying tax, supply of services must be ensured to them in the form of subsidy or social security through discarding the availability of economic rents and facilitating political settlements in the economy.

**2.5. Implementation of ADP**

Like the previous fiscal year, the agriculture sector has received the highest ADP allocation and its share has slightly increased from 5.31 percent in FY 2014-15 to 6.5 percent in FY 2015-16 and slightly reduced in the FY 2016-17 at 6.4 percent. On the other hand, ADP allocation in communication and transport has also increased from Tk. 19453 crore in FY 2014-15 to Tk. 23,430 crore in FY 2015-16 because of greater emphasis on the sector. Successful implementation of development projects depends on full utilisation of budget of ADP. Communication and Transport sector Tk. 30,088 has been allocated for the FY 2016-17 showing greater efforts to improve the communication network of the country.

**Figure 5: ADP Implementation Status**




Source: Ministry of Finance, 2016

According to Implementation Monitoring and Evaluation Division (IMED), the ministries and agencies of government spent only 50.18% percent of Tk. 47,11,449.88 crore of revised Annual Development Programme (ADP) allocation up to April 2016 in FY 2015-16. As a consequence, implementation of the annual development projects has suffered a setback.

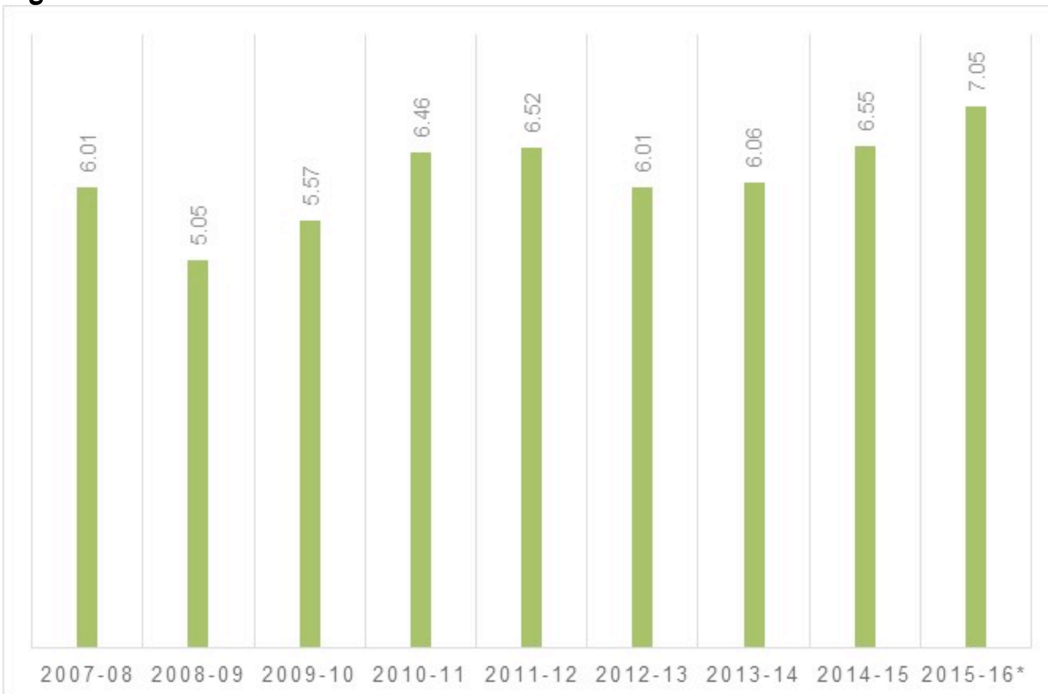
Furthermore, revised allocation as well as actual expenditure has been decreasing compared to proposed allocation of ADP for over the years. In FY 2013-14, proposed allocation was Tk. 65872 crore and revised allocation was Tk. 60000 crore and in FY 2014-15, the proposed ADP allocation given Tk. 80315 crore and then revised at Tk. 75000 crore. Referring to the poor implementation of annual development programme (ADP) in the current fiscal year, it has, however, been warned that a notable portion of ADP allocation of Tk. 97000 crore in the FY2015-16 may remain underutilised, and taking the trend of ADP implementation status, the implementation of ADP at the end of FY2015-16 is projected at Tk. 91885 crore.

## 3. Macroeconomic State

### 3.1. Growth in Gross Domestic Product

Several policy-induced macroeconomic challenges have severely restricted the maintenance of upward mobility of rate of growth in the recent fiscal years and the continuation of progress in different social sectors. The challenges have partly been the result of lack of farsightedness and creativity in policy making, and partly the outcome of adhocism and expediency of the ruling elites.

**Figure 6: Rate of Growth in GDP**




Source: Ministry of Finance, 2016

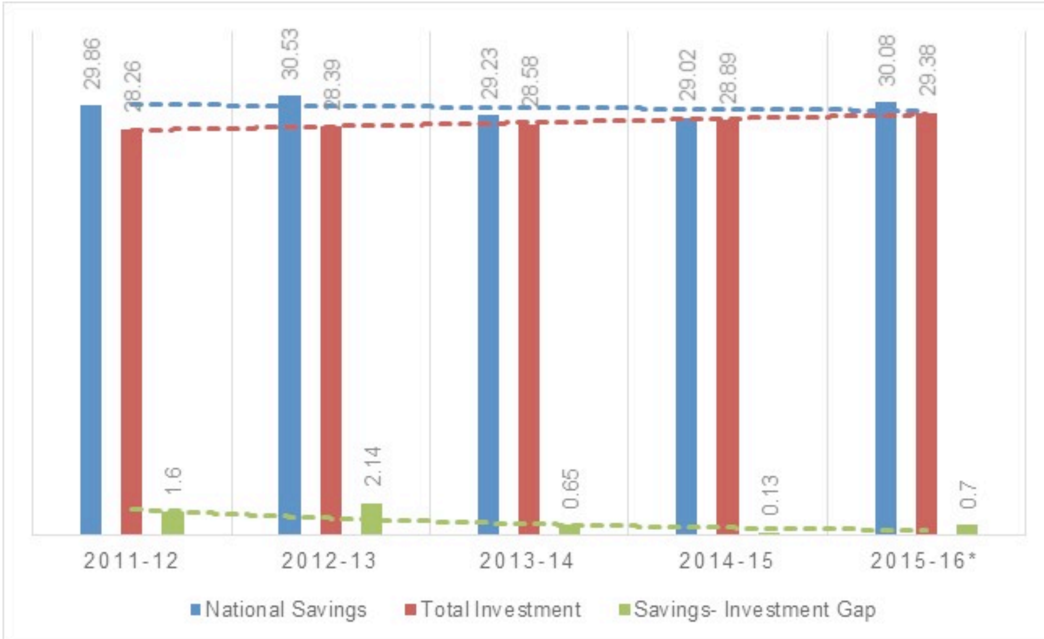
The target of growth in the budget for FY 2016-17 has been set at 7.2 percent. This target appears to be ambitious like the previous year's target of growth because of several reasons. First, the historical track record shows that the government has not only failed to achieve such high rate of growth in its previous budgets, but also the country has been experiencing a decelerating rate of growth in the last three fiscal years. The target of growth of 7.0 percent in FY 2011-12 has been missed by 0.8 percentage points and 7.2 percent in FY 2012-13 by 1.19 percentage points. The same thing also happened in FY 2013-14 and FY 2014-15, when the country's actual rate of growth fell short by 1.08 and 0.79 percentage points from the targeted 7.2 and 7.3 percent growth. Second, with regard to the provisional growth estimate of 6.51 percent in FY 2014-15, the target of growth for FY 2016-17 would require an increase in rate of growth by 0.69 percentage point whereas the highest increment in the last 10 years has been observed at 0.8 percentage points in FY 2010-11. The achievement of lower rate of growth than target is due primarily to the supply side constraints in the economy caused mainly by poor infrastructural facilities and lack of business confidence.In FY 2014-15  the growth rate in GDP target was 7.3%, where 6.55% is achieved; shortfall of 0.75 percentage point.In FY2015-16 target was set to7%, achieved where the actual was7.05% (provisional) and for FY2016-17 target is 7.2 percent

**3.2. Capital Formation: Savings, Investment, and Illicit Capital Flow**

The rate of savings and investment to the GDP has remained stagnant over the years and the gap between savings and investment has assumed an increasing trend lately, suggesting that the macroeconomic strategies of government fall short of converting the savings into investment, resulting large amount of capital flight. In the FY 2011-12, the gap between savings and investment was calculated as 1.6 percent of GDP, whereas the gap reached 2.14 percent, 0.65 percent, 0.13 percent, and 0.7 percent of GDP in the FY 2012-2013, FY 2013-14, FY 2014-15, and FY 2015-16 respectively. Under the Medium Term Macroeconomic Framework (MTMF) of 2014-18, the target of investment has been set at 34 percent of GDP comprising the private investment of 25.6 percent and the public investment of 8.5 percent by the FY2017-18, and the domestic savings were projected to increase to 24.2 percent of GDP by the FY2017-18 from the present 20.9 percent, whereas the national savings were projected to reach 33.3 percent of GDP by FY2017-18 from the present 27.6 percent. These seem to be unachievable in the present circumstances of low savings and investment. Total national savings stood at 29.23 percent of GDP in FY 2013-14, 29.02 percent in FY 2014-15, and 30.08 percent in FY 2015-16, and warns that such trend may induce national output to decline. Private investment has been remaining stagnant and has stood at 22.07 percent of GDP in FY 2014-15 and 21.78 percent in FY 2015-16, while increase in public investment from 6.82 percent in FY 2014-15 to 7.6 percent in FY 2015-16 has not succeed to create much needed crowding in of private investment.

In the FY 2001-02, the rate of total investment was 23.15 percent of GDP, in which the shares of public and private sectors were 6.37 and 16.78 percent respectively. The rate of national investment increased to 24.65 percent of GDP in the FY 2005-06, whereas it came down to 24.46 percent of GDP in the FY 2006-07. In FY 2008-09, and FY 2009-10, the investment slightly increased and reached 26.19 percent and 26.23 percent of the GDP, whereas in the FY 2010-11, it fell down further and became 27.39 percent of the GDP. Later on, in the FY 2013-14, provisional estimation indicates a slight increase in investment by 28.58 percent of GDP vis-à-vis the investment of 28.39 percent in FY 2012-13 and 28.26 percent in the FY 2011-12. It is, however, conspicuous that the government has not been able to achieve the investment target of MTMF in each revised MTMF (Ministry of Finance, 2015).

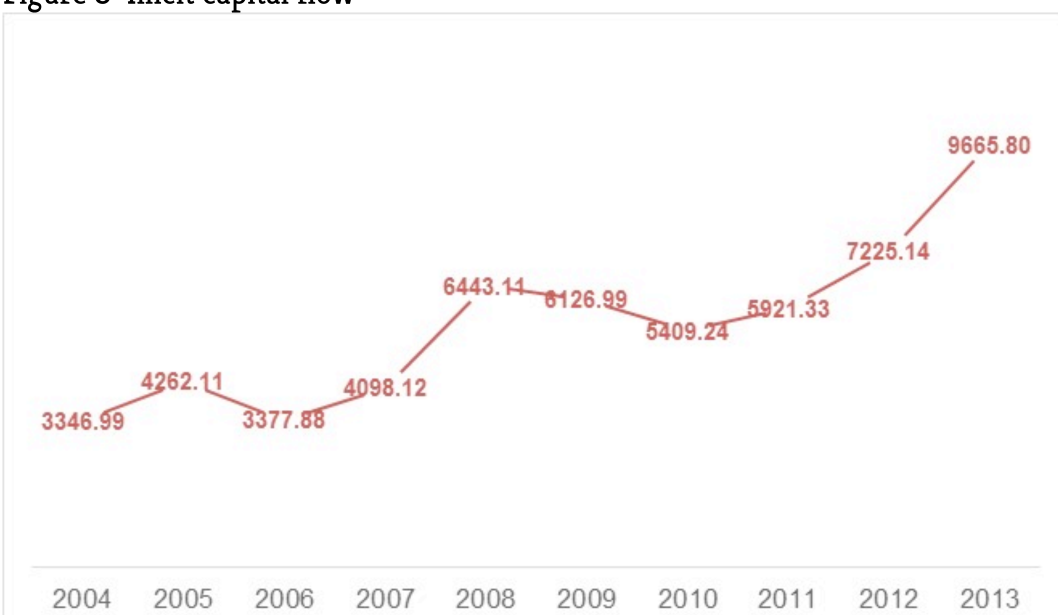
**Figure 7: Savings-Investment Gap**




**Source: Ministry of Finance, 2016**

In addition, lack of adequate capital formation due to large scale illicit capital outflows every year causes national savings and investment not to rise significantly.

Figure 8: Illicit capital flow




**Source: Ministry of Finance, 2016**

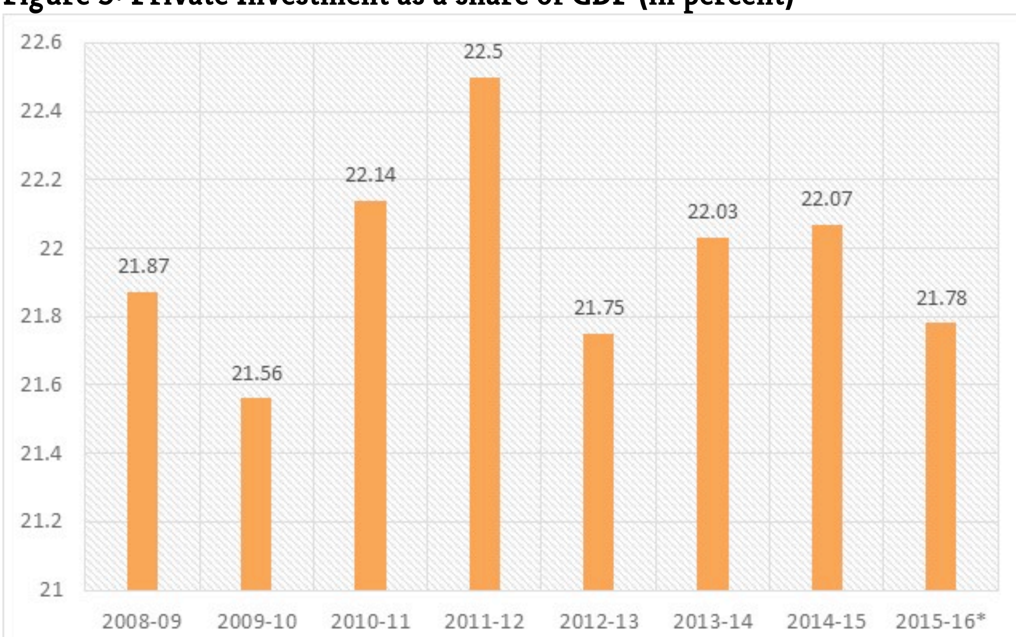
Statistics suggest that during the period of 2004 to 2013, illicit capital outflow amounted to USD 5587.67 million every year on average. In 2010, the amount of illicit capital flow was USD 5409.24 million whereas the amount increased to USD 5921.33 million in 2011, USD 7225.14 million in 2012 and USD 9665.80 million in 2013.

### 3.3. Public Investment, Private Investment and ICOR

Not only the quantity, but also the quality of investment has not been satisfactory in the country. In comparison to countries like China and India which have posted rate of growth in double digit in the last decade, the investment is acting as a limiting factor for future growth prospect. In case of investment, the rate of total investment as percentage of GDP has been increasing, though the share of private investment has been on decreasing trend since the FY 2011-12. In FY 2011-12, total investment was 28.26 percent of GDP, whereas investment reached 28.39 percent, 28.69 percent, 28.97 and 29.38 percent in FY 2012-13, FY 2013-14, FY 2014-15, and FY 2015-16 respectively.

The investment in private sector, however, occupies the primary role, which has traditionally accounted for more than 70 percent of total investment. While the investment in private sector has been stagnant since FY 2011-12, the investment in public sector has increased from 5.76 percent in FY 2011-12 to 6.64 percent in FY 2012-13, and then further increased to 6.55 percent in FY 2013-14, 6.90 percent in FY 2014-15, and 7.6 percent in FY 2015-16.

**Figure 9: Private Investment as a share of GDP (in percent)**




Source: Ministry of Finance, 2016

However, this increase could not raise the total rate significantly as the share of public sector in total investment is meager and is largely spent to meet the non-development expenditure. However, continuous sliding down of private investment from 21.75 percent in FY 2012-13 to 21.39 percent in FY 2013-14 to 22.07 percent in FY 2014-15 to 21.78 percent in FY 2015-16, increase in public investment from 6.64 percent in FY 2012-13 to 6.55 percent in FY 2013-14, to 6.90 percent in FY 2014-15 and to 7.6 percent in FY 2015-16 has failed to create much needed crowding in of private investment.

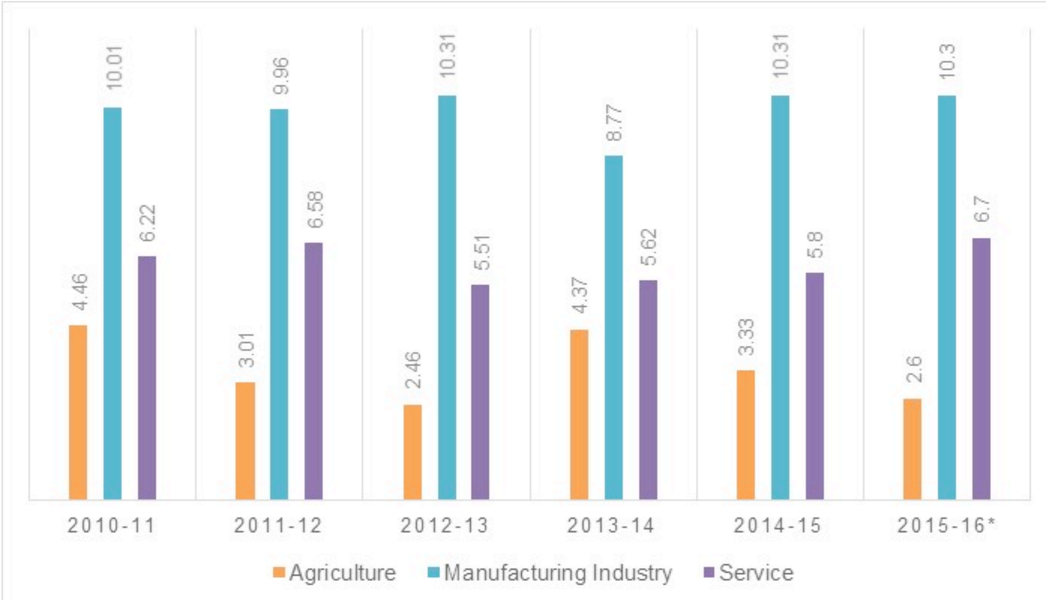
Moreover, the Incremental Capital Output Ratio (ICOR) of the country has deteriorated continuously in the past few years, indicating that the country has not been able to boost productivity of investment. The government would require total investment to rise at 34.24 percent of GDP in FY 2014-15 in order to achieve the proposed rate of growth of 7.2 percent if the ICOR remains constant at the previous fiscal year's level of 4.69. On the other hand, if the investment rate remains constant at the FY 2013-14's level of 28.69 percent of GDP, the productivity of investment has to be enhanced and the ICOR has to be reduced to 3.93 so as to make this growth possible.

## 4. REAL SECTOR

Although there was an increasing trend in growth in agriculture from 1990 to 2010, the rate of growth has been falling since the FY2010-11. The rate of growth in agriculture was 4.46 percent in FY2010-11, whereas in FY2011-12, FY2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 the rate was 3.01 percent and 2.46 percent and 4.37 percent and 3.33 percent and 2.60 percent respectively. This falling growth in agriculture has been causing the share of agriculture in GDP to decline over the recent years. For instance, in FY2010-11, the share of agriculture in GDP was 18.01 percent, whereas in FY2011-12, FY2012-13, FY2013-14, FY 2014-15, and FY 2015-16 the share was 17.38 percent, 16.78 percent, 16.50 percent, 16.00 percent, and 15.33 percent respectively.

The rate of growth in industrial sector has been falling. Whereas in FY2010-11, the rate of growth in manufacturing sector was 10.01 percent, the rate came down to 9.96 percent in FY 2011-12 and then reached 10.31 percent in FY 2012-13 and again fell to 8.77 percent in FY 2013-14, have get an increment in FY2014-15 at 10.31 percent and further declined in 2015-16 reaching at 10.30 percent respectively. As a result, the share of industrial sector in GDP is increasing at a decelerated rate. In FY2010-11, the share of industrial sector in GDP was 9.02 percent, while in FY2012-13, FY2013-14, FY 2014-15 and FY 2015-16 the rate became 29.00 percent, 29.55 percent, 30.42 percent, and 31.28 percent respectively.

**Figure 10: Growth Rate in Agriculture, Industry and Service**




Source: Ministry of Finance, 2016

## 5. BUDGETARY MEASURES IN INCREASING PRODUCTIVE CAPACITY

### 5.1. Agriculture and Industry

The decline in overall growth in agriculture is mainly due to fall in the growth of crop production. While the growth of livestock and forestry is witnessing an increasing trend, the growth in crops is substantially declining. As a result, the share of agriculture in GDP is largely declining, since the crop production that renders the major contribution to national income from agriculture sector is growing at a decelerating rate over the recent periods.

Recent declining trend of growth in agriculture can be attributed to a number of reasons. First, the post-green revolution period has not experienced any breakthrough as regards technological advancement in the country on the one hand, and the poor and marginal farmers who comprise the majority of total farm population cannot afford the high cost of using high input technologies in agriculture on the other. Second, despite higher cropping intensity, the declining trend in the availability of arable land causes the growth in agricultural sector to fall. Third, though the budget allocation in agriculture is increasing, the large portion of this allocation goes for meeting non-development expenditure every year leaving a meager amount for development spending, thus constraining development in the sector. Therefore, in order to raise productivity and profitability, reduce instability, and increase efficiency in resource use, increase of the allocation on the development side is important.

The trend of rates of growth in industrial subsectors shows that the small and cottage industries are growing at a decelerated rate, while the rate of growth in the medium and large industries is decreasing for the last three fiscal years. As a result, the overall scenario of rate of growth in industrial sector indicates a decreasing trend. In addition, the proposal of withdrawal of supplementary duty from a number of industrial goods may pose serious challenges to the development of indigenous industries through causing them to compete with international market. The rise in the rate of growth in medium and large industry is much important, since the contribution of these sub-sectors to GDP is much higher than that of the small and cottage industries.

For instance, In FY2010-11, the rate of growth in manufacturing sector was 10.01 percent, the rate came down to 9.96 percent in FY2011-12 and then reached 10.31 percent in FY2012-13, again fell to 8.77 percent in FY 2013-14, rose to 10.31 percent in FY 2014-15, and further came down to 10.3 percent in FY 2015-16. Weak performance in manufacturing industries can be attributed mainly to the unavailability of infrastructural facilities, recent hiccups in garment sector, constraints originating from limited size of the domestic market, instability in property rights, and missing of institutions.

### 5.2. Public Investment in Infrastructure and Economic Rent

Although government has proposed a deficit budget in FY 2015-16, the key issue remains that such deficit has not been meant to augment multiplier effects in the economy rather has financed consumption as opposed to paying for infrastructure to remove supply side constraints. This continuation of present deficit has its roots in maverick decision to install rental and quick rental power plants at the cost of long run solutions. In addition, government's reliance on expensive oil-based quick rental power plants in purchasing electricity is due to its inability in production and efficient use of gas and coal. Consequently, frequent hikes in the power tariff haunt the consumers in the economy. In the wake of less availability of resources due to service debts and subsidy payments, the capacity of government to invest in physical and social infrastructure has also decreased.

A large portion of development expenditure – 26.7 percent of total development expenditure – has been allocated for transport and communication sector in FY 2016-17 compared to 23.8 percent in FY 2015-16 in order to finance the ongoing mega infrastructure development projects. Increase in allocation implies rising cost induced economic rent which has made the public investments inefficient. For instance, Bangladesh spends Tk. 59 crore (proposed) to build one kilometre of 4-lane highways whereas China and India spend Tk. 13 crore and Tk. 10 crore respectively.

In terms of budgetary allocation, although the infrastructure sector has seen one of the highest increases in recent times, the effectiveness of this amount, however, would depend on how the money is capitalised. If the money is used to build new roads, railways, etc, the possibility of a greater fiscal multiplier would be created. Moreover, one flaw in the government's infrastructure development plan is its reliance the Public Private Partnership (PPP) initiative, which has already failed to produce real results.

## 6. PUBLIC INVESTMENT IN SOCIAL INFRASTRUCTURE

### 6.1. Health

In FY 2016-17, total amount allocated to this sector is Tk. 17486 crore. The proposed allocation for health sector in FY 2016-17 is 5.1 percent of total budget. In FY 2015-16, total amount allocated to this sector was Tk. 127.25 billion. The proposed allocation in health sector for FY 2015-16 was 4.3 percent of the proposed budget while it was 4.4 percent of the proposed budget in FY 2014-15. This decreasing allocation for health in terms of percentage of total budget may pose challenge to providing adequate health facility to the population as the doctor-population, doctor-nurse, nurse-population ratios are still far away from acceptable levels. As a consequence, the provision of health services to society may remain inadequate.

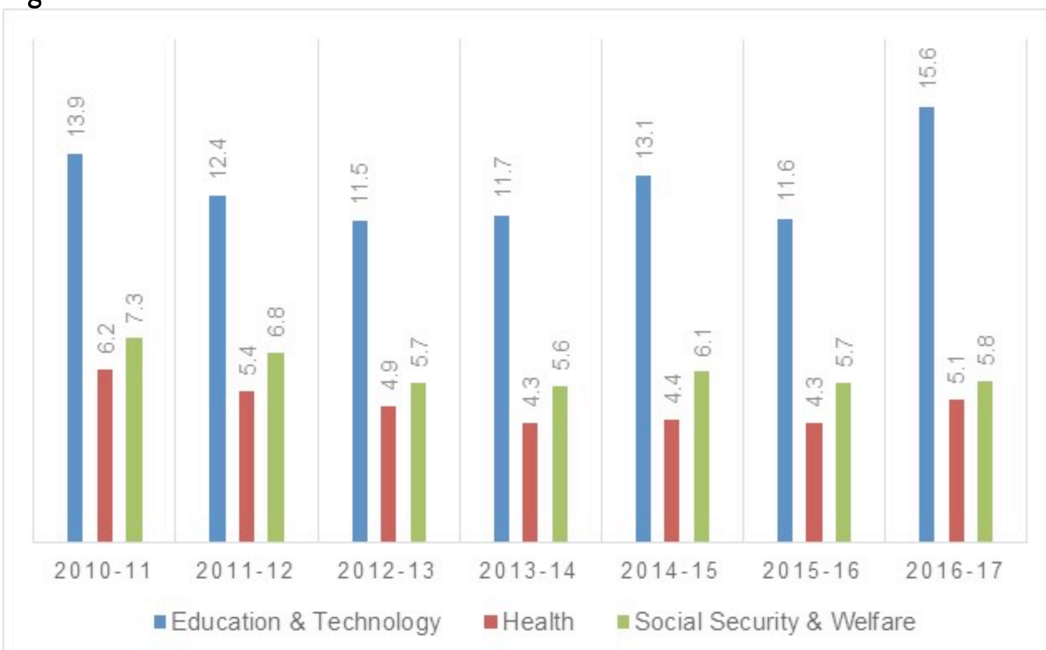
### 6.2. Education & Technology

The proposed allocation for the education and technology sector in FY 2016-17 is Tk. 52,914 crore which is 15.6% of the proposed budget. However, in the budget for FY 2015-16, the proposed allocation to this sector was Tk. 343.78 billion, which represented 2.59 percent increase compared to the previous fiscal year. Because of insufficient fund, the progress in education sector more or less has been limited to the increase of enrolment in primary education or to the increases of literacy rate. Moreover, educated unemployment is on the rise as quality of education is not improving.

### Social Security Spending

In FY 2016-17, the proposed allocation for Social Security and Welfare sector is Tk. 19,880 which is 5.8 percent of the budget outlay. In FY 2015-16, the proposed allocation for the social safety-net and welfare sector was estimated at Tk. 169.55 billion, which represented only 5.7 percent increase over the amount in the previous budget. The proposed allocation for the social security and welfare sector, which was Tk. 14113 billion in FY 2014-15, was already considered to be inadequate for the population of the country as about three of every ten people are living under poverty line. Such low allocation was attributed to the diversion of expenditure from social sector to meet the rising payment on account of principal and interest for the high public borrowing to finance the budget deficit in the recent years. Moreover, in Bangladesh, social safety net programmes (SSNP) have been developed and evolved on adhoc basis. The major shortcoming of these SSNPs is that they are short-term in nature and only designed to address post-disasters situations.

Figure 11: Allocation for Social Infrastructure




Source: Ministry of Finance, 2016

**7. Poverty, Inequality and Unemployment**

Despite considerable thrust on poverty alleviation in all plan documents since the independence of Bangladesh, a significant number of people are still living below the poverty line. The rate of unemployment in the country, particularly youth unemployment is rising at a significant rate. The rate of poverty has been declining over the years. The proportion of poor in the population declined considerably between 2000 and 2010. The incidence of poverty decreased from 49.8 percent in 2000 to 40 percent in 2005 then to 31.5 percent in 2010 and 25.6 percent in 2015. This means rate of reduction in poverty has slowed down.

What is absent in the official narrative is that the rate of decline has slowed down in recent years than the decades of '80s and '90s and most importantly such measure of poverty is out of date. If the UNDP's Multidimensional Poverty Index (MPI), which identifies multiple deprivations in the same households in education, health and living standards, is taken in to account, in Bangladesh 49.5 percent of the population (75.61 million people) are multidimensionally poor while an additional 18.8 percent live near multidimensional poverty (28.80 million people), measured on the basis of most recent survey data of 2011.

There is huge inequality in terms of income, rural-urban population and male-female equality. When the value is discounted for inequality, the Human Development Index (HDI) falls to 0.403, a loss of 29.4 percent. Though there are some deliberations among the policy circles about the rural-urban, gender and income inequality, there is hardly any discussion on the worst form - wealth inequality. The wealth inequality either gained through the means of inheritance or through asset bubbles not only creates an unequal society, but also hourbours a culture in which work and efforts are discouraged. There is no policy regime to address wealth inequality. For example, there is neither inheritance tax nor proactive public policy regime to tackle wealth inequality.

## 8. CONCLUSIONS

The country has been waiting for prudent actions to steer an economic recovery for continuation of economic and social progress. The authorities could have embarked on a two-pronged strategy, comprising a short-run one to revert the economic slowdown and a medium-term strategy of addressing structural bottlenecks. The fiscal measures fall short of augmenting the required investment and productivity growth to achieve the targeted growth of 7.2 percent for the next fiscal year. The proposed actions are inadequate to bring fiscal discipline in the management of deficit, debt and subsidy one the one hand and to increase income in the absence of radical reforms in the tax system on the other. The regressive tax structure is ridden with low base, avoidance and evasion. There is huge missing of distributive justice, characterised by widening income, spatial and male-female inequalities, driven by jobless growth. There is need for a pro-active state. Like the previous budgets, policies that focus mainly on stabilisation, but pays little attention to proper allocation and distribution is more likely to even fail in stabilisation of the economy as well. Second, numerous un-coordinated seemingly less than effective programmes relating to social safety nets need to shift its emphasis on social protection through innovation in social policies. Third, given the vulnerabilities existing in the external sector, breaking into the high-value global supply chain has become important for the country.

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