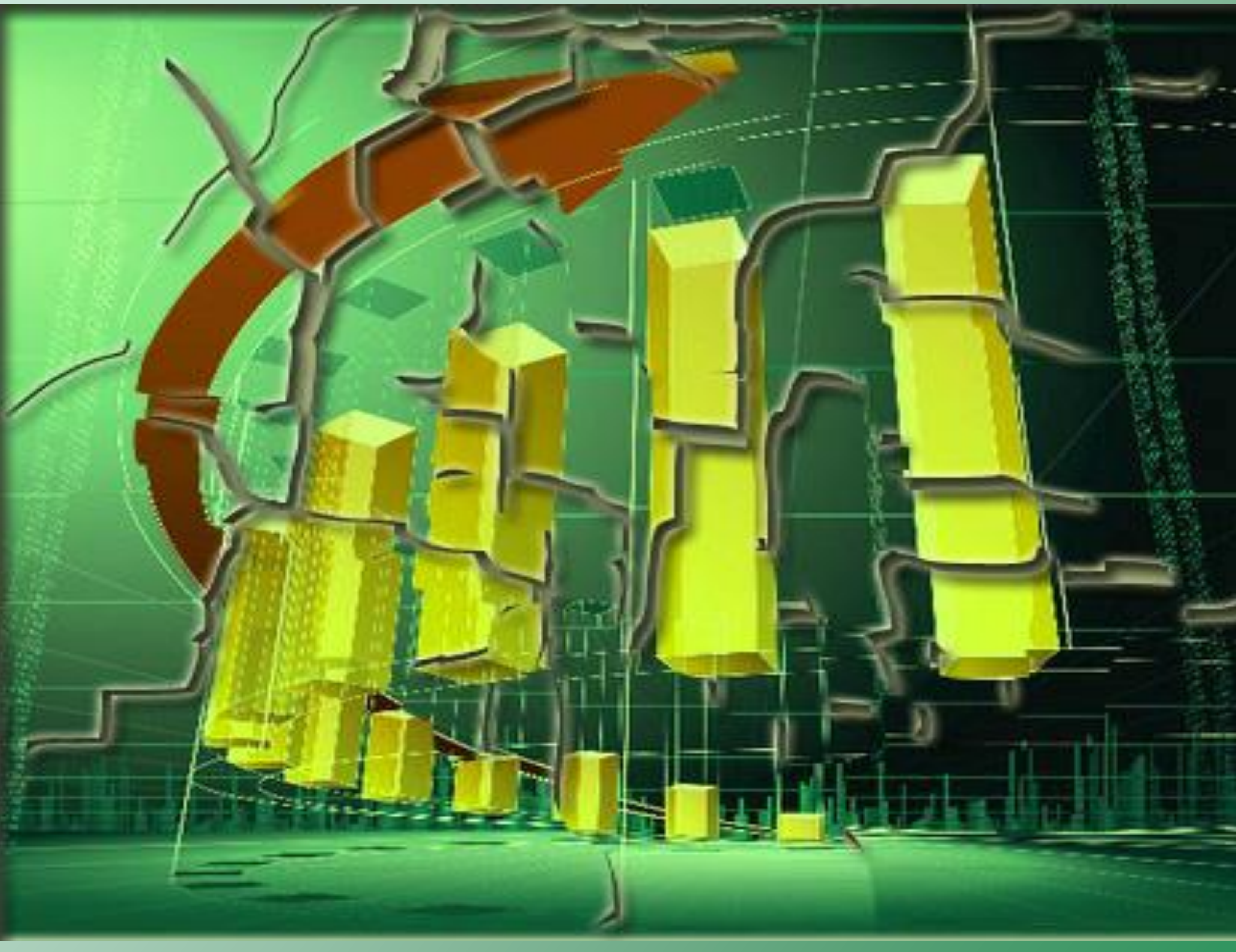
“The Road Not Taken”

A RAPID ASSESEMENT OF NATIONAL BUDGET 2017-18



উন্নয়ন অন্বেষণ

UNNAYAN ONNESHAN

Bangladesh Economic Update
Volume 8, No. 06, June 2017

Acknowledgement
Bangladesh Economic Update is a monthly publication of the Economic Policy Unit of the Unnayan Onneshan, a multidisciplinary research organisation based in Dhaka, Bangladesh.

For orders and request, please contact:
UNNAYAN ONNESHAN
16/2, Indira Road, Farmgate Dhaka-1215, Bangladesh
Tell: + (880-2) 58150684, 9110636
Fax: + (880-2) 58155804
E-mail: info@unnayan.org
Web: www.unnayan.org

1. INTRODUCTION

The Finance Minister in his 11th budget for the period of 2017-18 concedes "still have many miles to cover," quoting the great American poet Robert Frost: "But I have promises to keep/And miles to go before I sleep," and stops "by woods on a snowy evening" (the title of the poem that he quotes is "Stopping by Woods on a Snowy Evening"). He could have taken "the one less traveled by" "and that" could have "made all the difference" (the last two lines of Robert Frost' another poem, "The Road Not Taken") from "two roads diverged in a wood" in addressing the exceptional circumstances of mounting pressure in prices amidst declining real wages, rising joblessness in the midst of productive capacity-expansion-less growth and dwindling social sector spending in the milieu of institution-wrecking structural diseases, driven by political expediency. The political expediency has not only caused cost-overruns, scams, and capital flight, but the reign of uncertainty has also kept the ratio of private investment to gross domestic product (GDP) stagnated over the years, slipped rate of growth to an all-time low amidst high concentration of single product in the export basket and slowed down growth in manufacturing and agriculture. The manufacturing is also chocked by deficits in infrastructure. The service sector is facing a critical shortage in supply of skills. The huge outflow and declined levels of inflow of remittances are serious causes of concern. The country's job growth is the slowest in two decades. The youth unemployment rate in Bangladesh is higher than the regional South Asian average, with a huge sizeable youth population languishing in as NEET (not in employment, education or training).

In the FY 2017-18, the economy of Bangladesh has to deal with a number of economic bottlenecks. 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, unsatisfactory rate of growth in manufacturing and lack of employment opportunity in the sector causing higher unemployment rate, lack of investment in skill development in the service sector has caused the real sector to decelerate. 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 7.4 percent in gross domestic product (GDP) in the FY 2017-18.

A budget of Tk. 400266 crore has been proposed for the FY 2016-17 setting the target of growth in GDP at 7.4 percent. The target of revenue collection has been set at Tk. 287990 crore of which NBR tax revenue is Tk. 248190 crore, non-NBR tax revenue is Tk. 8622 crore, and non-tax revenue is Tk. 31179 crore. The amount of non-development expenditure has been proposed at Tk. 234013 crore, whereas the development expenditure has been set at Tk. 159013 crore of which Tk. 153331 crore has been allocated for Annual Development Programme. The overall budget deficit has been estimated at Tk. 112276 crore (excluding grants), which is five percent of GDP. In financing the deficit, Tk. 46420 crore will be collected from foreign sources, whereas Tk. 60352 crore will be collected from domestic sources. As far as the domestic sources of financing deficit are concerned, Tk. 28203 crore will be collected from the banking system and Tk. 32149 crore will be collected from Non-Banking source (of which Tk. 30150 will come from savings certificates and Tk. 1999 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 2017-18 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.

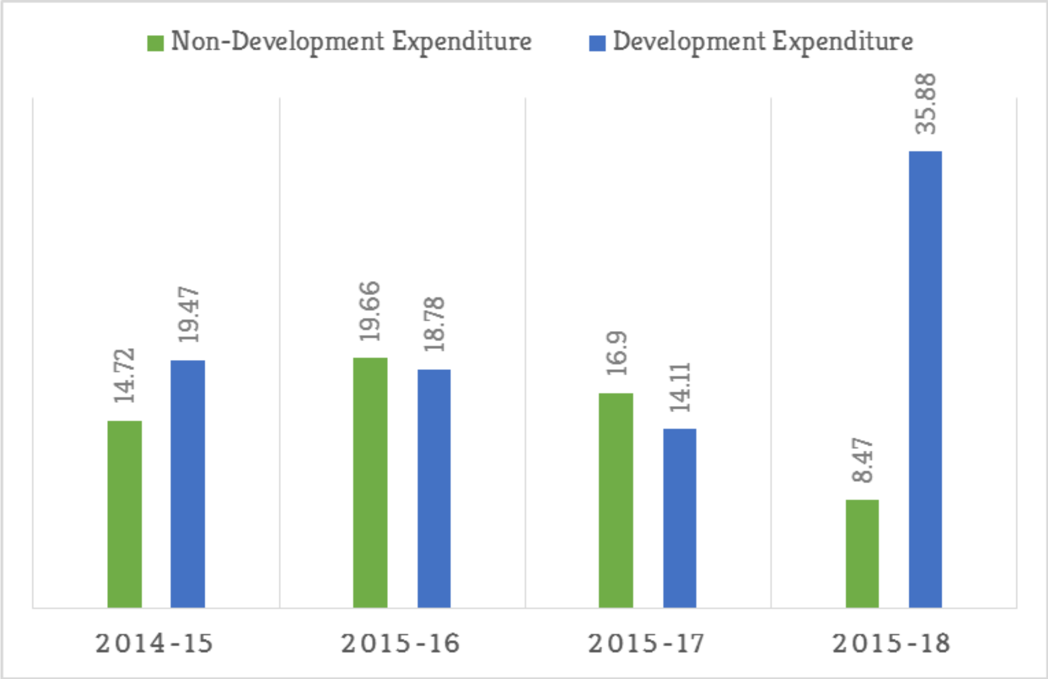
2. FISCAL INDICATORS

2.1. Expenditure

While increase in allocation for development expenditure was higher than that in the allocation for non-development expenditure in FY 2014-15, the situation has reversed in the following fiscal years. 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, Tk. 215744 crore in FY 2016-17 and 234013 crore in FY 2017-18 representing 14.72 percent, 19.66 percent, 17 percent and 8.48 percent increase in FY 2014-15, FY 2015-15, FY 2016-17 and FY 2017-18 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, Tk. 117027 crore in FY 2016-17 and Tk. 1,59,013 crore in FY 2017-18 representing 19.47 percent, 18.67 percent, 14.11 percent and 35.88 percent increase in FY 2014-15, FY 2015-15, FY 2016-17, and FY 2017-18 respectively.

Figure 1: Rate of Increase in Expenditure



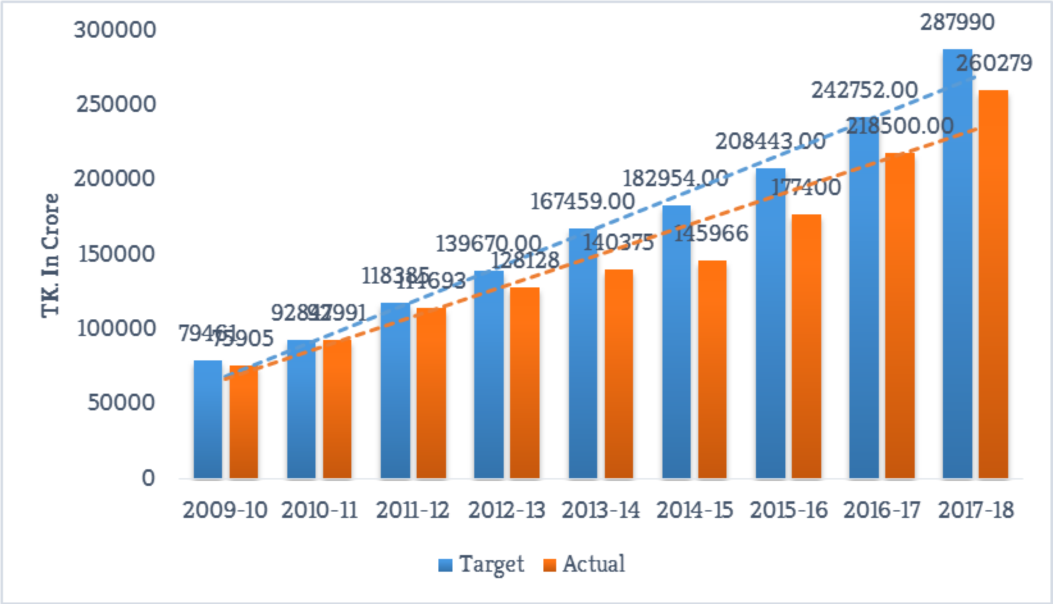
Source: Ministry of Finance, 2017

The highest allocation in non-development expenditure usually goes to interest payment to both domestic and foreign sources. In FY 2015-16, total expenditure on interest payment was estimated to be the highest that amounted to Tk. 351 billion. In FY 2014-15, the total expenditure on interest payment stood at Tk. 298 billion and total expenditure on interest payment increased by 17.8 percent in FY 2015-16. In FY 2016-17, total expenditure on interest payment was estimated to be Tk. 39,951 crore of which Domestic Interest Payment was Tk. 38,240 crore and Foreign Interest was Tk. 1,711 crore. In FY 2017-18 the total expenditure on interest payment is estimated to be Tk. 41,457 of which Domestic Interest Payment is Tk. 39,511 crore and Foreign Interest is Tk. 1,946 crore.

2.2. Revenue

Government's revenue earning largely depends on the collection of taxes. Although the trend in collection of tax revenue continues to increase, the country still falls behind other developing countries in this regard. Of the total revenue collection targeted at Tk. 2,87,990 crore in FY 2017-18, Tk. 2,56,812 crore is supposed to be collected from taxes and Tk. 31,179 crore is supposed to come from non-tax revenue. However, taking account of the business as usual scenario it is projected that the collection of revenue vis-à-vis the target may reach Tk. 260279 crore in FY 2017-18.

Figure 2: Revenue Collection



Source: Ministry of Finance, 2017

Moreover, actual collection of tax revenue has 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 and FY 2016-17 the revised collection of NBR tax revenue was Tk. 135028 crore and 1,85,000 crore against the target of Tk. 149720 crore and 2,03,152 respectively.

2.3. Fiscal Deficit

The overall budget deficit has been estimated at Tk. 112,276 crore (excluding grants), which is five percent of GDP. The Government relies on both domestic and foreign sources to Finance the Deficit. In FY 2017-18, Tk. 46,420 crore will be collected from foreign sources, whereas Tk. 60,352 crore will be collected from domestic sources to Finance the Deficit. As far as the domestic sources of financing deficit are concerned, Tk. 28,203 crore will be collected from the banking system and Tk. 32,149 crore will be collected from Non-Banking source (of which Tk. 30,150 will come from national savings schemes and Tk. 1,999 from other sources).

There are two sources of debt financing; one is external and another is internal. The main sources of the domestic borrowings are Bangladesh bank, scheduled banks, and other non-bank financial institutions. In FY 2017-18, total public borrowing from banking sector is assumed to be Tk. 28,203 crore whereas in FY 2016-17, total public borrowing from banking sector was estimated to be Tk. 38,398 crore in proposed budget and Tk. 23,903 crore in revised budget. This high public borrowing from banking sector signals that capacity of deficit financing through revenue collection is not increasing sufficiently.

Although, the total amount of Domestic borrowing in FY 2017-18 is slightly lower than that of the previous budget, the borrowing from non-banking sector is Tk. 32,149 crore in FY 2017-18 compared to Tk. 22,610 crore and 46,000 crore in proposed and revised budget in FY 2016-17. However, the implementation of the budget of Tk. 400,226 crore in the FY 2017-18 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.

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 2017-18, the government has targeted VAT as the main source of revenue earning (which is 36.8 percent of NBR Tax Revenue) besides Income Tax (which is 34.2 percent of NBR Tax Revenue), whereas the indirect sources of revenue (i.e. VAT, import and supplementary duty) comprise the lion's share of revenue earnings. In the budget of FY 2017-18, Tk. 85,176 crore of revenue will be earned from Taxes on Income and Profit, whereas Tk. 91,254 crore as revenue earning will come from VAT and Tk. 68,424 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. Whereas there has been a trend across low-income countries towards greater integration across administrative units, the NBR remains divided into three highly autonomous divisions: direct tax, VAT and customs. 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.

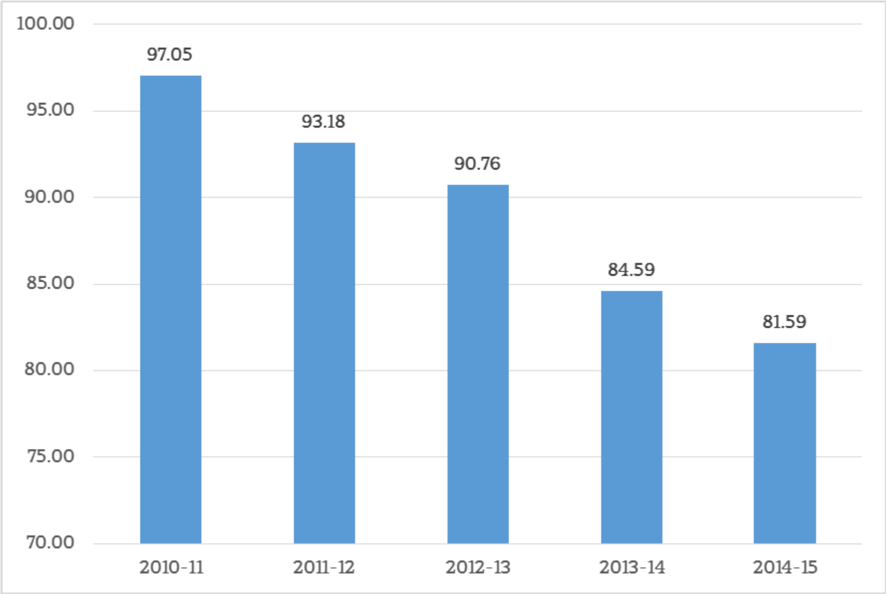
The end result of these weaknesses is a tax system characterised by an extremely high degree of informality and discretion, and by the corresponding prevalence of negotiated tax liabilities. While large businesses submit tax returns to the government, they are emphatic that these tax returns represent 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 despite almost continuous reform efforts.

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

It is found that the status of budget implementation is on the decline since FY 2010-11. Of the total budget outlay, 97.05 percent was implemented in FY 2010-11, whereas the rate subsequently decreased to 93.18 percent, 90.76 percent, 84.59 percent, and 81.59 percent in FY 2011-12, FY 2012-13, FY 2013-14, and FY 2014-15 respectively.

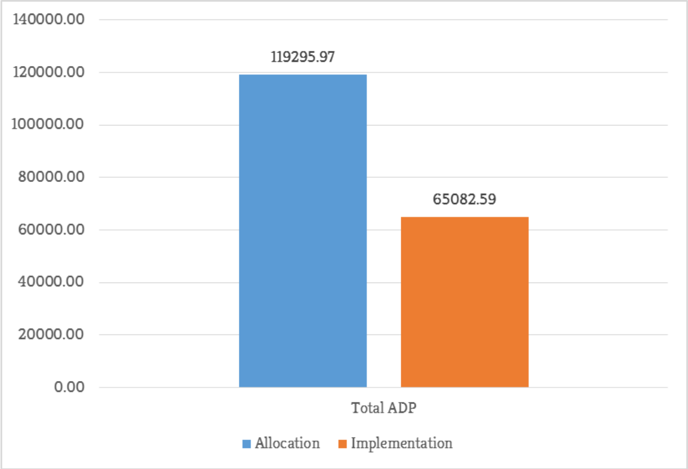
Figure 3: Budget Implementation Status (in percent)



Source: Ministry of Finance, 2016a

However, only 33.7 percent of the total government expenditure has been implemented during the first six months of FY 2016-17 while only 54.56 percent of the total annual development program (ADP) has been implemented during the July-April period of the current fiscal year. The total government expenditure has stood at Tk. 114730 crore during the first half and total ADP stood at 65083 crore during the first eight months of FY 2016-17 against the whole fiscal year's target of Tk. 340605 crore and Tk. 110700 crore respectively.

Figure 4: ADP Implementation Status



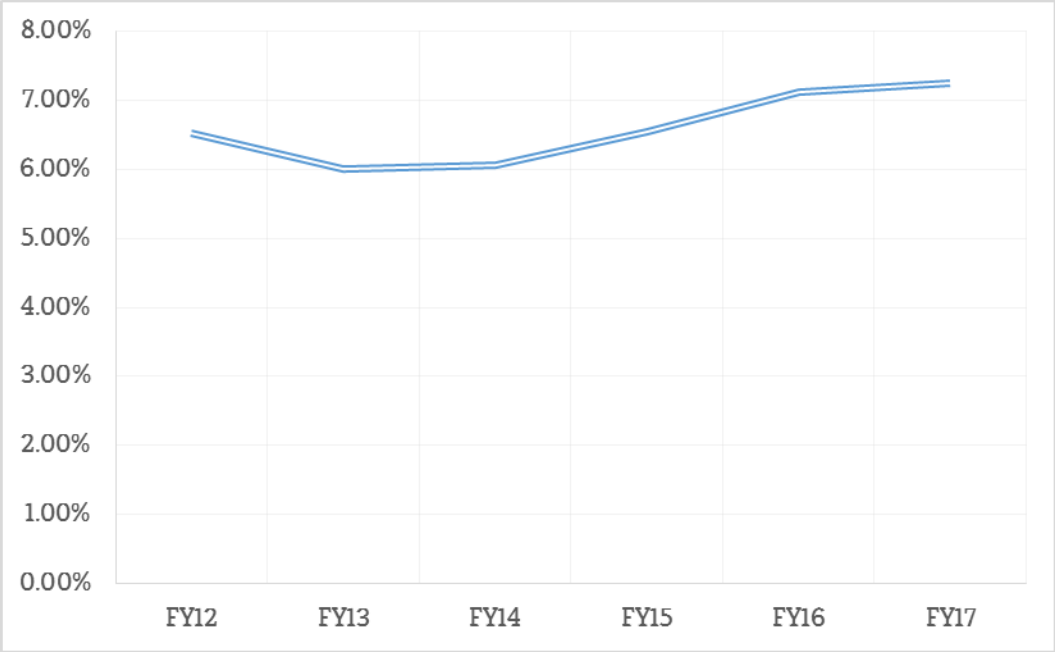
Source: Ministry of Planning, 2017

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 5: Rate of Growth in GDP



Source: Ministry of Finance, 2017

The rate of growth in GDP assumes an upward trend, although recent performance in the real sector, private investment, and external sector balance do not provide evidence to the GDP statistics. Growth in GDP by more than 7 percent in the last two years was not successful to create adequate employment opportunities, resulting in jobless growth, which in turn causes the distribution of economic pie to be inequitable – gain less growth.

The target of growth in the budget for FY 2017-18 has been set at **7.4** 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.

Table 1: Nominal Wage Index, Consumer Price Index and GDP Per Capita

Year	Nominal Wage Index	Consumer Price Index	GDP per capita 2005-06 prices Taka
2010-11	100.0	100.0	43,190
2011-12	106.2	108.7	45,421
2012-13	112.6	116.1	47,491
2013-14	118.8	124.6	49,701
2014-15	124.7	132.6	52,243

Source: Bangladesh Bureau of Statistics, 2015

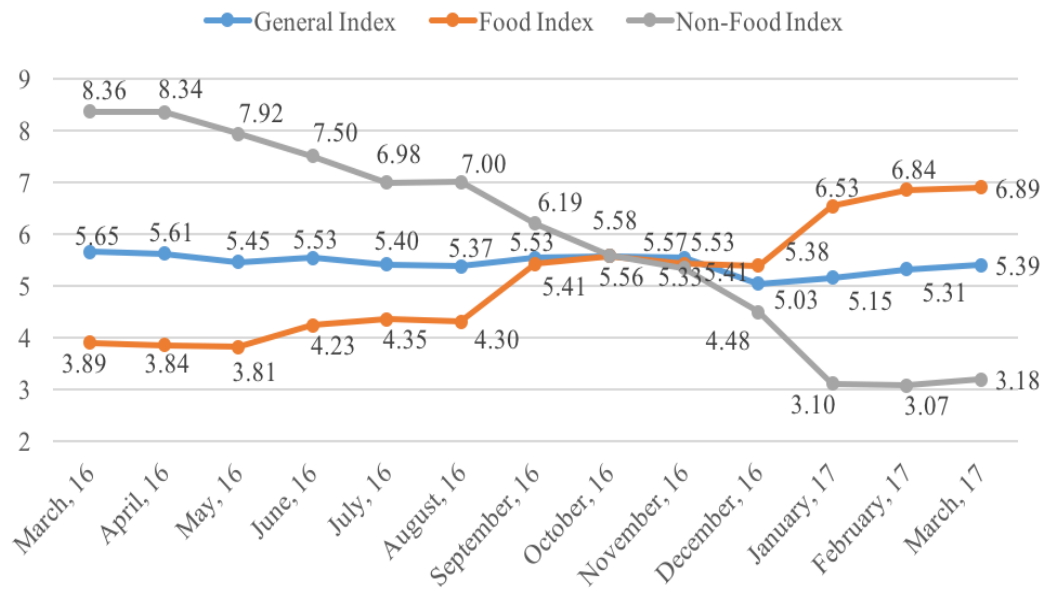
Second, with regard to the provisional growth estimate of 6.51 percent in FY 2014-15, the target of growth for FY 2016-17 would require an increase in rate of growth by 0.69 percentage point whereas the highest increment in the last 10 years has been observed at 0.8 percentage points in FY 2010-11. The 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 percent, where 6.55 percent is achieved; shortfall of 0.75 percentage point. In FY 2015-16 target was set to 7 percent, achieved where the actual was 7.05 percent (provisional) and for FY 2016-17 target is 7.2 percent.

3.2. Trend in Inflation

The twelve-month average consumer price index (CPI) inflation has assumed a slowly increasing trend for the last couple of months. CPI inflation has been steadily growing to 5.39 percent (point-to-point) in March 2017. Non-food inflation has eased to 3.18 percent (point-to-point) in March while food inflation moved to 6.89 percent.

Despite the current stability in consumer price index (CPI) inflation, there exists concern over the fact that average core inflation (non-food, non-fuel), a traditional measure of long-term inflation scenario, remains elevated at around 7.6 percent in December, indicating inflation can pick up if buffeted by adverse events.

Figure 6: Trend in General, Food and Non-Food Inflation



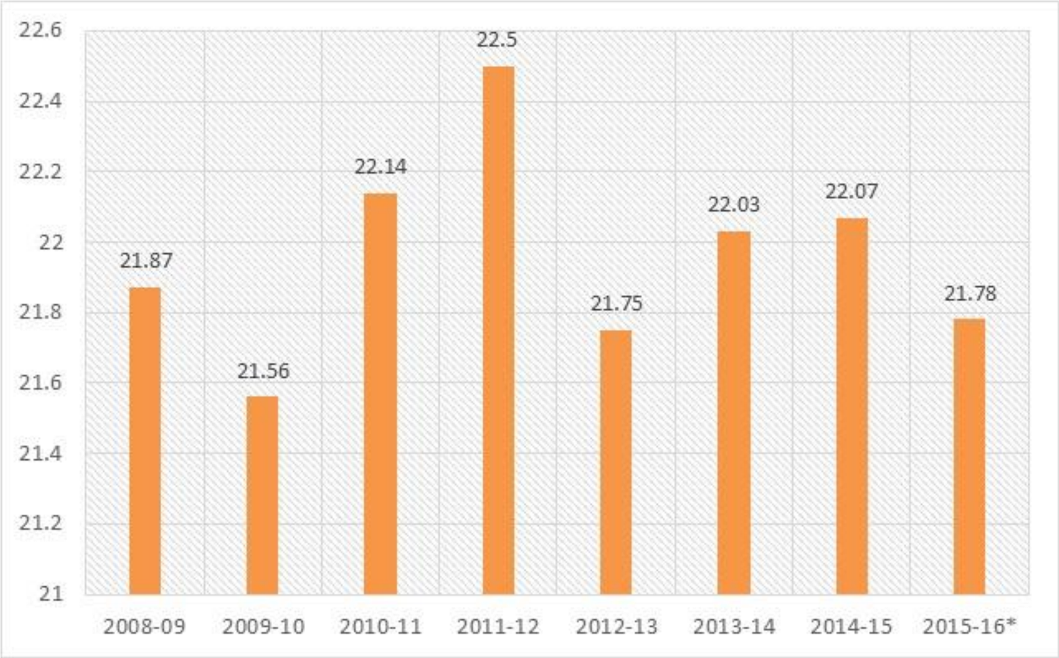
Source: Bangladesh Bank 2016a

3.3. Private Investment, Capital Formation and Capital Flight

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.

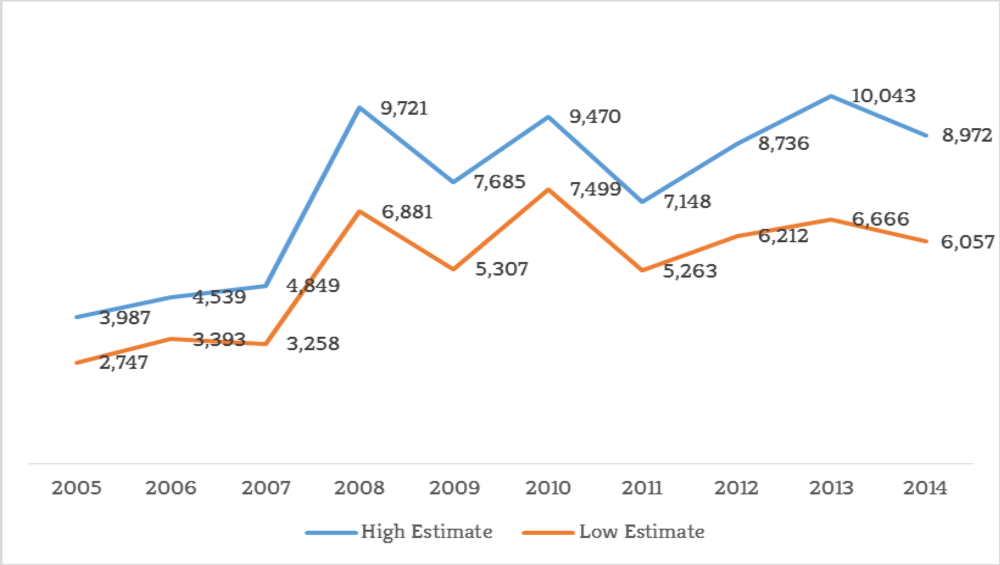
Figure 7: Private Investment as a share of GDP (in percent)



Source: Ministry of Finance, 2016b

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. 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. Highest estimates by the Global Financial Integrity suggest that during the period of 2005 to 2014, illicit capital outflow amounted to USD 7.5 billion every year on average. As the latest count shows that the amount of illicit capital outflow from Bangladesh was USD 9 billion in 2014.

Figure 8: Illicit Capital Outflows from Bangladesh, 2005-2014

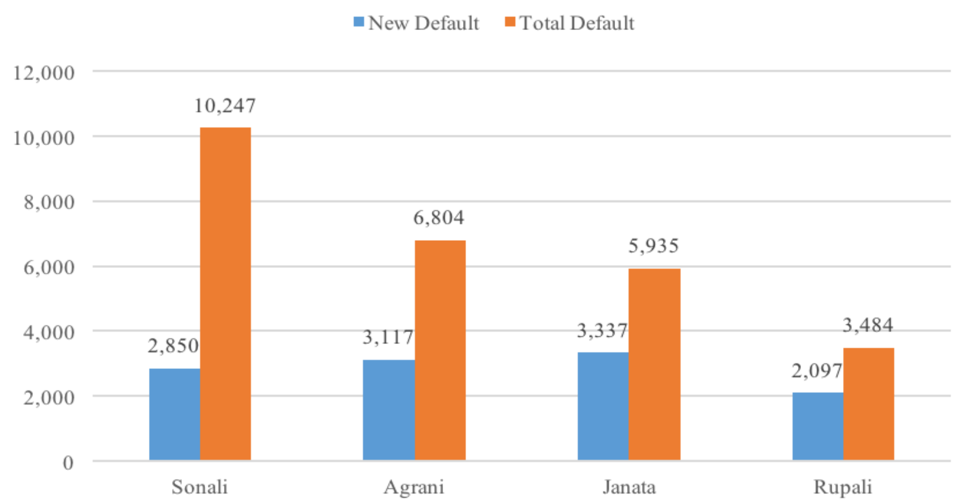


Source: Global Financial Integrity, 2017

3.4. Banking Sector Management

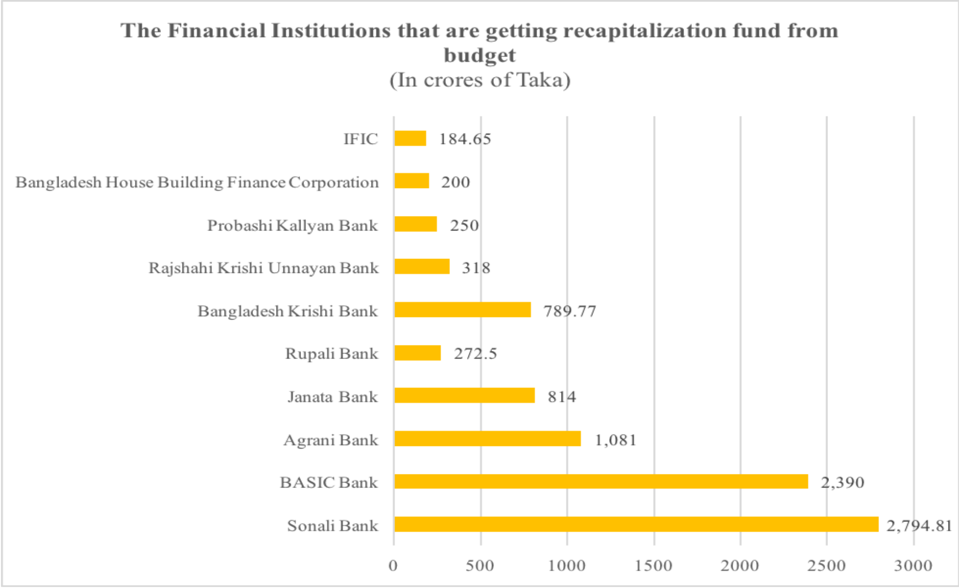
Of late crisis in the banking sector has made the financial sector in Bangladesh worst among the emerging Asian countries reflecting the poor risk management ability of the central bank. A strong financial system is needed for successful implementation of monetary policy. The running crisis in the banking sector mainly due to increase in default loan reflects the institutional weakness of the financial system in the country. Recent consecutive heists in banking sector again shake the financial system as well as the economy. Continuous default loans, scams, and heist cause increased cost of fund and shortfall in capital in the banks. This situation is more upsetting in the State Owned Commercial banks (SCBs) and Development Financial Institutions (DFIs) for which they face huge capital shortfall every fiscal year. Government recapitalizes the shortfall with taxpayer's money instead of correcting the faults of the institutions, which not only increases the burden on taxpayers but also causes a loss to the economy. The banking sector indicators showed some concerns during the last quarter of FY 2015-16 compared to that of the preceding quarter. The ratio of gross Non Performing Loan (NPL) to total outstanding loans of the banking sector increased from 9.92 percent at the end of third quarter of FY16 to 10.06 percent at the end of the fourth quarter of FY16. However, the ratio of net NPL decreased from 2.88 percent at the end of March 2016 to 2.81 percent at the end of June 2016. The provision shortfall position of the banking sector deteriorated during fourth quarter of FY16 and stood at BDT (-) 44.5 billion from BDT (-) 41.2 billion at the end of March 2016.

Figure 9: Default Loans in State-Owned Banks



In addition, disbursing loans aggressively and thus violating the Bangladesh Bank rules and regulations, defaulted loans in nine newly-established banks increased by 782.74 per cent to Tk 392.29 crore in the first half of this calendar year. Data from the central bank suggest that as of June 30, 2016, classified loans at Meghna Bank increased to Tk 17.43 crore from zero non-performing loan as on December 31, 2015, at Midland Bank from Tk 13.97 crore to Tk 13.99 crore, at Modumoti Bank from zero NPL to Tk 14.77 crore, at NRB Bank from Tk 2.21 crore to Tk 18.36 crore, at NRB Commercial Bank from Tk 5.87 crore to Tk 82.40 crore, at NRB Global Bank from Tk 13.24 crore to Tk 17.05 crore, at South Bangla Agriculture and Commerce Bank from zero NPL to Tk 2.30 crore, at The Farmers Bank from Tk 9.06 crore to Tk 223.28 crore and at Union Bank from Tk 0.09 crore to Tk 2.71 crore.

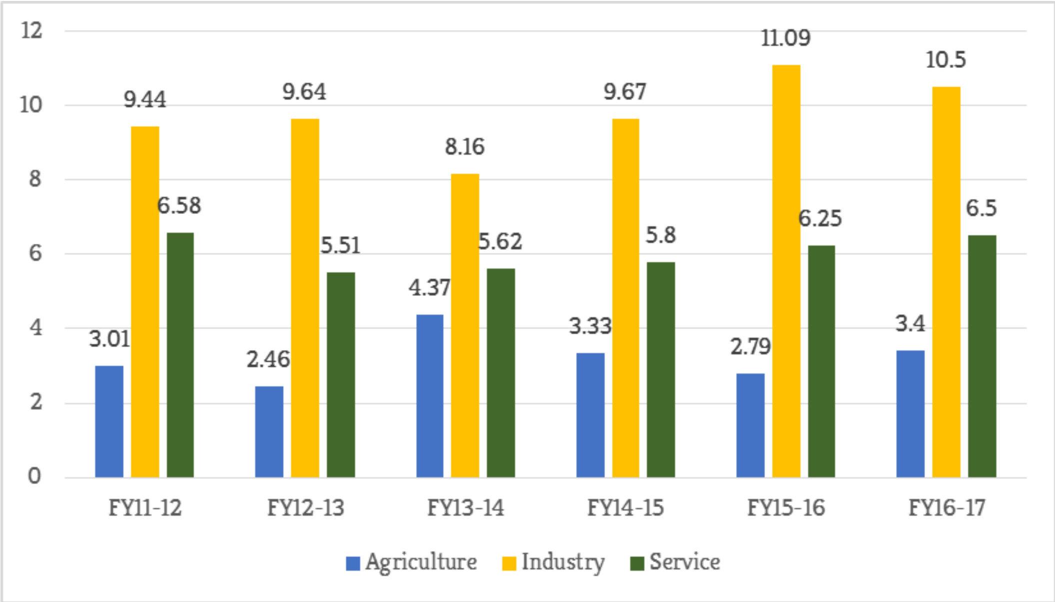
Figure 10: Recapitalization Funds for Financial Institutions



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 FY 2010-11. The rate of growth in agriculture was 3.01 percent in FY2011-12, whereas in FY2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 the rate was 2.46 percent, 4.37 percent, 3.33 percent, 2.79 percent and 3.4 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.

Figure 11: Rate of Growth in Agriculture, Industry and Service



Source: Ministry of Finance, 2016b

The rate of growth in industrial sector has been falling as well. 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 9.64 percent in FY 2012-13 and again fell to 8.16 percent in FY 2013-14, have got an increment in FY 2014-15 at 9.67 percent and further increased in 2015-16 reaching at 11.09 percent respectively. But in FY 2016-17 it again fell down to 10.5 percent. 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.

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 FY 2010-11, 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 9.64 percent in FY 2012-13 and again fell to 8.16 percent in FY 2013-14, have got an increment in FY 2014-15 at 9.67 percent and further increased in 2015-16 reaching at 11.09 percent respectively. But in FY 2016-17 it again fell down to 10.5 percent. 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 – 27.4 percent of total development expenditure – has been allocated for transport and communication sector in FY 2017-18 compared to 26.7 percent in FY 2016-17 and 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.

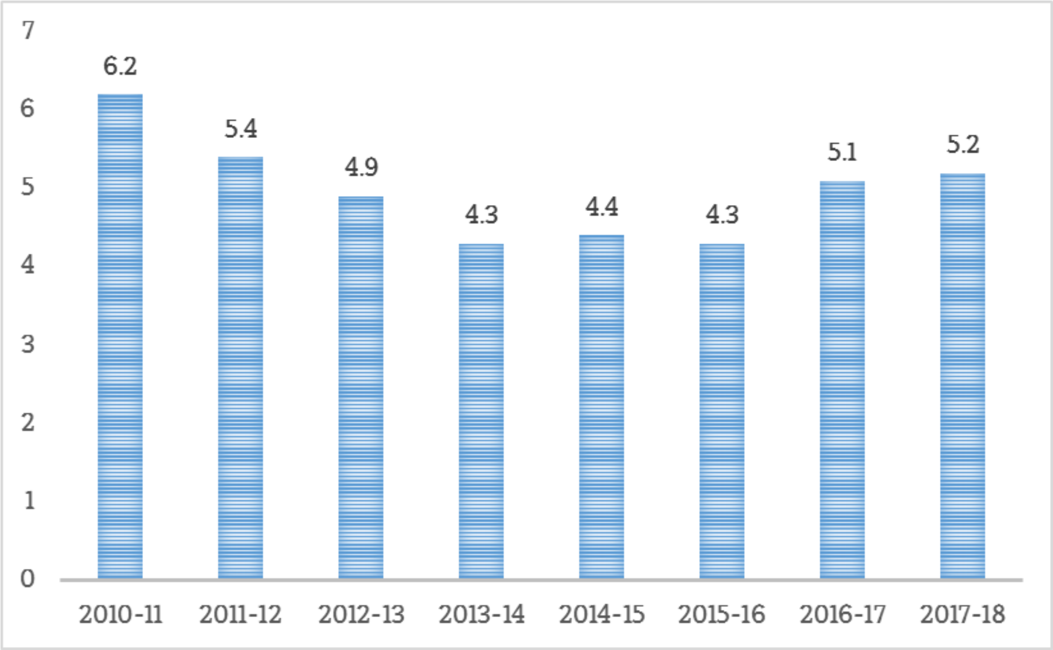
6. PUBLIC INVESTMENT IN SOCIAL INFRASTRUCTURE

6.1. Health

In FY 2017-18, total amount allocated to this sector is Tk. 20679 crore. The proposed allocation for health sector in FY 2017-18 is 5.2 percent of total budget.

In FY 2016-17 and FY 2015-16, total amount allocated to this sector was Tk. 174.86 billion and Tk. 127.25 billion respectively. The proposed allocation in health sector for FY 2016-17 was 5.1 percent of the proposed budget while it was 4.3 percent of the proposed budget in FY 2015-16.

Figure 12: Allocation for Health as % of Total Expenditure



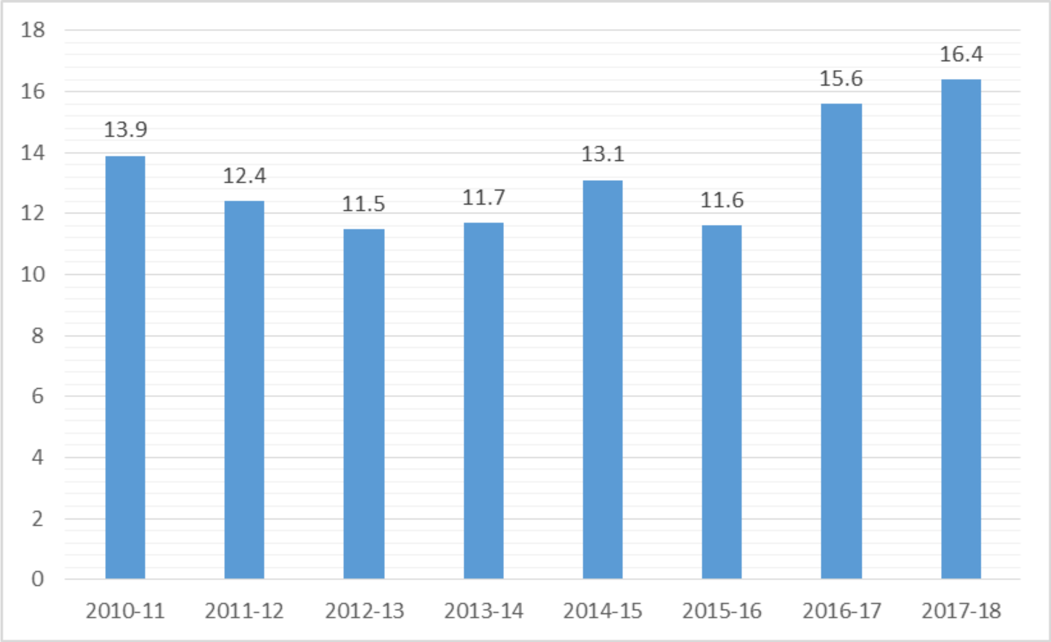
Source: Ministry of Finance, 2017

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 and Technology

The proposed allocation for the education and technology sector in FY 2017-18 is Tk. 65, 450 which is 16.4% of the proposed budget. In FY 2016-17 this allocation was Tk. 52,914 crore which was 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.

Figure 13: Allocation for Education and Technology as % of Total Expenditure



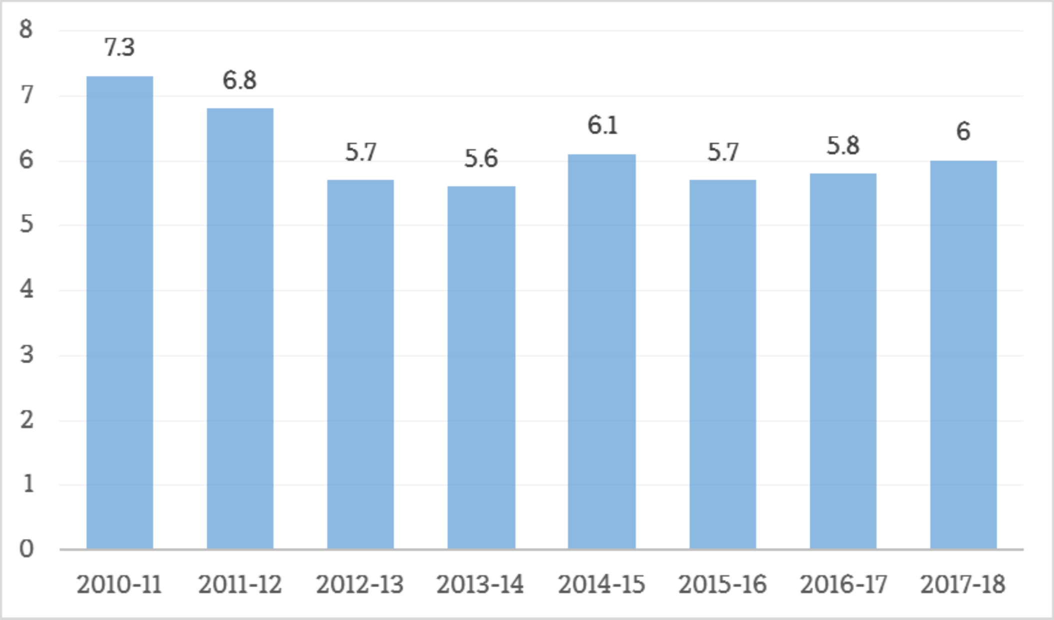
Source: Ministry of Finance, 2017

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 increase of literacy rate. Moreover, educated unemployment is on the rise as quality of education is not improving.

6.3. Social Security Spending

In FY 2017-18, the proposed allocation for Social Security and Welfare sector is Tk. 20,701 which is 6.0 percent of the budget outlay. For Social Security and Welfare sector, the proposed allocation in FY 2016-17 was Tk. 19,880 which was 5.8 percent of the total budget. 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.

Figure 14: Allocation for Social Security and Welfare as % of Total Expenditure



Source: Ministry of Finance, 2017

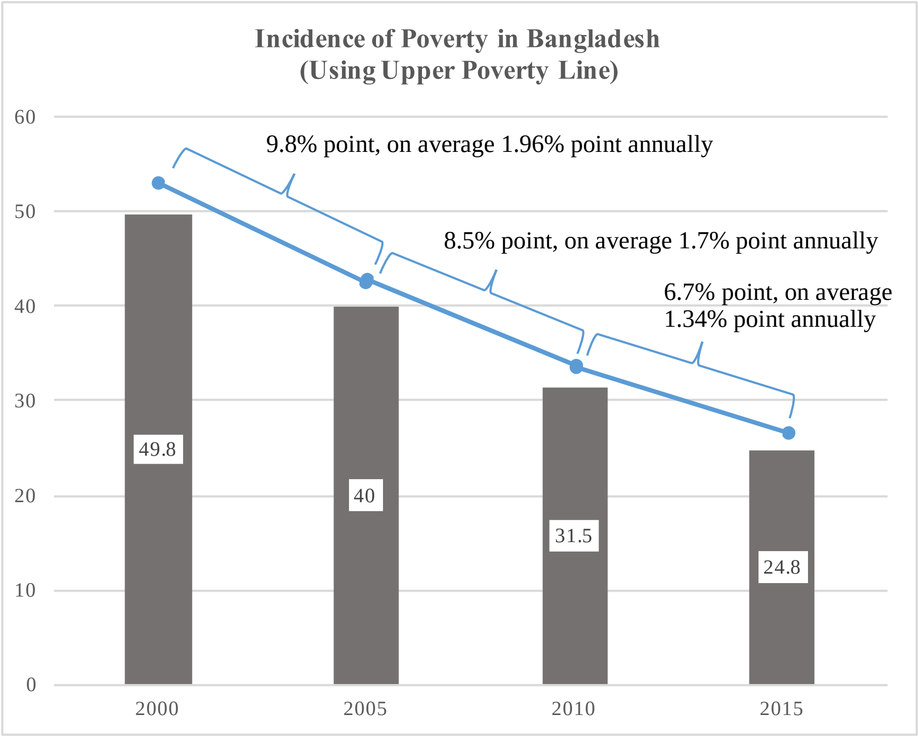
Such low allocation was attributed to the diversion of expenditure from social sector to meet the rising payment on account of principal and interest for the high public borrowing to finance the budget deficit in the recent years. Moreover, in Bangladesh, social safety net programmes (SSNP) have been 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.

7. DEALING WITH POVERTY AND UNEMPLOYMENT

7.1. Poverty

A significant number of people are still living below the poverty line, despite considerable thrust on poverty alleviation in all plan documents since the independence of Bangladesh. 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.

Figure 15: Rate of Reduction in Poverty Incidence



Source: Bangladesh Bureau of Statistics, 2015

7.2. Unemployment

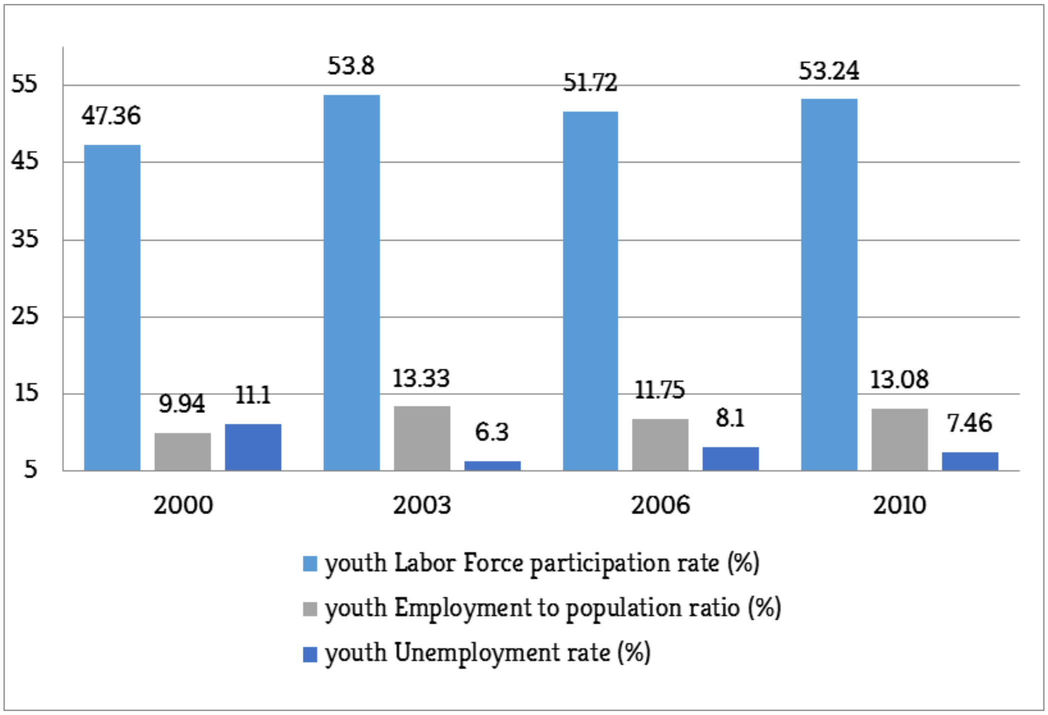
With a growth rate of 3.88 percent (from 1995-96 to 2010), the number of total civilian labour force in 2010 increased to 57.1 million. In 1995-96, total civilian labour force was 36.1 million out of which 30.7 million was male and only 5.4 million was female. Out of total civilian labour force, 40.2 million was male and rest 16.9 million was female. A total of 34.8 million were employed and 1.4 million were unemployed in 1995-96, which increased to 54.5 million and 2.6 million respectively in 2010 (BBS, 2011).

The number of unemployed population increased at an annual rate of 5.29 percent during the period of 2000-2010 and increased from 1.70 million in 2000 to 2.60 million in 2010 while 10.6 million people were day laborers who did not have job security. Taking this trend into account, it is calculated that the country needs to increase employment opportunities by two percent in order to enter the middle income group by 2021.

The rate of unemployment in the country, particularly youth unemployment is rising at a significant rate. According to latest data, youth unemployment rate in

Bangladesh is 9.1 percent. Around 74 percent of countries 2.6 million unemployed population is youth.

Figure 16: Youth Population, Employment and Unemployment



Source: Bangladesh Bureau of Statistics, 2013

When underemployment is taken into account in assessing the status of the labor force in Bangladesh, the perception of the labor market significantly changes. The information on hours worked shows that a total of 10.99 million (which is about 20.31 percent of the employed labor of 54.1 million) were underemployed in 2010. This shows an extremely high level in the number of the people who work less than 35 hours per week. Also the information shows high incidence of underemployment in rural areas and among the female labor force.

10. Conclusions

In order to get rid of the outlined bottlenecks, the country has been waiting for a medium-term strategy that generates increment in the productive capacity and provides avenues for the poor to obtain an increased share. The adoption of such a growth strategy necessitates a prudent economic management. It warrants harmonisation of fiscal and monetary policy in order to stimulate the expansion of productive capacity and the fall in the rise of inflationary pressure.

A vigilant look into the falling investment demand is pressing since any further decline in the private investment is assumed to significantly slow down the pace of growth in the economy. The private domestic expenditure may be dampened, if a decline in expenditure happens. The growth of export as well as increased private investment should, therefore, be emphasised in order to escape further downturn in the economy. Macroeconomic stimuli are required to be initiated in order to ensure pro-poor growth through generating employment opportunities in the economy. Besides, an increased allocation of resources and implementation of development programmes in health and education sectors must be ensured, while the social safety net programs institutionalised into of a sustained system of social security.

The proposed actions in various macroeconomic plans and strategies 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. As experienced in the recent past, policies that focus mainly on stabilisation, but pay 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 to the country.

References

Bangladesh Bank, 2016a. Major Economic Indicators. October, 2016. Dhaka: Bangladesh Bank.

Bangladesh Bank, 2016b. Economic Data. October, 2016. Dhaka: Bangladesh Bank.

Bangladesh Bureau of Statistics (BBS), 2013. Labour Force Survey 2013. Dhaka: BBS.

Global Financial Integrity, 2017. Illicit Financial Flows from Developing Countries: 2005-2017. Washington DC: Global Financial Integrity.

International Labour Organization, 2016. Non Standard Employment around the World: Understanding Challenges and Sharing Prospects. Geneva: International Labour Office.

Ministry of Finance, 2016a. Budget Documents. Dhaka: Finance Division, Ministry of Finance, Government of Bangladesh.

Ministry of Finance, 2016b. Bangladesh Economic Review 2016. Dhaka: Finance Division, Ministry of Finance, Government of Bangladesh.

Ministry of Finance, 2017. Budget Documents, Dhaka: Finance Division, Ministry of Finance, Government of Bangladesh.

Ministry of Planning, 2017. Annual Development Program: Monthly Progress Report. Implementation, Monitoring and Evaluation Division, Ministry of Planning, Government of Bangladesh.

National Board of Revenue, 2016. State of Revenue Collection until July'16 of FY 2016-17, Dhaka: National Board of Revenue.

UNNAYAN ONNESHAN
16/2 Indira Road, Farmgate
Dhaka-1215, Bangladesh
Tel.: +880 (2) 58150684, +880 (2) 9110636
Fax: +880 (2) 58155804
Email: info@unnayan.org
Web: www.unnayan.org