Macroeconomic Wing
Finance Division, Ministry of Finance
Government of the People's Republic of Bangladesh
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Medium Term Macroeconomic Policy Statement 2020-21 to 2022-23

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Placed before the Parliament
in accordance with section 11 of
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Medium term macroeconomic policy statement is prepared on the basis of the latest data and information provided by various government and other agencies. Some of this information is provisional and subject to revision.

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Foreword

Bangladesh economy achieved high growth path in one decade with the highest ever 8.15 percent GDP growth rate secured in the last fiscal year which tops all the countries in the Asia-Pacific region. The country made remarkable progress in socio economic indicators and fulfilled all the criteria for the graduation to Developing Country in 2018. Sound macroeconomic stability has been the hallmark of our success. The country is well on track in completing the 7th Five Year Plan and the Vision 2021. The government approved the Perspective Plan, 2021-41 with a target to make Bangladesh a developed country by 2041. Along with it, Eighth Five Year Plan which is at final stage of preparation will pave the way for becoming an upper middle-income country.

The pace of development in Bangladesh got momentum thru the first half of current fiscal year until the outbreak of corona virus (COVID19) emerged as global pandemic. Great Lockdown around the world seriously affected the global economic growth, trade and investment; initiating a recession never experienced in hundred years. Bangladesh was not exception from the negative fall out of this pandemic. Due to long holidays and closure of factories, business, shops, hotels, restaurants, public transportation etc. since late March, almost all the sectors of the economy got affected and particularly livelihood of millions of people experienced much difficulties.

To ensure recovery of the economy from this crises and to support the affected sectors and the people, particularly the poor and vulnerable, Hon'ble Prime Minister declared a large stimulus package of more than 1 (one) Trillion Taka which is 3.7 percent of GDP. The package has 19 programs of fiscal support and stimulus measures, which include interest subsidies to industries, CSMEs for working capital, social protection transfers to vulnerable sections of the population, and funding in emergency healthcare services. We are confident that these countercyclical measures will help the country achieve a full economic recovery. In addition, the government will continue to pursue prudent macroeconomic policies to ensure low inflation, low interest rate, and stable exchange rate. Internal resource mobilization will be geared up in the medium term through instituting policy and procedural reforms. Mobilizing external resources will also be a priority. Response from development partners in the form of budget support to address the impact of COVID-19 is commendable.

The Medium Term Macroeconomic Policy Statement 2020-21 to 2022-23 is placed before the Parliament as per section 11 of the 'Public Money and Budget Management Act 2009'. As a detailed policy statement on medium term plans and strategies, this document provides an outline of the recent macroeconomic situation including the fall out of COVID-19 together with an assessment of growth potential of the economy, medium term targets, and strategic priorities of the government for recovery. In addition, the medium term borrowing strategies and targets along with the risks involved and the ways of mitigating the risks have been discussed.

I hope that the Policy Statement will be warmly received by all concerned including the Honorable Members of the Parliament, researchers, academics and students. I extend my sincere thanks to the officials of the Finance Division for their untiring efforts and valuable contribution in preparation of the document.

(AFM Mustafa Kamal FCA, MP)
Minister
Ministry of Finance

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Acronyms

ADP	Annual Development Programme
ADB	Asian Development Bank
ATM	Average Time to Maturity
BACs	Budget and Accounting Classification System
BBS	Bangladesh Bureau of Statistics
BDT	Bangladesh Taka
BEZA	Bangladesh Economic Zone Authority
BJMC	Bangladesh Jute Mills Corporation
BOP	Balance of Payment
BPC	Bangladesh Petroleum Corporation
BRT	Bus Rapid Transit
CAB	Current Account Balance
CDP	Committee for Development Policy
CIP	Country Investment Plan
CRR	Cash Reserve Ratio
DSA	Debt Sustainability Analysis
Dip-Ed	Dip-Ed Diploma in Education
DNA	Deoxyribo Nucleic Acid
EFT	Electronic Fund Transfer
EFCC	Environment Forests and Climate Change
FDI	Foreign Direct Investment
FY	Fiscal Year
FFW	Food For Work
GCC	Gulf Cooperation Councils
GDP	Gross Domestic Product
GNI	Gross National Income
GR	Gratuitous Relief
iBAS	Integrated Budget and Accounting System
IMF	International Monetary Fund
IT	Information Technology
ICD	Inland Container Depot
ibas	Integrated Budget & Accounting System
JICA	Japan International Corporation Agency
LDC	Least Developed Countries
LFS	Labour Force Survey
LNG	Liquefied Natural Gas
MDGs	Millennium Development Goals
MPS	Monetary Policy Statement
MRT	Mass Rapid Transit
MT	Metric Ton

MTBF	Medium Term Budgetary Framework
MSME	Micro Small and Medium Enterprises
MTDS	Medium Term Debt Strategy
MTIR	Mid-Term Implementation Review
MTMPS	Medium Term Macroeconomic Policy Statement
MTED	Madrasha and Technical Education Division
MW	Mega Watt
MT	Metric Ton
NBR	National Board of Revenue
NPL	Non-Performing Loan
NSC	National Savings Certificate
NSD	National Saving Directorate
NEET	Not in Education Employment and Training
NTR	Non-Tax Revenue
ODA	Official Development Assistance
PD	Primary Dealer
PDB	Power Development Board
PKSF	Palli Karma Sahayak Foundation
PMO	Prime Minister's Office
PSMP	Power System Master Plan
PPP	Public Private Partnership
RBME	Result-based Monitoring and Evaluation
RIT	Right to Information
RMG	Ready Made Garment
RSTP	Revised Strategic Transport Plan
SD	Supplementary Duty
SEIP	Skills for Employment Investment Programme
SEZs	Special Economic Zones
SFYP	Sixth Five Year Plan
SME	Small and Medium Enterprise
SDGs	Sustainable Development Goals
SOEs	State Owned Enterprises
SSNP	Social Safety Net Programme
TFP	Total Factor Productivity
TR	Test Relief
TRiPs	Trade Related Intellectual Property Rights
UNDP	United Nations Development Programme
VAT	Value Added Tax
VGD	Vulnerable Group Development
VGF	Vulnerable Group Feeding
4G	Fourth Generation

Chapter One

Economic Transition

Higher rate of economic growth, coupled with macroeconomic stability, has been the key characteristic of Bangladesh economy for the last decade. In the last four financial years, the country attained more than 7 percent GDP growth in three consecutive years and then finally achieved as high as 8.15 percent growth in FY19 which was the highest in the Asia-Pacific region. Impressive growth of industrial sector on the supply side and consumption on the demand side have been conducive to attaining such high growth. At the same time, inflation has been kept at a tolerable limit and budget deficit remained within sustainable ceiling. The debt-GDP ratio stands at 33.1 percent at the end of FY19.

1.2 However, FY20 has not been thoroughly blessed. In the 2nd half of the fiscal year, the Covid-19 pandemic has brought the global economy to a stalemate. Giving health concern the top priority, Bangladesh has also taken a bunch of preventive and curative measures. Prolonged public holidays have been declared, transportation systems have been suspended, and partial lockdowns have been implemented throughout the country in various stages. All these initiatives have affected the economy to the core, and therefore the projected growth rate is now revised to 5.2 percent.

1.3 The poorer section of people may be the worst victims of the Covid-19 crisis. Keeping this in view, the Government declared stimulus packages, bolstered social safety net programmes and enhanced relief activities all over the country to protect the vulnerable people from crises. In the medium term, the Government's priorities will be to strengthen emergency health care, increase job, enhance agricultural production, promote investments, and develop relevant skills, among others.

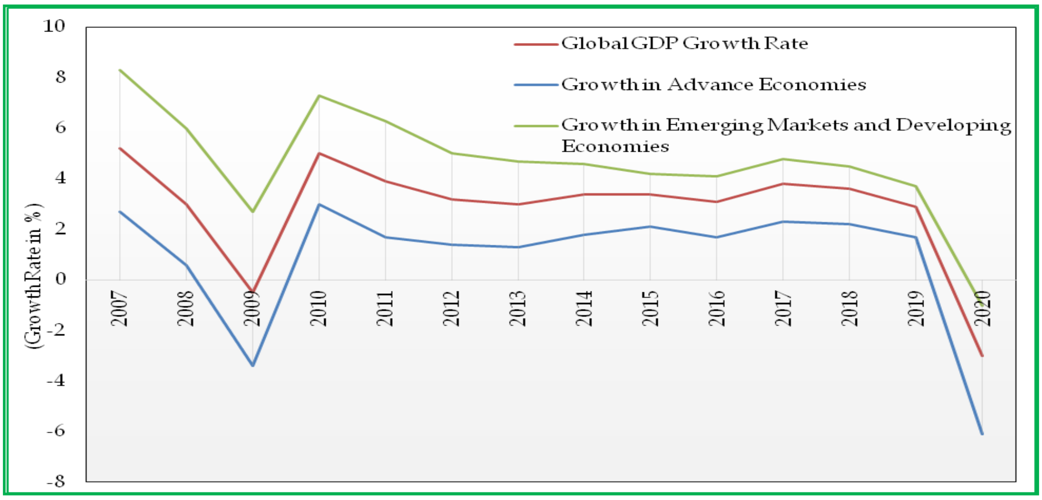
1.4 The first chapter of this book explores the fundamental issues and policies which will influence and guide the economic journey of Bangladesh in coming years. Chapter Two discusses the macroeconomic outlook, Chapter Three presents government's spending framework and sectoral priorities while revenue performances, and debt sustainability issues are put forward in Chapter Four.

Key Issues

Global Pandemic by Covid-19

1.5 A pneumonia of unknown cause detected in Wuhan, China was first reported to the WHO Country Office in China on 31 December 2019. Since then, the Covid-19 has spread in more than two hundred countries and regions across the globe, infected 6.5 milliion people and took lives of 400,000 people, significantly affecting the global economy. Isolation, lockdowns, and widespread closures have been adopted by countries across the globe to slow the spread of the virus. The pandemic has caused disruptions to productive sectors, global trade, business, education, etc. The entire global supply chain has been severely interrupted due to worldwide transportation shutdown and global demand has plummeted abruptly. The IMF has estimated that the global economy could decline by 3.0% in 2020. It has concluded that the global economy would experience its "worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago."

Figure 1.1: Growth of Global Output



Source: IMF World Economic Outlook; 2020 data are estimated, others actual.

1.6 According to IMF, the economies of the US and the Euro Zone will decline by 5.9 percent and 7.5 percent respectively in 2020. In fact, US Commerce Department has reported a 4.8% drop in US GDP in the first quarter of 2020. Again, IMF projects that global trade will fall in 2020 by 11.0% and oil prices will fall by 42%. However, the global economy is estimated to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support. IMF estimates that, the cumulative loss to global GDP over 2020 and 2021 from the pandemic crisis could be around 9 trillion dollars, greater than the economies of Japan and Germany, combined. On the other hand, at the advent of Covid-19 crisis, UNCTAD reported in March 2020 that global flow of foreign direct investment (FDI) may decrease by 5-15 percent in 2020-21. But recently the organization has come out with an updated estimate that the decline in FDI flow will amount to 30-40 percent. According to ILO, 195 million workers will lose their full-time job in the 2nd half of 2020. All these will have negative impact on income, consumption and poverty situation in the world.

1.7 Bangladesh is equally affected by this contagion. The demand in major export markets such as the USA, Europe, and China have reduced significantly due to Covid-19 related economic slowdown. Domestic demand and supply chains are also in disarray due to prolonged partial lockdowns. The result is obvious: more than USD 3 billion of export order cancellations are reported. These work order cancellations, along with the overall restrictions imposed throughout the country to ameliorate the pandemic situation, have affected the livelihoods of millions of people including the workers engaged in the industry and service sectors.

1.8 The fall of global economic growth along with sharp drop of oil price will impact the economy of Bangladesh, especially through a decline in export earnings and remittance inflows. There will also be a lesser domestic demand and the earnings by firms and people working in agriculture, industry, and service sectors will be affected. Many small and medium size firms may collapse and millions may temporarily lose their jobs. In the medium to long run, job opportunities at both home and abroad may shrink aggravating the unemployment situation at home. Besides, larger trade deficit and decline in remittance inflows may impact the balance of payment position.

1.9 Overall, Bangladesh is going through a transition now. It gained the status of a lower middle-income country in 2015, and thus became eligible to have blended loan (both soft and regular rate loans) meaning the country has to pay higher cost to its external borrowings now than before. Again, the country is set to graduate from the list of LDC by 2024, after which the country will lose its privileges enjoyed so far as an LDC. These two factors, along with the Covid-19 effect, are likely to influence the economic policy in the medium term.

Progress of implementing 7th Five Year Plan

1.10 The 7th Five Year Plan (FYP) was formulated in 2015 to be implemented during 2015-2020. FY20 is the final year for the plan, so it is time to look back and reflect on the overall implementation of the plan. Before the Covid-19 outbreak, Bangladesh had performed well in line with most of the targets set in the 7th Five Year Plan. Some of the targets were achieved well ahead, for example a GDP growth rate as high as 8.0 percent was only targeted to be achieved in FY20, but it was achieved one year earlier. Government expenditure on social protection as percentage of GDP is also on track (2.54 percent in FY19 against a target of 2.3 percent by FY20). Targets on some vital indicators such as reduction of poverty, maintenance of sustainable budget deficit, growth of manufacturing industry, rice production, etc. too have been on course towards achievement.

1.11 However, in some indicators, such as revenue collection, Bangladesh lags behind the corresponding targets set in the 7th Five Year Plan. Against a target of gradually raising the revenue to GDP ratio to 16.1 percent, the country has managed to raise it up to around 10 percent so far. Despite various legal and institutional reforms, revenue collection is yet to show any significant upward move.

Table 1.1: 7th Five Year Plan: Targets vs Achievements of some Key Indicators

Indicators	Base Year (2010)	7FYP Target (2020)	Latest Development		
			FY18	FY19	FY20*
Real GDP Growth (%)	6.1	8	7.86	8.15	5.20
Per Capita GNI (in US $)	843	2009	1751	1909	2079
Head Count Poverty (%)	31.5	18.6	21.8* (2018)	20.5* (2019)	-
Extreme Poverty (%)	17.6	8.9	11.3* (2018)	10.5* (2019)	-
Rice production (mill. MT)	33.54	36.81	36.28	37.36	38.72
Growth in Industry (%)	7.03	10.9	12.06	12.67	8.09
Share of manufacturing in GDP	16.89	25.1	22.85	24.08	-
Growth in Services (%)	5.53	6.49	6.39	6.78	3.89
CPI Inflation (average)	6.82	5.5	5.8	5.5	5.6 (July-March)
Exports (US$ billions)	16.2	54.1	36.67	40.54	26.24 (July-Feb.)
Remittances ($ billion)	10.9	25.4	14.98	16.42	12.5 (July-Feb.)
Total Revenue (% of GDP)	9.98	16.1	9.6	9.9	12.7
Total Government Spending (% of GDP)	13.88	21.1	14.3	15.4	17.9
Spending on Social Protection (% of GDP)		2.3	2.17 (Rev. Budget)	2.54 (Rev. Budget)	2.58 (Budget)
Fiscal Deficit (% of GDP)	3.3	4.7	4.7	5.5	5.1
National Savings (% of GDP)	29.44	32	27.42	29.50	20.16
Gross Domestic Investment (% of GDP)	26.25	34.4	31.23	31.57	20.80
FDI ($ billion)	0.913	9.56	2.58	3.89	-
Maternal Mortality ratio (per 100,000 live births)	194	105	172 (2017)	169 (2018)	-
Literacy Rate (7+)	56.8	100	72.3 (2017)	73.2 (2018)	-
Installed Generation Capacity (MW)	5823	23000*	18753	21629	22787 (5 May, 2020)
Electricity Coverage (%)	48	96	90	94	96 (5 May, 2020)
Per Capita Electricity Consumption (end period)	220 kwh	514 kwh	464 kwh	510 kwh	-
Tele Density (%)		100	92	97.46	-

Sources: HIES 2010 and 2016, Bangladesh Sample Vital Statistics for various years (BBS); Bangladesh Bank, Power Division, Post and Telecommunication Division, Ministry of Agriculture, *Estimate.

Sustainable Development Goals

1.12 As a reflection of its sincere commitment to achieve the goals and targets set in the Sustainable Development Goals (SDGs), Bangladesh has undertaken comprehensive strategy and actions to internalize them effectively. The 7th Five Year Plan, implementation of which will end by June 2020, had incorporated 82 percent of the sustainable development targets. Broadly, the country is well on track in achieving the SDGs.

1.13 The progress on reducing extreme poverty measured by $1.90 a day or by national poverty line (LPL) is on track. Poverty declined at an average annual rate of 0.8 percent between 2010 and 2016. National poverty measured as the proportion of population living below the national upper poverty line is estimated to have declined to 20.5 percent in 2019. Progress on stunting is very much on track at the current rate of reduction; the proportion of stunted children (under 5 years of age) has declined from 45 percent in 1999-2000 to 28 percent in 2019. Similarly, progress on reducing wasting which stood at 9.8 percent in 2019 is also on track.

1.14 In the health sector, presently the Government is implementing the 4th program of Health, Population and Nutrition Sector Program (HPNSP) (2017-22). The program comprises of three components, namely- governance and stewardship of the sector, strong health systems, and quality health services to achieve health, population and nutrition sector targets and the health-related SDGs. 2018 data show that, vital indicators are well on track, for example- neo natal mortality rate stands at 16 per thousand live births which is on track to meet the 2020 milestones. At the same time, under 5 mortality rate stands at 29 per thousand live births (the milestone for 2020 is 34 per thousand live births which was achieved in 2017, much earlier).

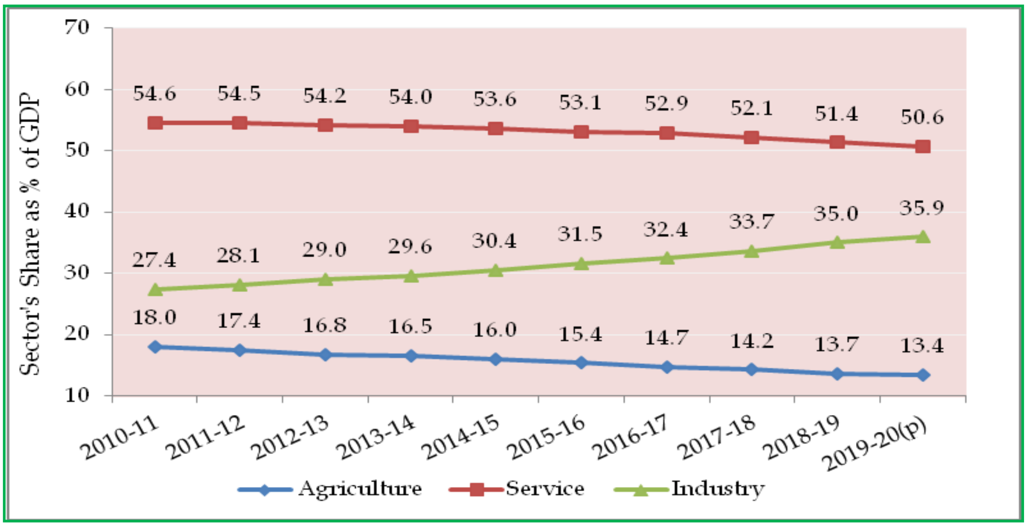
1.15 In case of education, Gender Parity Index (GPI) has remained above 1 for more than a decade in both primary and secondary levels of education and at tertiary education GPI reached to 0.71 in 2016. The Government has continued to implement policies and programmes to increase access to education and training, improve quality and relevance of education, reduce inequality in education and leveraging on knowledge and skills in science, technology and innovation.

1.16 To ensure comprehensive implementation of SDGs, Ministry/Division wise SDGs action plans have been prepared and a National Monitoring and Evaluation Framework has been formulated based on which progress report is published every year. SDG implementation and coordination committees have been formed throughout the country at division, district, and Upazila levels. An SDG localization framework has been prepared which will guide officials to make local SDG action plans. Recently, Bangladesh has published a report on SDG implementation titled 'Bangladesh Moving Ahead with SDGs' which contains the country's updated information on achieving SDGs. Another report titled- "Prospect and Opportunities of International Cooperation in Attaining SDG Targets in Bangladesh" has been published to underline government's roadmap to broader global partnership that can help achieve SDGs in a better way.

Transition to Dynamic Economy

1.17 Bangladesh economy has been consistently undergoing through structural changes marking a reduction in the share of agriculture and a rise in the share of industries in the total output. The share of service sector in GDP is the highest, though the contribution has been declining in the last decade. The national plans of the country aim at transforming the rural agrarian economy into a digitalized one with a solid industrial base. At the same time plans have been undertaken to equip the villages with urban facilities, especially through establishing ICT and digital communication infrastructures, education and improved health care facilities.

Figure 1.2: Sectoral Contributions to GDP



Source: BBS

Inclusive Development

1.18 Reduction of poverty and inequality, and promotion of inclusive development have been at the core of Government development agenda. As a result, both the rate and depth of poverty have decreased remarkably over the recent decades. However, the pace of poverty reduction may get compromised due to the recent corona virus pandemic. The Covid-19 crisis may affect people's income negatively and many of the people around the poverty line may fall into poverty trap. According to the Labour Force Survey 2016-17, 85.1 percent of Bangladesh's workforce are employed in the informal sector. This high rate of informality in employment tends to make the people more susceptible to vulnerabilities arising out of crises like the Covid-19 pandemic. Nevertheless, the Government has been successful till date to address the multidimensional nature of poverty by fostering accelerated, inclusive and resilient growth, increasing coverage and effectiveness of social protection, achieving gender parity, increasing the size, coverage and diversity of microcredit programmes, promoting financial inclusion, and maintaining stable macroeconomic environment. Based on surveys and estimates conducted by BBS, the poverty reduction rate of Bangladesh can be highlighted as below:

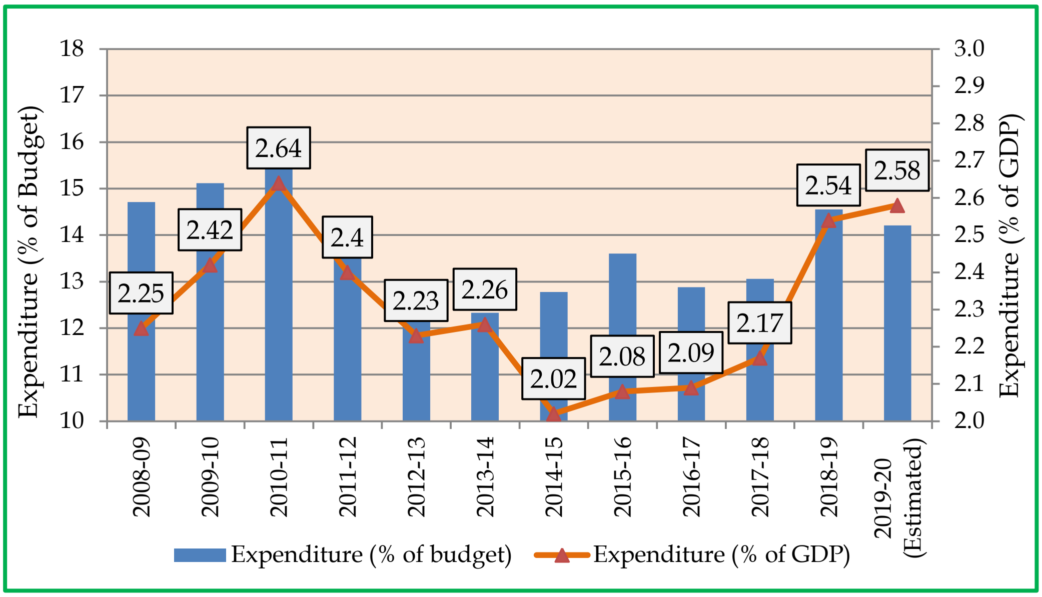
Table 1.2: Trends in Poverty

	HIES 1991-92	HIES 1995-96	HIES 2000	HIES 2005	HIES 2010	HIES 2016	2018*	2019*	7th FYP Target-2020
Poverty (%)	56.7	50.1	48.9	40.0	31.5	24.3	21.8	20.5	18.6
Absolute Poverty(%)	41.1	35.2	34.3	25.1	17.6	12.9	11.3	10.5	8.9

Source: HIES, BBS; *Estimated

1.19 The government expenditure for poverty reduction was 9.12 percent of GDP in the fiscal year 2008-09, which has risen moderately to 9.88 percent of the GDP in FY20 (55.24 percent of annual budget). Social safety net programmes have been instrumental in addressing the needs of the poor and helping them graduate from poverty. Hence, the Government has been increasingly investing in social safety net programmmes (Figure 1.3).

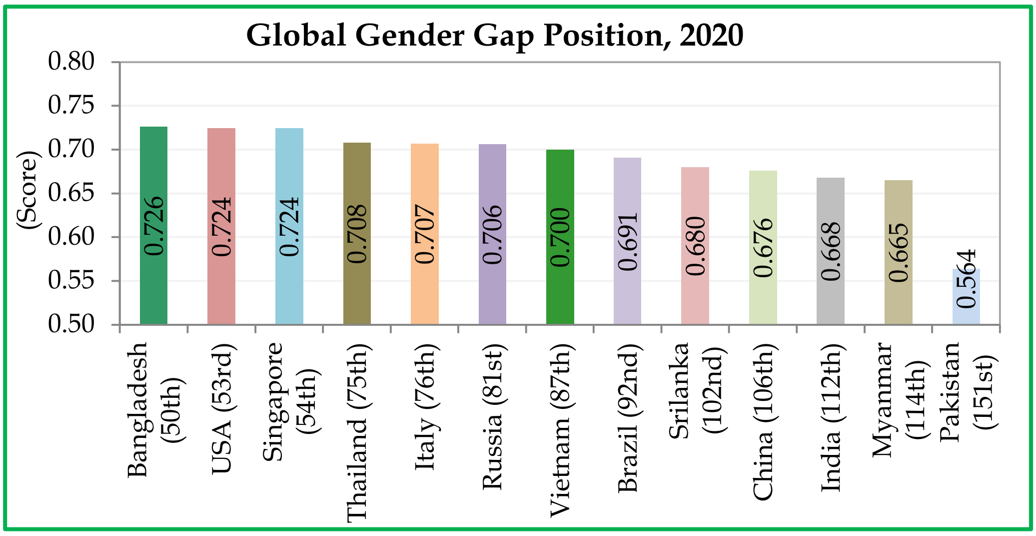
Figure 1.3: Budget allocations for social security and empowerment



Source: Finance Division

1.20 The Government has been committed to reducing the gender inequality. In FY20, 30.82 percent of budget allocation (5.50 percent of GDP) has been made to address the issue of gender equality. Gender parity has been achieved in primary and secondary education. According to the World Economic Forum's Global Gender Gap Report 2020, Bangladesh stands 50th among 153 countries assessed. Bangladesh's score and position this time has improved compared to the previous assessment; thus, an environment of accelerated gender parity is evident. Figure 1.4 shows scores and position of some selected countries in the Gender Gap Report 2020.

Figure 1.4: Global Gender Gap Index of Some Selected Countries

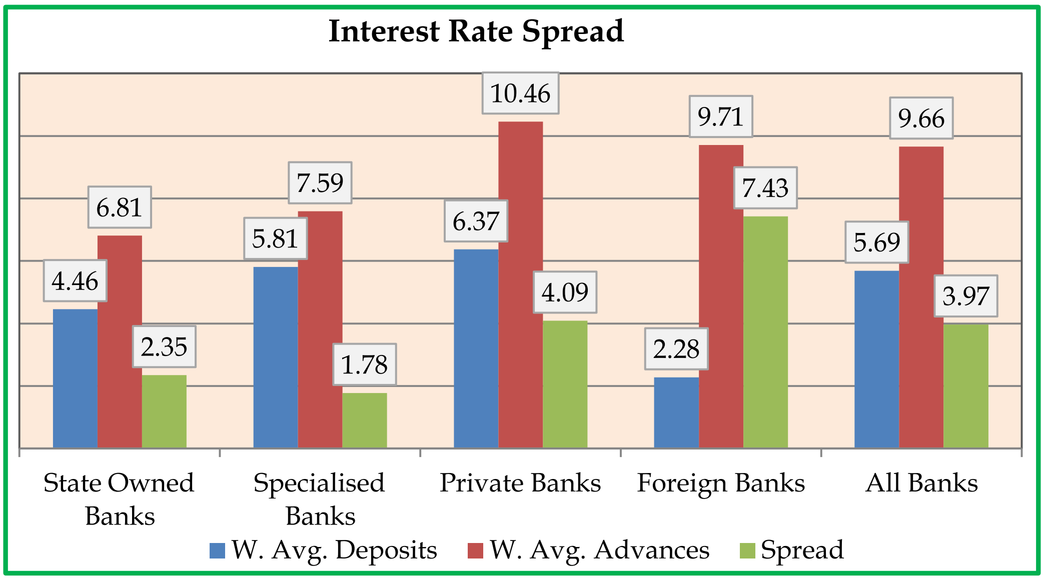


Source: Global Gender Gap Report 2020 published by World Economic Forum

Inflation, Money and Financial Sector

1.21 Bangladesh has been enjoying impressive macroeconomic stability during the last decade. Recently, amid the COVID-19 crisis, the Economist has placed Bangladesh on the ninth position in a list of 66 emerging economies in terms of different indicators of financial strength such as public debt to GDP ratio, foreign debt, cost of borrowing, and reserves. In May 2020 CPI inflation (point to point) was 5.35 percent whereas on twelve-month basis the inflation rate stood at 5.61 percent. On the other hand, in the financial market, the overall interest rate spread is declining. In February 2020, the weighted average lending rate of all banks amounted to 9.62 percent and interest rate spread was 4.09 percent. For non-bank financial institutions (NBFIs), the interest rate spread was 2.45 percent during January 2020.

Figure 1.5: Interest Rate Spread (Overall), January 2020



Source: Bangladesh Bank

1.22 Broad money (M2) growth in April 2020 was 13.23 percent (year to year), which was 10.52 percent one year ago. During the period (April to April), net domestic assets and net foreign assets increased by 14.93 percent and 7.36 percent respectively. However, private sector credit growth lowered to 8.82 percent in April 2020 which was 12.07 percent in the same month of the previous year.

1.23 National Saving Certificates have been a source of financing in the public sector. However, comparatively higher administered interest rate has been distorting the overall rate of interest in the market. In fact, given the higher interest rate benefit, the yearly sale of savings certificates was on the rise in during FY 2017 and FY 2018. However, the Government has implemented reform in the management of savings certificates which includes introduction of IT to enforce the individual investment ceiling and automation in certificate issue and redemption process. These reforms have contributed to stop potential misuse of NSD facilities and have reduced the Government’s dependence on NSCs significantly.

Medium Term Policies and Strategic Goals

Addressing the Impacts of Covid-19 Pandemic

1.24 The Covid-19 pandemic has manifold macroeconomic implications. Economic activities have been critically affected jeopardizing the income and livelihoods of people from all sections of the society. As the economic activities have fallen-off, the revenue collection has also been on the decline. On the contrary, the Government has to incur additional expenditures to manage the pandemic crisis. It has already declared a fiscal support package of over a Trillion Taka (3.7 percent of the estimated GDP of FY20). The support packages will increase the government expenditure during January-December period of FY20 and as well as next three fiscal years.

Box 1.1: Covid-19 Pandemic and Economic Policy

The Government has been vigilant since the start of the global Covid-19 crisis and has declared ranges of economic responses to support the emergency healthcare services, to protect jobs and to achieve smooth economic recovery. The strategy adopted by the Government includes four fundamental actions to be implemented immediately, in the short and in the long run:

a) **Increasing Public Expenditure:** Given a low debt-GDP ratio till date (around 31%), there is scope to sustain a higher fiscal deficit and increase the level of public expenditure. However, expenditures on luxuries, such as foreign tours, will be curtailed and focus will be on additional employment generation and improving agricultural production.

b) **Introducing Fiscal Packages:** Credit facilities at lower interest rate will be provided to support the recovery of economic activities, reinforce the job market, and help the entrepreneurs maintain competitiveness.

c) **Expanding Social Safety Net Programmes:** To serve the basic needs of people under poverty line and workers in informal sectors, the social safety net programmes will be bolstered which includes the expansion of food support, cash transfer, housing facility, etc.

d) **Increasing Money Supply:** To increase money supply in the market, Bangladesh Bank has already decreased the CRR ratio and repo rate. Keeping an eye on the inflation scenario, the policy of monetary expansion will continue in the medium term.

1.25 To further health service facilities to Covid-19 patients, special honorarium equal to basic pay of two months has been introduced for doctors, nurses and other healthcare workers who are providing critical healthcare services to the COVD-19 patients. In addition, special compensation packages, in case of Covid-19 infection or death there-from, have been declared for frontline public servants who are engaged in Covid-19 management including health workers, field administration officials, and member of the law enforcing agencies.

1.26 On the other hand, to address the needs of the most vulnerable sections of the society, the social safety net programmes have been strengthened. To help those who suddenly became unemployed due to the Covid-19 crisis, the Government has so far distributed four lakh metric tons of rice and one lakh metric ton of wheat among the poor. In addition, rice sale at Tk. 10 per kilogram to the citizens from low income group is going on. The Government is providing cash transfer of Tk. 2,500 each to 50 lakh selected families nationwide. In addition, the coverage of the Old Age Allowance, Allowance for Destitute Women and the Allowance for Disabled Persons has been increased to cent percent qualified person in the poorest 100 Upazilas. The total number of new beneficiaries due to the expansion of these three programmes is Tk. 10,70,000. Furthermore, Tk. 2,130 crore has also been allocated to construct homes for the homeless population.

1.27 On the face of export order cancellations, the Government has created a fund amounting Tk. 5,000 crore to provide salary and allowances support to the businesses of the export-oriented industries. At the same time, the size of Export Development Fund (EDF) has been increased from USD 3.5 billion to USD 5 billion and the interest rate of the fund has been reduced. Again, a new Pre-Shipment Credit Refinance Scheme, aiming to improve export competitiveness, has been launched through Bangladesh Bank with a total fund size of Tk. 5,000 crore to finance the pre-shipment costs of the exporters. Besides, working capital loan facilities have been provided at a subsidized interest rate: a loan of Tk. 30,000 crore facilitated for the businesses of industry and service sector, and Tk. 20,000 crore for the Cottage, Micro, Small and Medium Enterprises (CMSMEs). The Government has also allocated TK. 2,000 crore to partially subsidize the interest exemption facility provided by commercial banks during Aril-May, 2020.

1.28 The Government has taken a bunch of initiatives to boost the agriculture sector and thus to ensure food security. Agriculture subsidy has been increased to Tk. 9,500 crore and incentive of Tk. 200 crore is provided for farm mechanization. The government procurement and distribution target of rice and paddy has been increased by 2 lakh metric tons to ensure that the farmers get fair price for their produce and at the same time retail market price of rice is kept stable. An agriculture refinance scheme of Tk. 5,000 crore will be formed to provide required agriculture credit to farmers. Another refinancing scheme of Tk. 3,000 crore has already been announced for the small farmers and traders of agriculture sector. Tk. 2,000 crore will be distributed as small loans to the poor farmers, recently repatriated overseas workers and skilled but unemployed youths of the rural areas so that they can set up their self-employment venture in sectors like agricultural production, agro-based service, small business, cottage industries, SMEs, etc.

Investment and Employment Generation

1.29 In order to fuel the growth demand of the country, the Government is putting consistent emphasis on increasing investment. Gross investment was 31.6 percent of GDP in FY19 which is estimated to rise to 32.8 percent in FY20. The Government is promoting self-employment and entrepreneurship alongside establishment of large scale industries including those through FDIs. To accelerate investment growth, the Government has established Bangladesh Investment Development Authority (BIDA) and Bangladesh Economic Zones Authority (BEZA), among others. BEZA aims at establishing 100 economic zones by 2030, which is estimated to create direct and indirect employment opportunities for around 10 million people and increase export by additional 40 billion USD. Till date, a total of 93 economic zones have been approved in the government, non-governmental and G2G systems across the country. BIDA has made the One Stop Service (OSS) fully operational, with an automated system including a feedback loop.

1.30 New investments are resulting in added employment opportunities. However, the volume of employment generation is not at par with the volume of new entrants into the labor force. The last Labor Force Survey (2016-17) conducted by BBS shows an unemployment rate of 4.2 per cent (3.1 per cent for males and 6.7 per cent for females). In fact, the unemployment rate in Bangladesh has been hovering around 4 percent for a long time and it can be reasonably expected to remain closer to that for a considerably long period. However, increasing informality which undermines government efforts to ensure decent jobs remain a challenge on the way to achieve SDG 8 of decent job. Besides, female labour force participation (FLFP) remains low (36.3 percent) by world average (49 percent) in spite of widespread participation of women in education at higher secondary level and above.

Box 1.2: Reforming Investment Environment for Jobs Development

To reduce unemployment, especially through enhancing employment opportunities, improving job environment, ensuring rights and protection for workers, etc., the Government has been implementing various policies and programmes. In this connection, the Government is engaged with the World Bank for implementation of 'Job Development Policy Credit' under the leadership of Finance Division since 2018. This programme has achieved a number of reforms targeting diversified job creation, improved job quality, and access to jobs for vulnerable groups. The programme aims at: modernizing the trade and investment environment to support diversified job creation, strengthening systems that protect workers and build resilience, and improving policies and programs that enhance access to jobs for vulnerable populations. The reform agenda covers a range of laws, government policies and strategies related to employment, such as the Companies Act, One Stop Service Act, Customs Act and Rules, Bonded Warehouse, National Skill Development Authority Act, Labour Inspection Procedure, Children Day Care Act, etc. The reform program is expected to continue in the medium term which is likely to improve the employment scenario in the near future and long run.

Human Capital, Skill Development, and Productivity

1.31 The Government has been consistent in building social infrastructure. Improvement of the total factor productivity (TFP) has been pivotal to the government plans at various levels. In this connection the health and education sectors have been given priority in annual expenditure plans. The government has been giving utmost importance to education as one of the main strategies for poverty alleviation and development. The National Education Policy, 2010 has been formulated keeping in view the national plans, and is being implemented step by step. Physical infrastructures are improved in schools, colleges, and universities besides providing teachers' training, student stipends, free books, introduction of e-book, establishment of Upazila ICT training and resource centers, nationalization of private schools, etc., among others.

1.32 Special emphasis is being laid on the expansion of vocational and technical education and the creation of skilled manpower suitable for the job market abroad. For this purpose, computer/technical education has been made compulsory. Information and Communication Technology (ICT) has been included as a textbook subject from 6th class/grade. In addition to regular curricula, short training courses are being implemented in public and private technical education institutions. Recently, the National Skills Development Authority Act-2018 has been passed and accordingly the 'National Skills Development Authority' has been established with an aim to manage skill development in a coordinated way.

Meeting Infrastructure Gap

1.33 To maintain high economic growth, the Government has been consistently investing in physical and social infrastructures. It has been running mega projects such as construction of Padma Multipurpose Bridge, tunnels under Karnaphuli River, Dhaka Elevated Expressway, MRTs, and many others. These infrastructure projects will fuel the country's long-term economic growth and competitiveness. The railway has been revived after many decades; construction and renovation of new railway, construction and conversion of railways into double gauge double line, introduction of new train and railway stations, increasing service of trains, collection of coaches, etc. are underway.

1.34 Development of power and fuel sector has been a priority of the Government. During the last decade, it has mobilized enormous resources to drastically enhance the power generation capacity, improve the transmission line, and check system losses. Power generation capacity has increased more than four times from 4,942 MW in 2009 to 24,000 MW (including captive and renewable energy). The number of power plants was 28 in 2009, now it is 136. The population with access to electricity has increased from 46 percent to 96 percent. Per capita power generation has increased from 220 kWh to 510 kWh.

1.35 In addition to the increase in power generation capacity, the Government is also importing power from convenient sources. At present, 1,160 MW of electricity is being imported from neighboring India. Negotiations to import power from Bhutan and Nepal are underway at various stages. The Government has been establishing large scale LNG import facilities to meet the energy demand of the country. In the last 11 years, 4,119 new circuit transmission lines and 300,000 km distribution lines have been constructed. Electricity distribution system loss has been reduced from 14.33% to 9.35%. Prepaid meter installation is underway to reduce customer harassment and bring transparency in the billing system.

Long Term Policy and Strategy

Formulation of the 8th Five Year Plan

1.36 The current 7th Five Year Plan (2018-2020) will end on June 30, 2020. In this context, the work of formulating the 8th Five Year Plan has been started. Bangladesh has already laid the foundation for achieving the status of an upper middle-income country and fulfilled all criteria to graduate from the Least Developed Countries (LDCs). The Eighth Five Year Plan will facilitate the smooth transition from Least Developed Countries (LDCs) by 2024 and the implementation of SDGs. The plan will focus on two key issues- accelerated prosperity and inclusive growth. It will focus on ensuring that the benefits of this growth reach everyone equally. With the slogan 'Leaving No One Behind', the 8th Five Year Plan will take targeted activities by identifying the backward communities and regions in various economic and social development indicators. The plan will accommodate goals and targets set in the Perspective Plan 2021-2041 and the government's 2018 Election Manifesto. Given the significance of Covid-19 crisis on the overall economy of the country, the macroeconomic framework already prepared for the 8th Five Year Plan is under revision now. Bangladesh Planning Commission has been undertaking a study on the impact of Covid-19 pandemic. The findings of the study will be reflected in the 8th FYP with due importance. The study will put special emphasis to assess the impact of Covid-19 on poverty reduction and growth, among other issues.

Vision 2041 and 2nd Perspective Plan

1.37 Encouraged by the trend of economic success in the last decade, the Government has adopted "Vision 2041" with a dream of poverty-free country where economic and social justice will prevail and inclusive development will be guaranteed for all. To transform Vision 2041 into a development strategy with policies and programs, the 'Second Perspective Plan of Bangladesh: 2021-2041' has been approved by the National Economic Council on 25 February 2020.

Box 1.3: Making Vision 2041 a Reality

Perspective Plan of Bangladesh 2021-41

The Father of the Nation Bangabandhu Sheikh Mujibur Rahman dreamt of a country that is free of poverty, where economic and social justice prevails, and where there is shared prosperity. To fulfill such dream, the Government has adopted Vision 2041 which is a continuation of Vision 2021. Now, the 'Second Perspective Plan of Bangladesh: 2021-2041' is set to help materialize Vision 2041. The plan seeks to eliminate extreme poverty and reach Upper Middle-Income Country (UMIC) status by 2031, and High-Income Country (HIC) status by 2041 with poverty approaching extinction. The 2nd Perspective Plan is built on the successes of 1st Perspective Plan. While preparing the plan, relevant lessons and good practices from the economic journeys of current UMICs and HICS were considered with due importance.

1.38 Two fundamentals of the plan are: (a) by 2041, Bangladesh will be a developed country, with a per capita income of more than 12,500 USD at current prices, and (b) in Golden Bengal, poverty will be an issue of the distant past. The following table summarizes the associated growth and poverty reduction targets:

Table 1.3: Growth and Poverty Reduction targets under 2nd Perspective Plan

	Base Year 2020	2031 Target	2041 Target
GDP Growth (%)	8.2	9.0	9.9
Absolute Poverty (%)	9.4	2.5	0.7
Poverty (%)	18.8	7.0	<3.0

1.39 Under the 2nd Perspective Plan, the following strategic goals will be pursued as the essential components of economic policy over the long-term:

- Eradication of Extreme Poverty by 2031; reducing Moderate Poverty to less than 5 percent by 2041;
- Towards Upper middle-income country by FY 2031; High-income country by 2041;
- Industrialization with export-oriented manufacturing will drive structural transformation into the future;
- Paradigm shifts in Agriculture will enhance productivity and ensure nutrition and food security for the future;
- A Service sector of the future will provide the bridge for the transformation of the rural agrarian economy to primarily industrial and digital economy;

- The Urban transition will be an essential part of the strategy to move to a high-income economy;
- Efficient Energy and Infrastructure will be essential components of the enabling environment that facilitates rapid, efficient and sustainable growth;
- Building a Bangladesh resilient to climate change and other environmental challenges;
- Establishing Bangladesh as a knowledge hub country for promoting a skill-based society.

Delta Plan 2100

1.40 Bangladesh is the largest delta in the world which is frequently affected by various natural calamities such as floods, tidal surges, droughts, cyclones, river erosion, etc. due to its geographical location. Added to this is the risk of climate change. As a result, water resources management is a big challenge for Bangladesh. To achieve sustainable economic growth through ensuring water and food security by addressing the risks of climate change, Bangladesh has formulated a long-term integrated master plan titled "Bangladesh Delta Plan 2100", which was approved by the National Economic Council in September 2018.

1.41 'Bangladesh Delta Plan 2100' has set 3 higher level national goals and 8 specific goals related to the delta. The goals at the highest level are to eradicate extreme poverty by 2030, to achieve the status of an upper-middle-income country by 2030, and to become a prosperous country by 2041. The specific goals are: ensuring safety from floods and climate change disasters, enhancing water security and water efficiency, building integrated and sustainable river areas and estuarine management, conserving wetlands and ecosystems, ensuring their proper use, ensuring effective institutions and good governance for the efficient management of inter and intra-country water resources, and ensuring optimal integrated use of land and water resources.

1.42 Implementation of the Delta Plan 2100 will require initiation of new projects and side by side the development and maintenance of existing infrastructures. For this purpose, a special fund will be set up with the title of 'Bangladesh Delta Fund'. The implementation of the Delta Plan 2100 will require about 2.5 percent of the total domestic income every year by 2030 which is only 0.8-1.0 percent now. A total of 80 projects have been proposed till 2030 for the implementation of Delta Plan 2100. Among them, there are 65 projects related to physical infrastructure development and 15 projects related to institutional capacity building and research. The total capital investment in these projects is TK 2,978 billion (about 37 billion US dollars). The implementation of the proposed projects will start in different years.

Addressing the Impact of Climate Change

1.43 Article 18A has been inserted in the Constitution of the People's Republic of Bangladesh with special emphasis on environmental protection and conservation of biodiversity. Also, Bangladesh has obligations to protect the environment and control pollution in order to achieve the SDGs. In line with these obligations, the government has taken various initiatives to address the issue of climate change.

1.44 Bangladesh Climate Change Strategy and Action Plan (BCCSAP) 2009 is being implemented to address climate change. For the implementation of BCCSAP, the government has already set up a Climate Change Trust Fund with its own resources and a total allocation of TK 3,800 crore has been made in this fund from FY 2009-2010 to FY 2019-20. In FY 2019-20, the Government has presented its third climate budget report titled- "Climate Financing for Sustainable Development" covering 25 ministries, which have a cumulative total allocation of 58.11 percent of the total national budget of FY2019-20. Out of their total allocation, 7.81 percent is climate relevant. In absolute terms, it stands at TK. 23,749 crore, which is 0.8 percent of GDP of FY2019-20. The government is also making a sustained efforts to access more climate funds from international financing windows the foremost of which is the Green Climate Fund(GCF). Up to December 2019, Bangladesh could access to grants amounting $94.7 million from GCF for four climate change projects.

1.45 A study titled "Assessment of Sea Level Rise and Vulnerability in the Coastal Zone of Bangladesh through Trend Analysis" has been completed to assess sea level rise and risk. According to the study, the average sea level rise in the lower Gangetic flood plain, Meghna estuary flood plain and Chittagong coastal region is 6-21 mm per year on an average. The study- 'Projection of Sea Level Rise and Assessment of its Sectoral (Agriculture, Water and Infrastructure) Impacts' is being implemented in continuation of the said research. Work is underway to formulate a National Adaptation Plan (NAP) to coordinate adaptation strategies and actions to address long-term climate change.

Chapter Two

Macroeconomic Performance and Medium Term Outlook

The prolonged COVID-19 pandemic situation has a significant impact on the current growth momentum of Bangladesh. Over the last four years, Bangladesh has been sustaining a remarkable economic growth rate of over 7 percent alongside maintaining macroeconomic stability with stable inflation, low public debt, and greater resilience to external shocks. In the current fiscal year, the GDP growth target has been revised to 5.2 percent against the original target of 8.2 percent. The demand side growth contributors like private consumption, remittances, export and public investment have been largely affected by both global lockdowns and long holidays in the country due to the corona virus pandemic. Although, most of the sectors like manufacturing, construction and service sector have been badly affected, crop production is satisfactory so far. Alongside, Bangladesh has achieved a remarkable progress in social indicators over the past decades. It has succeeded in reducing poverty rate and infant mortality rate and increasing life expectancy and literacy rate.

2.2 Current fiscal year is the terminal year of the 7th Five Year Plan (2016-20) and implementation of the 8th Five Year Plan (2021-25) will start in the next fiscal year. The Second Perspective Plan (2021-41) has also been approved with an objective to make Bangladesh a developed country by 2041. It aims to achieve a high income country with improved educational outcome, and establish a knowledge hub country, along with resilience to climate change and natural disasters. Preparation of the 8th Five Year Plan is at the final stage, and is expected to maintain priorities on quality health care, increasing manufacturing investment, making SME vibrant creation of job, strengthening rural transformation, skill development and reaping the demographic dividend as a means of accelerating growth and economic transformation. During the implementation of 7th Five Year Plan, Bangladesh has shown significant success in reducing poverty and gender gap, creating opportunities for employment generation, scaling up private and public investments, creating opportunities for development of human resources, bringing a large number of distress people under social protection schemes. The government has decided to increase the coverage of different schemes for social protection to address COVID-19. The government aims at establishing modern communication facilities and ensuring power and energy security through massive public investment. In the next budget, priority will be given to sectors like health care, education, agriculture and employment. In the medium term, the government will put emphasis on economic recovery from fall out of COVID-19 and implementing 8th Five Year Plan, SDGs, Second Perspective Plan, 'Delta Plan 2100' and 'Blue Economy' strategies.

2.3 This chapter begins with the discussion on recent developments in the global economy. Later, it focuses on economic trends and outlook of different sectors of the domestic economy over the medium term in the backdrop of the latest progress in global growth, inflation, international trade and their outlook.

Recent Global Developments and Near Term Projections

2.4 The world has changed dramatically in the first half of the current year since the global outbreak of COVID-19 pandemic in early 2020. To protect lives of the people and to contain the spread of the virus, lockdowns and widespread closures were effected by the most countries in the world, having a severe impact on worldwide economic activity. As a result, global growth is expected to shrink drastically; even though a partial recovery is anticipated in 2021 but there is an uncertainty about the strength of the rebound as the nature of the virus still remains unknown. As a result of the pandemic, the global economy as projected to contract sharply by 3.0 percent in the year 2020 (according to the latest 'World Economic Outlook' (WEO) published by International Monetary Fund (IMF)). Before the pandemic began, global growth slowed down in 2019 at an estimate of 2.9 percent compared to that of 3.6 percent in 2018. The global economy is projected to grow at 5.9 percent in 2021 as economic activity will normalize. A negative growth in the advanced economy is projected at -6.1 percent in 2020, as most of the economies are experiencing widespread outbreaks and deploying containment measures. Most economies in this group are forecasted to contract this year, including the USA (–5.9 percent), Euro zone (–7.5 percent), etc. The Emerging and Developing Asia is the only region projected to have a positive growth rate in 2020 (1.0 percent). Several economies in the region like China (1.2 percent) and India (1.9 percent) will exhibit a modest growth rate. Growth in the Middle East and North African region is projected to be at -3.3 percent in 2020.

2.5 Commodity prices have decreased sharply after the outbreak of COVID-19 pandemic across the globe. Oil prices collapsed abruptly during the first quarter of 2020 as its demand decreased sharply after the COVID-19 outbreak. Inflation in advanced economy is projected downward at 0.5 percent in 2020 and then revised upward at 1.5 percent in 2021. For the emerging and developing Asia, it is set to exhibit a slightly decreasing trend in both 2020 (3.0 percent) and 2021 (2.9 percent).

Table 2.1: Global Economy: Growth and Inflation Scenario

Country/Region	Real GDP growth				Inflation			
	Actual		Projection		Actual		Projection	
	2018	2019	2020	2021	2018	2019	2020	2021
World	3.6	2.9	-3.0	5.8	-	-	-	-
Advanced Economies	2.2	1.7	-6.1	4.5	2.0	1.4	0.5	1.5
USA	2.9	2.3	-5.9	4.7	2.4	1.8	0.6	2.1
Euro Zone	1.9	1.2	-7.5	4.7	1.8	1.2	0.2	1.0
Emerging and Developing Asia	6.3	5.5	1.0	8.5	4.8	3.2	3.0	2.9
China	6.7	6.1	1.2	9.2	2.1	2.9	3.0	2.6
India	6.8	4.2	1.9	7.4	3.4	4.5	3.3	3.6
Middle East, North Africa & others [a]	1.0	0.3	-3.3	4.2	8.6	9.0	8.2	9.1

Source: World Economic Outlook, April 2020, IMF; 'a' includes Afghanistan and Pakistan

Domestic Economic Trends and Outlook

Real sector

2.6 Over the last five years, Bangladesh exhibited a steady GDP growth, averaging 7.4 percent per year. Last year it clocked a record 8.15 percent growth rate. The main contributor behind this solid progress in growth position was sturdy domestic demand, in particular strong private consumption, investment net exports (Table 2.2). On the other hand, the supply side growth was mainly attributed to manufacturing and services sector. In the last five years (FY15 – FY19), the annual average growth rate of the manufacturing sector was 11.2 percent followed by the services sector at 6.4 percent on average and the agricultural sector at 3.4 percent (Table 2.3).

Table 2.2: Demand Side Contributions to Growth

Components	FY14	FY15	FY16	FY17	FY18	FY19
Private Consumption	4.0	4.3	4.9	5.0	5.6	5.6
Govt. Consumption	0.3	0.3	0.4	0.4	0.5	0.5
Private Investment	1.5	1.6	1.6	1.7	1.8	1.9
Public Investment	0.4	0.5	0.5	0.5	0.6	0.7
Net Exports	-0.2	-0.3	-0.3	-0.4	-0.7	-0.5
Statistical Discrepancy	0.0	0.1	0.0	0.0	0.02	-0.04
Real GDP growth (%)	6.1	6.6	7.11	7.28	7.86	8.15

Source: Bangladesh Bureau of Statistics, p=provisional

2.7 During the budget preparation phase, GDP growth target for the current fiscal year was set at 8.2 percent in the Medium Term Macroeconomic Framework (MTMF). In the first half of FY20 (July to December), both export and import began to slow down due to declining RMG export orders and sharp contraction in capital goods imports, which suggests that private investment has also declined. But remittances accelerated because of 2 percent cash incentives from this fiscal year, which in turn largely induced a sharp increase in private consumption. The COVID-19 pandemic began to have economic impact on Bangladesh since February when massive outbreak occurred in Wuhan and cities in China were locked down. It disrupted the import of inputs/intermediate goods that has reduced our manufacturing output. As the pandemic intensified, export and import further declined and remittance inflows began to slide. In Bangladesh, the first official coronavirus case was identified on March 8, general holidays was in force during March 26 to May 30 to contain the spread of the virus. This has caused a sudden stop on many components of the service and industrial sectors. Public transportation was suspended, factories were closed for a long period, and implementation of development projects slowed. Considering all these, the GDP growth rate for the current fiscal year has been revised at 5.2 percent.

Table-2.3: GDP Growth by Sector

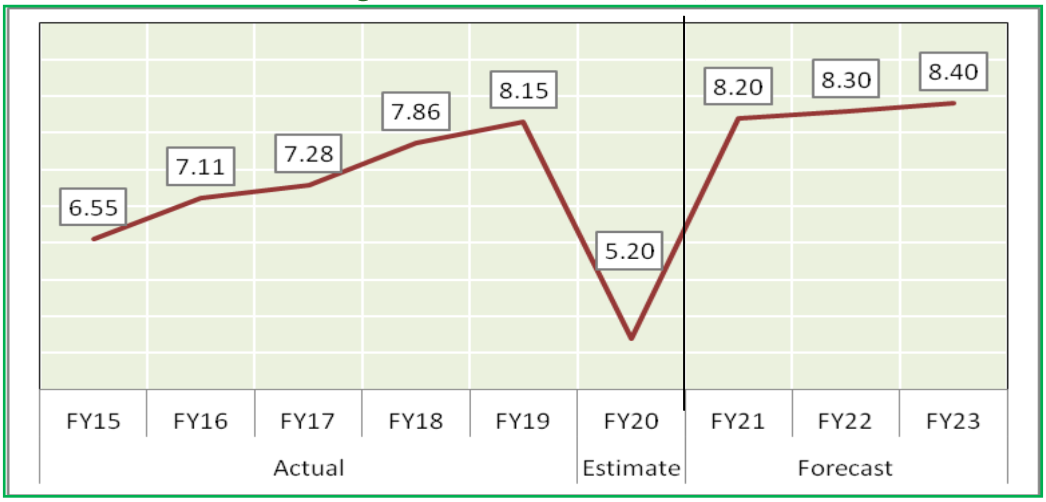
Sectors	FY14	FY15	FY16	FY17	FY18	FY19
Agriculture	4.4	3.3	2.8	3.0	4.2	3.9
Industry	8.2	9.7	11.1	10.2	12.1	12.7
Services	5.6	5.8	6.3	6.7	6.4	6.8

Source: Bangladesh Bureau of Statistics;

2.8 Revised estimates of GDP growth for the current fiscal year is significantly lower than the original estimates as well as the last year's actual figure. Revised estimates outline a slower growth scenario compared to the previous year. Agricultural production is expected to be comparatively less affected by the corona virus. Among other factors, distribution of agricultural loan has made a significant contribution to the growth in the agricultural sector. By the end of February 2020, the disbursement of agricultural credit and non-farm rural credit amounted to Tk. 150.92 billion against the target of Tk. 241.24 billion which is 6.92 percent higher than that in the previous year. Growth in the 'agriculture and forestry subsector' is estimated at a higher rate compared to the previous year. Although, the quantum index of manufacturing industry grew by 13.52 percent in the first 6 months of the current fiscal year, it is expected to decline in the second half of FY20 due to COVID-19 impact. So, growth in the manufacturing and service sectors is estimated to be lower in the current fiscal year compared to the previous year.

2.9 In the MTMF, GDP growth rate is forecasted at 5.2 percent in FY20, which will recover and bounce back to its original pace to 8.2 percent in FY21, and gradually rise to 8.3 and 8.4 percent respectively in FY22 and FY23 (see Figure 2.1). In FY23, agriculture, industry and services sectors are expected to grow by 5.5 percent, 13.7 percent and 5.3 percent respectively. In the medium term, GDP growth rate is forecast to be more than 8.0 percent based on the assumptions that the world and domestic economy will recover gradually from COVID-19 losses, and that there will be raising investment in social infrastructure and private sector industry by ongoing reform initiatives and various stimulus programs.

Figure 2.1 GDP Growth (%)



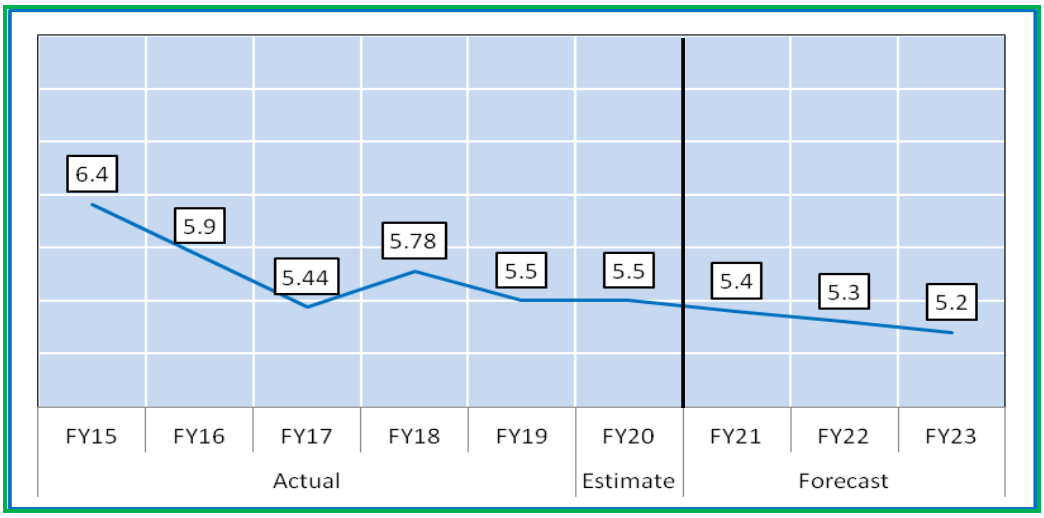
Source: BBS; Finance Division

2.10 In order to increase capital accumulation for achieving accelerated GDP growth, private investment needs to be boosted along with public investment. In FY19, total investment stands at 31.6 percent of GDP where the contribution of private and public sectors are 23.5 percent and

8.0 percent respectively. But to achieve around 8.4 percent growth over the medium term, the current level of investment is not sufficient. The main source of public investment is the implementation of annual development program (ADP). But due to low progress in ADP implementation, public investment has not been up to the expected level. To increase implementation of ADP, the government has taken several reform measures such as simplification of fund release procedure, etc. Considering the probable contribution of growth drivers investment is expected to be 35.6 percent of GDP in FY23 where percentage of private and public investment are respectively 27.7 percent and 7.9 percent.

2.11 Inflation remained stable and modest and well below six percent during the past five years. Twelve-month average inflation rose slightly from 5.5 percent in May 2019 to 5.6 percent in May 2020. On the other hand, point to point inflation showed slight downtick and stood at 5.4 in May 2020 compared to 5.5 percent in May 2019. Point-to-point food inflation showed a downtick since November, 2019 and reached at 5.1 percent in May 2020. But non-food inflation showed an upward trend from the beginning of the current fiscal year due to depreciation of Taka against US dollar. With the domestic outbreak of COVID-19, food price volatility has risen. However, satisfactory growth in agricultural production will keep food prices stable causing inflation to remain 5.5 percent in the current year. Over the medium-term, the inflation rate will decline to 5.2 percent in FY23 (see Figure 2.2).

Figure 2.2 Inflation trend (%)



Source: BBS; Finance Division

Fiscal Sector

2.12 The fundamental objective of government fiscal policy is to maintain an expansionary fiscal stance with a view to recover the economy from COVID crisis. Recent revenue mobilization efforts have underperformed due to lower tax collections, lower than expected VAT collection after the implementation of new VAT Law. In the context of COVID-19, revenue earning has declined significantly; on the other hand, higher spending due to government's adoption of countercyclical measures as responses to COVID-19 economic impact is creating budgetary pressure. The current revenue-GDP ratio is very low compared to the neighbouring and other developing countries. Several reform initiatives have been taken by the government to reinforce domestic resource mobilization as well as to improve the revenue-GDP ratio. Automation of VAT collection and of bonded warehousing system are ongoing. Enactment of the new Customs Act, 2020 is at the final stage. All other reform measures undertaken to enhance revenue mobilization over the medium term are discussed in Chapter Four of this Policy Statement. Continuation of ongoing reforms programs as well as future programs in modernizing revenue administration, broadening the tax base, higher tax compliance, and reform of laws and simplification of processes is expected to significantly impact revenue mobilization, and hence, over the medium term, total revenue-GDP ratio is projected to increase at 12.2 percent in FY23.

2.13 The main objective behind the government's expenditure policy is to enhance the emergency healthcare facilities, stimulate both private and public investment, generate employment opportunities, expansion of social safety net programs and ensure efficient redistribution of wealth through pro-poor, inclusive development. In addition, the government is pursuing the policy of keeping budget deficit within the sustainable range so that debt to GDP ratio does not increase at a higher pace. The current expenditure-GDP ratio is around 15 percent which is relatively low compare to other neighbouring countries. Due to the lockdown resulting from the outbreak of COVID-19, implementation of development projects has been slower, but the expenditure on social protection programs and stimulus packages to address the COVID-19 crisis is rising substantially. Government expenditure is revised at 17.9 percent of GDP in the current fiscal year. Over the medium term, government expenditure is targeted to be around 17.2 percent of GDP. Actual budget deficit stood at 5.5 percent of GDP in FY19. The deficit will rise to 6 percent as in the nest fiscal year and expected to come down to the range of 5 percent of GDP over the medium term.

2.14 According to a recent report published by the Economist, a London-based weekly, Bangladesh has been ranked as the 9th strongest economy in the list of 66 emerging economies in terms of financial strength in the wake of the COVID-19 fallout. The ranking considered four potential indicators: public debt as a percentage of GDP, total foreign debt (both public and private), costs of borrowing and foreign exchange reserve cover. According to the ranking, the economy of Bangladesh has featured as 'strong or relatively strong' in all four indicators. In the ranking, Bangladesh is placed ahead of China, India and other South Asian countries.

2.15 The government continues to implement the 2016-21 Public Financial Management Reform Strategy along with other reform programs with a view to improving overall public service delivery, financial control of budget allocations, real-time monitoring of budget execution, and integration of recurrent and capital spending. The government to person (G2P) payment is being rolled out for social safety net programmes. Again, simplifying fund release process, disbursement of government employees' salaries and pensions through electronic fund transfer (EFT) will increase the efficiency of expenditures.

Money and Credit

2.16 Key objectives of the monetary policy of Bangladesh are achieving price stability alongside maintaining high level of production, employment and economic growth. The recent Monetary Policy Statement (MPS FY20) of Bangladesh Bank (BB) has a vibrant monetary policy stance with the dual objectives of maintaining price stability and supporting inclusive, equitable and environmentally sustainable job rich economic growth in line with the government's strategies and goals for sustainable growth and development. Bangladesh Bank's monetary policy also makes adequate room for money and credit growth towards attaining targeted nominal GDP growth taking into account any adjustment in change in money velocity. The MPS FY20 has projected broad money (M2) and domestic credit (DC) growth ceilings at 12.5 percent and 15.9 percent respectively, to accommodate current real GDP growth and CPI inflation ceiling. The Cash Reserve Ration (CRR) and Repo rate were earlier reduced to 5.5 percent and 6.0 percent from 6.5 percent and 6.75 percent respectively but reverse Repo rate was maintained at 4.75 percent. However, to maintain effective liquidity management in the wake of increased bank lending as part of the government's stimulus measures in response to COVID-19, BB has further reduced CRR and Repo rate to 4.0 percent and 5.25 percent recently.

2.17 By the end of April 2020 the broad money (M2) has increased by 13.23 percent over June 2019 which is slightly above the target (12.5 percent) in MPSFY20. Reserve money depicts a 12.93 percent increase during the same period, which is slightly above the target (12.0 percent). Current monetary policy encourages banks to increase advances significantly for supporting micro, small, and medium enterprises (MSMEs) in the manufacturing, agriculture and service sectors for creating more and better jobs. Although borrowing from banking sources has increased as the selling of NSD has declined significantly due to the automation of NSC purchases, there still is enough scope in the banking system to amplify the credit expansion for the private sector. But during July-April FY20, private sector credit grew only by 8.82 percent against the target of 14.80 percent, while public sector credit increased significantly by 68.42 percent which is well above the target of 24.64 percent. Considering the situation, private sector credit is expected to be around 14.80 percent in the current fiscal year. Over the medium term all these variables are expected to increase steadily.

2.18 During the first half of the current fiscal year, interest rates on both deposit and advances in banks and financial institutions showed a slightly decreasing trend, and by end April 2020, interest rates on deposit (weighted average) in banks and financial institutions stood at 5.39 percent, while interest rate on advances (weighted average) stood at 8.26 percent compared to 5.42 percent and 9.46 percent in April 2019 respectively. On the other hand, the spread between deposit and lending rates exhibits a decreasing trend and came down to 2.87 percent in April 2020 compared to 4.04 percent in April 2019. The spread between the weighted average lending and deposit rate of all banks decreased slightly to stand at 3.98 percent at the end of December 2019 and that of Non-Bank Financial Institutions (NBFIs) at 1.83 percent. Non-Performing Loans (NPLs) stood at around 9.3 percent in December 2019 which is 2.7 percentage point lower than that of September 2019.

2.19 In the medium term, the monetary policy will continue to strive for maintaining price and external sector stability to achieve sustainable and inclusive growth and development. In particular, broad money and credit growth will keep in the same level as the projected range of MPS towards supporting growth and inflation targets. Foreign exchange flexibility will be needed to ensure effective functioning of foreign exchange market and facilitate external sector adjustment.

External Sector

2.20 Before the COVID-19 crisis, global trade started to decline sharply in 2019 to an estimated real growth rate of 0.9 percent after attaining a moderate growth rate of 3.4 percent in 2018. As a result of the outbreak of COVID-19 pandemic, world trade is projected to shrink sharply to an estimated rate of -11.0 percent in 2020 followed by a fast recovery in 2021 to an estimated rate of 8.4 percent, as the economic activity will normalize. Global growth is also projected to contract sharply by -3.0 percent in 2020 owing to the impact of COVID-19 pandemic. Meanwhile, assuming a fast recovery in the subsequent year, the global economy is projected to grow by 5.8 percent in 2021.

2.21 In Bangladesh, export have declined in the first half of FY20 before plunging further as global demand contracted as a result of the COVID-19 crisis. Export declined by 13.09 percent during the July-April period of FY20 compared to the same period of the previous fiscal year. Exports from Bangladesh declined to all major markets including the United States (-3.4 percent) and the EU (-6.3 percent) during the same period of FY20. Up to April 2020, Jute and Jute products exports increased to 13.78 percent compared to the same period of previous year. Whereas, export of Knitwear, Oven Garment, Leather products, home textile decreased during the same period.

2.22 The government has declared several stimulus packages as countercyclical measures to weather down the impact of COVID-19 crisis on the export sector. Such packages include a special fund of Tk. 5 thousand crore to enable salary payment to workers of export-oriented industries, an increase in Export Development Fund to US$ 5 billion US dollar from the existing US$ 3.5 billion and payment of interest subsidies in excess of 2 percent interest rate, and a Pre-shipment Credit Refinance Scheme of TK. 5 thousand crore. Several other initiatives already taken by the government to intensify exports include, for instance, diversification of export products, exploring new markets, examining the possibility of concluding free trade agreements, implementing strategies to increase production capacity of export-oriented industries. The government is also trying to address the supply side constraints, which include increasing power generation capacity, establishment of physical infrastructure like sea and land ports, roads, etc, which will help exporters shorten the lead time and make the best use of their production capacity. In addition, establishment of economic zones will facilitate exports. Export subsidies/incentives will be continued to boost export. The government is implementing Export Policy 2018-2 in which 15 priority sectors have been identified. Considering the implications of the COVID-19 pandemic and the prevailing global and domestic scenarios, export earnings have been projected to shrink by 10.0 percent in the current fiscal year; but will bounce back over the medium term to reach 11.0 percent in FY23.

2.23 Our imports have also shown a negative growth from in the first half of FY20. The scenario has worsened after the COVID-19 pandemic started in China in January 2020 and due to worldwide lockdowns afterwards. By the end of March 2020, imports stood at US$43.58 billion which was 4.81 percent lower compared to the corresponding period of the previous year. During July-February 2020, negative growth has also been observed compared to the same period of the last year in overall L/C opening (1.04 percent), capital machinery L/C opening (0.57 percent) and industrial raw materials L/C opening (-1.24). General holidays observed for 66 days since 26 March, 2020 and most economic activities remained closed with limited opening of industries from early May. In this dire situation, import fell significantly for the remaining period of the current fiscal year. Considering the above situation, import has been projected to decline by 10.0 percent in the current fiscal year; however it will grow on average by 8.0 percent over the medium term.

2.24 Foreign remittances have some positive effects on developing as well as emerging economies. The effect of remittances is very crucial for a developing country like Bangladesh. In Bangladesh, foreign remittances help reduce the current account deficit and stimulating domestic demand that ultimately augment GDP growth. In the context of micro level, remittances inflows will contribute towards expanding the income of receiving households with effects on the standard of living along with an increase in the level of savings that can be an important source of capital. Several initiatives have been taken by the government to augment remittance inflows as well as foreign employment, such as (i) cash incentives for sending remittances through the banking channel, (ii) simplification of remittance related rules and regulations, (iii) reduction in administrative costs for sending remittances through financial institutions, (iv) search for new market sources for manpower export, etc.

2.25 During the first half of FY20, foreign remittances grew significantly with strong positive trends. At the end of May 2020, foreign remittances stood at US$ 16.36 billion which is 8.72 percent higher compared to the same period of the last year. However, after the outbreak of COVID-19 pandemic, growth in remittances shows a downward trend from March 2020. Overseas employment stood at 0.57 million during July-May, FY20 which is 11.62 percent lower than the same period of the last year. Considering all these, remittance inflow has been targeted to grow by 5.0 percent in the current fiscal year and on average over 10.0 percent in medium term.

2.26 By the end of March 2020, the Current Account Balance had a deficit of US$ 2.65 billion, which was US$ 4.21 billion at the same period of the previous year. The Current Account deficit has improved as a result of the upswing in foreign remittances and reduction in import in that period. During the period, capital and financial account has remained positive with US$ 1.8 billion net FDI, and hence overall balance was positive. However, foreign exchange reserve stood at US$ 34.2 billion in May 2020 which is adequate to foot import bills of about 7 months. In May 2020, exchange rate against US$ stood at Tk. 84.95

compared to Tk. 84.5 at the end of the last fiscal year. The depreciation of Taka against US dollar is likely to impact both export earnings and remittance inflows positively. Effective demand management by the Bangladesh Bank and positive projections in the external sector will keep exchange rate competitive in the external front.

2.27 High level of public and private investment is essential to achieve accelerated GDP growth, which eventually requires higher imports. For implementation of mega infrastructure projects in the medium term, foreign exchange will be required. As a result, some level of current account deficit will certainly accrue. However, positive capital and financial account e.g. extended ODA and FDI is expected to mitigate the adverse effect. Optimal use of project aid in the pipeline, foreign investment in economic zones and inflow of external credit in the private sector may lead to the accumulation of adequate surplus in financial and capital accounts. The Government has secured good amount of budget support and BOP support from World Bank (WB), Asian Development Bank (ADB), Asian Infrastructure Invest Bank (AIIB), Japan International Cooperative Agency (JICA), International Monetary Fund (IMF) and other development partners. As a result, overall balance will remain favourable with the upward trend of foreign exchange reserve. Considering everything, the Current Account deficit is estimated to be negative at -0.6 percent of GDP in the current fiscal year and over the medium term it will come down to less than 0.8 percent of GDP. Foreign exchange reserve has been targeted to be at US$ 35.0 billion in the current fiscal year which is expected to stretch to US$ 50.0 billion in the medium term.

2.28 Based on the above discussion, medium term forecasts/targets of major macroeconomic indicators are shown in Table 2.4.

Table 2.4: Medium Term Macroeconomic Framework (2020-21 to 2022-23)

Indicators	FY19	FY20	FY20	Projection		
	Actua	Budge	Revise	FY21	FY22	FY23
GDP growth (%)	8.15	8.2	5.2	8.2	8.3	8.4
CPI inflation (%)	5.5	5.5	5.5	5.4	5.3	5.2
Gross Investment (as % of GDP)	31.6	32.8	20.8	33.5	34.5	35.6
Private Investment (as % of GDP)	23.5	24.2	12.7	25.3	26.6	27.7
Public Investment (as % of GDP)	8.0	8.6	8.1	8.1	7.9	7.9
Revenue (as % of GDP)	9.9	13.1	12.4	11.9	12.1	12.2
NBR Revenue	8.6	11.3	10.7	10.4	10.5	10.6
Non-NBR Revenue	0.3	0.5	0.4	0.5	0.5	0.6
NTR	1.0	1.3	1.2	1.0	1.1	1.1
Expenditure (as % of GDP)	15.4	18.1	17.9	17.9	17.1	17.2
of which, ADP	5.8	7.0	6.9	6.5	6.5	6.5
Budget Deficit (as % of GDP)	-5.5	-5.0	-5.5	-6.0	-5.0	-5.0
Domestic Financing	3.9	2.7	3.6	3.5	2.9	2.9
of which, Bank	1.2	1.6	3.0	2.7	2.2	2.3
Foreign Financing	1.3	2.4	2.0	2.5	2.1	2.1
Money Supply (growth in %)	9.9	12.5	13.0	12.5	12.5	12.5
Domestic Credit (growth in %)	12.3	14.5	18.3	17.2	18.5	18.3
Private Sector Credit (gr. in %)	11.3	16.6	14.8	16.7	16.8	16.8
Export (growth in %)	10.5	12.0	-10.0	15.0	10.8	11.0
Import (growth in %)	1.8	10.0	-10.0	10.0	8.0	7.0
Remittances (growth in %)	9.6	13.0	5.0	15.0	10.0	10.0
Current Account Balance (% of GDP)	-2.2	-1.3	-0.6	0.1	0.4	0.8
Foreign Exchange Reserve (B. US$)	32.7	38.4	35.0	40.2	45.0	50.0
Nominal GDP in Crore Taka	25,42,482	28,85,900	28,05,749	31,71,824	35,83,392	40,45,645
Nominal GDP in Billion US$	302.6	347.7	334.0	377.6	426.6	481.6

Source: Finance Division

Chapter Three

Government Spending and Sectoral Priorities

Bangladesh has fulfilled all the criteria for graduation to 'Developing Country' and the process will end by 2024. To sustain the status and to stick to the contemporary growth trend of the economy, government has formulated a medium term strategy (FY21-FY23) for government expenditure. Such strategy has significance for ensuring continuity in resource allocation based on prioritized programmes aligned with Vision 2041, 8th Five Year Plan, sectoral policies, and Sustainable Development Goals (SDGs). While preparing budget government has given priority to the areas of expanding health care services, increasing employment and food security, enhancing economic growth and social protection; reducing infrastructure gaps; mitigating as well as adapting to the impacts of climate change.

3.2 This year considering the responses and initiatives to fight 'Covid-19' pandemic Government has set priority areas of different sectors and allocation of resources. Government's development priorities continue towards providing fiscal stimulus to overcome the losses caused by 'Covid-19'. In the FY2019-20 revised budget, allocation has been increased or additional allocation has been made to the sectors which have been directly involved with the response to 'Covid 19' such as health, agriculture, social welfare, food, disaster management, employment generation etc. Allocation to these sectors on priority basis will be continued in the FY2020-21. In order to recover the economy from the massive slowdowns of economic activities due to general holiday since March, government has announced 19 stimulus package amounting Tk. 1,03,117 crore. Total amount allocated for stimulus package is about 3.7 percent of GDP. These 19 packages have been announced as financial support in the form of low interest loans, food security, social protection, special allowances, incentives etc.

3.3 This chapter offers a detailed account of the public expenditure, recent trends in sectoral spending, and priority areas of different sectors and allocation of resources on prioritized sectors. It also focuses on possible pattern of spending and forecast projections from FY 22 and FY23.

Public Sector Outlays

3.4 The Perspective Plan of 2041 and the 8th Five Year Plan put emphasis on substantial increase in the size of government spending as a percentage of GDP and importance on the increases of basic social and economic services to deliver improved and quality public services across the country. In fact, government spending in Bangladesh as percentage of GDP is relatively small in compare to that of other developing and emerging economies in the world. In 2019, the government expenditure in Bangladesh was 15.1 percent of GDP in compare to 22.3, 27.1 and 30.5 percent respectively for Vietnam, India and Nepal. Moreover, the size of government expenditure in developed countries is much higher than that in Bangladesh (Table 3.1). In this situation, the biggest challenge for the government is to increase public expenditure to facilitate sustained private sector growth and containing inflation by increasing the size of public spending with limited resources.

Table 3.1: Government Expenditure/GDP of Some Countries in 2019 and 2020

Country	Government expenditure/GDP	
	2019	2020
France	55.8	60.9
Denmark	51.1	56.1
Belgium	51.9	58.2
Australia	48.0	41.7
USA	36.1	41.4
Nepal	30.5	31.2
Vietnam	22.3	23.2
India	27.1	26.9
Malaysia	23.8	23.5
Bangladesh	15.1	15.9

Source: IMF, May 2020 and Finance Division, Ministry of Finance

Government Response to Address Covid-19

3.5 Worldwide governments are taking various fiscal incentives to fight the economic slowdown caused by COVID-19. Due to uncertainty caused by corona outbreak, millions of people lost their jobs and supply chain seriously disrupted as many firms stopped their production. On the other hand, health care expenditure is increasing as demand for health care service and personal protection equipment increases. Governments are increasing public expenditure to reduce the uncertainty. Bangladesh government also declared four major initiatives -expanding public expenditure, providing fiscal incentive, expanding social security, and increasing money supply. Government has declared Tk. 1,03,117 crore 19 stimulus packages as economic responses to support the emergency healthcare services, food security, to protect jobs and to recover the loss of the economy. Detail of stimulus packages are shown in Box 1.

3.6 To mitigate the adverse impact of 'global pandemic' from COVID-19, the Government of Bangladesh has taken a Work Plan with four major strategic programs to be implemented in immediate, short-term and long term span. The four major strategies the government has adopted in this regard are as follows:

a. Increased public expenditure with a target to create job. Foreign tour and luxury expenditures will be discouraged. As the public debt to GDP ratio is very low (34 percent), increased public expenditure will not put pressure on macroeconomic stability and will not hamper the overall sustainability of the government debt;
b. Introducing fiscal stimulus package to retain workers in the manufacturing sector, to maintain competitiveness of the enterprises especially in the export-oriented manufacturing sector and to revitalize the economic activities and business environment. The major policy interventions in this regard are to provide several credit facilities at low interest rate from the banking system for the businesses;
c. Expansion of social safety net programs to meet the basic needs of people living below poverty line, day labourers and for those who are engaged in the informal sector. The major interventions are: a) Free food distribution, b) Sale of rice under Open Market Sale (OMS) program with a highly subsidized price (Taka 10 per kg), c) Cash transfer to the targeted vulnerable population, d) expansion of allowance programs (Old Age Allowance and Allowance for Widow/husband Deserted Women) to all eligible person (100 percent) of the 100 most poverty stricken Upazilas of the country, and e) Expedite construction of house for the homeless people etc.

d. Increase money supply to maintain liquidity of the economy so that the shock arising out of the pandemic can be absorbed and day to day businesses can be operated smoothly. Bangladesh Bank has already lowered CRR (Cash Reserve Ratio) and Repo rate to increase money supply and it will continue if needed. However, special attention will be given so that inflation does not increase as a result of increased money supply.

Following are the Stimulus Package declared by the Hon'ble Prime Minister:

1. Salary support to export oriented manufacturing industry workers under which government has already provided BDT 50 billion from budget resource to Bangladesh Bank for creating a fund. The fund will be provided to export-oriented businesses through commercial banks as interest-free loan so that factories can pay salary of their employees. The banks will only charge 2 percent of the loan disbursed amount as their operating commission;
2. Working Capital for affected industries and service sector has been announced under which a total of BDT 300 billion loan will be provided by commercial banks to affected businesses with annual interest rate of 9 percent. Out of this, the businesses will pay interest of 4.5 percent and rest 4.5 percent will be paid by government from its budgetary resources as interest subsidy;
3. Working Capital for Small and Medium Industries (including Cottage Industries) has been announced under which a total of BDT 200 billion loan will be provided by commercial banks to affected businesses with annual interest rate of 9 percent. Out of this, the businesses will pay interest of 4 percent and rest 5

percent will be paid by government from its budgetary resources as interest subsidy;

4. Export Development Fund (EDF) size increased and interest rate reduced. The size of EDF will be increased from 3.5 billion USD to 5.0 billion USD to facilitate the import of raw materials under the Back-to-back Letter of Credit. The existing interest rate of EDF (LIBOR plus 1.5 percent sum total 2.73%) has been reduced to 2 percent (fixed);
5. A new Pre-Shipment Credit Refinance Scheme will be launched by Bangladesh Bank with a total fund size of BDT 50 billion. Interest rate of this credit facility will be 7.0 percent.
6. Special Honorarium: Government doctors, nurses and medical workers who are directly engaged in treating COVID-19 patients will be listed and given special honorarium.
7. Compensating in case of Infection/Death for COVID-19: Doctors, nurses, health workers, administrative officials, members of law enforcing agencies, army personnel and other staff of the republic who are directly engaged and if any of them become infected or die in discharging their duties, he/she will be given compensation.
8. Free Distribution of Food: To distribute food, free of cost, among low income people, 5 lakh ton of rice and 1 lakh ton of wheat allocated which amount 2,503 crore taka.
9. Sale of Rice at 10 Taka per Kg: For the low income people in the urban area, OMS for rice started at 10 taka per kg. In the next three months, 74,000 ton of rice will be distributed and government will give 251 crore taka as subsidy.

10. Cash Transfer to the targeted people: Taka 80 crore has already been allocated to distribute to the low income people thru the District and Upazila administration. Low income people like day labourers, hawker, rickshaw/ van puller, transport workers, hotel workers, those lost their income due to lock down. Their list is being prepared and money will be transferred to their bank account from the Prime Minister's Relief Fund.
11. Expansion of Allowance Programs: Programs under social protection like Old Age Allowance and Allowance for Widow/husband Deserted Women will be expanded to cover all eligible person (100 percent) of the 100 most poverty stricken Upazilas of the country. For this 815 crore taka will be allocated.
12. Construction of houses for the homeless people: On the birth centenary of the Father of the Nation, construction of houses for homeless people will be expedited in current fiscal, 630 crore taka allocated and next fiscal 1500 core taka will be allocated.
13. Boro Rice/Paddy Procurement: To ensure fair price to the farmers, Food Ministry will increase procurement by two lac ton more.
14. Farm Mechanization: Taka 100 crore has been allocated to Agriculture Ministry for mechanization of harvesting and another 100 crore taka will be allocated.
15. Agriculture Subsidy: Taka 150 crore will be allocated for distribution of seed and sapling to the affected farmers. Besides, 9000 crore taka will be allocated as fertilizer subsidy in the next year and subsidy for irrigation will be continued.

16. Agriculture Refinance Scheme: Bangladesh Bank will establish a new refinance scheme to supply working capital in agriculture sector. Interest rate for the farmers will be 4%. Small and medium farmers, flower and fruit growers, fishery, dairy and poultry farm owners at rural areas will be the beneficiaries of this fund.
17. Refinance Scheme for Professional Farmers and Small Traders: Bangladesh Bank will provide fund to micro credit organizations for providing loan to small farmers, traders at low interest rate for their business recovery.
18. Employment Creation through State Owned Specialized Banks/ Entity: Government will provide Taka 500 Crore as injection of capital to each of the specialized banks such as Employment Bank, Expatriate Welfare Bank, Rural Savings Bank and one organization such as Palli Karma Sahayak foundation (PKSF). The fund will be provided to the youth entrepreneurs and returnees from overseas for expansion of self- employment.
19. Subsidy for Commercial Bank's Suspended Interest of April-May, 2020: The government will provide 2000 crore Taka as subsidy to commercial banks as they suspended interest for those two month. The remaining portion will be paid by the borrowers proportionately in instalments.

Box 3.1: Stimulus package to address COVID-19 and Economic Recovery

Sl. No	Name of the Package	crore Tk)
1.	Special Fund for Salary support to export oriented manufacturing industry workers	5,000
2.	Working Capital loans provided to affected industries and service sector	30,000
3.	Working Capital loans provided to SMEs, cottage industries	20,000
4.	Expansion of facility provided through Export Development Fund (EDF) by Bangladesh Bank	12,750
5.	Pre-Shipment Credit Refinance Scheme	5,000
6.	Special Honorarium for doctors, nurses, medical workers	100
7.	Compensation in case infection/death	750
8.	Free Food Distribution	2,503
9.	OMS of rice at 10 taka/kg	251
10.	Cash Transfer to targeted poor people	1,258
11.	Expansion of Cash Allowance Programs	815
12.	Construction of home for homeless people	2,130
13.	Additional procurement of paddy/rice (2.0 lac ton)	860
14.	Support for farm mechanization	200
15.	Subsidy for agriculture	9,500
16.	Agriculture Refinance Scheme	5,000
17.	Refinance scheme for professional farmer and small traders	3,000
18.	Employment creation through four State owned entities	2,000
19.	Subsidy for commercial bank's suspended interest of Apri-May, 2020	2,000
	Total (In Crore Taka)	**103,117**
	Total (In Crore Taka)	**12,131**
	As % of GDP	**3.7**

3.7 In south and south-east Asia, Indonesia has the largest incentive package of 4.4 percent of GDP, while, in south Asia, Bangladesh is in the top having an incentive package of 3.7 per cent.

Table 3.1A: Stimulus Program to Address COVID-19

Country	Government incentives /GDP
Sri Lanka	0.2
India	1.1
Afghanistan	2.0
China	2.5
Mal dives	2.8
Malaysia	2.9
Pakistan	3.1
Vietnam	3.4
Bangladesh	3.7
Indonesia	4.4

Source: WEO, IMF, April 2018 and Finance Division, Ministry of Finance

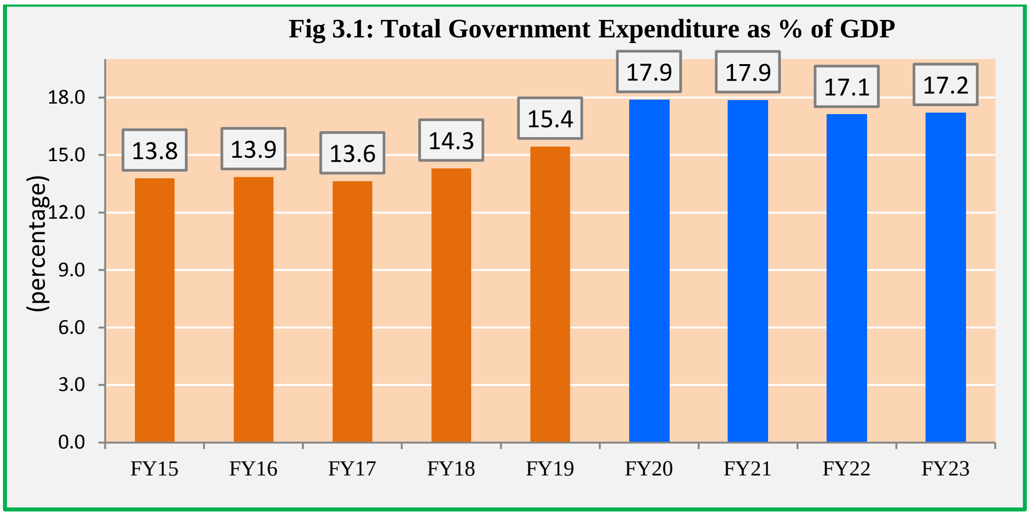
Trends in Total Government Spending and Medium Term Outlook

3.8 In FY15, government expenditure was 13.8 percent of GDP (Table 3.2). With successful implementation of reforms in Public Financial Mangement, the government expenditure increased to 15.4 percent of GDP in FY19. In the medium term, government intends to pursue a moderate consolidation path to keep budget deficit within sustainable limit. Due to outbreak of corona virus, government changes its spending priority in order to expand health care and to provide stimulus for achieving the desired economic recovery. Total expenditure target has been revised downward to 17.9 percent from 18.1 percent of GDP in FY20. In the medium-term, government expenditure target has been projected to reach 17.2 per cent of GDP in FY23 (Table 3.2).

Table 3.2: Total Government Expenditure as Percent of GDP

FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
					Revised	Budget	Projection	
13.8	13.9	13.6	14.3	15.4	17.9	17.9	17.1	17.2

Source: Finance Division, Ministry of Finance.



The growth rate of nominal government expenditure was fluctuating between 10 to 20 percent over FY15 to FY19. Average growth rate of nominal government expenditure over FY15 to FY19 was 14.5 percent. As per the revised budget of FY20, nominal growth of government expenditure is 28.1 percent, which is the highest during the FY15-FY20 period and beyond. Medium term government expenditure targets have been set by taking long-term development objectives and ground reality into consideration.

Table 3.3: Growth Rate of Nominal Government Expenditure

FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
					Revised	Budget	Projections	
10.5	14.9	11.9	19.8	21.6	28.1	13.2	7.56	13.8

Source: Finance Division, Ministry of Finance

Current and Capital Expenditure

3.9 According to budgetary classification, allocation for public expenditure is broadly divided into two major categories: current expenditure and capital expenditure. Current expenditure consists of wages and salaries paid to the government employees, purchase of goods and services, subsidy and transfer payments and interest paid for domestic and foreign loans. Expenditures on account of 'food account operation' also includes into current expenditure category. On the other hand, Capital expenditure comprises addition to and creation of productive assets. The Annual Development Programme (ADP) and Non-ADP capital expenditure are the two major categories of capital formation through government expenditures. Moreover, Capital expenditure includes loans and advances, development programme financed from revenue budget, Non-ADP project and non-ADP FFW and transfer.

3.10 In the context of Bangladesh, growth of current expenditure is crucial for improving the quality of public service delivery and to meet the demand for maintaining the existing infrastructure network. On the other hand, growth of capital expenditure is desirable to meet the growing demand for public investment. In this situation, it is critical for Bangladesh, to arrive at an optimum mix of current and capital expenditures through budgetary processes that will help stimulate economic growth and push the economy on a higher growth path. In FY 19, current expenditures consist of 56.7 per cent of the total budget, which is expected to reduce to around 54.5 per cent by FY23 (Table 3.4).

Table 3.4: Composition of Total Public Expenditure (as % of Budget)

Items	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
						Revised	Budget	Projection	
Current Expenditure	58.0	59.9	61.6	57.3	56.7	54.9	54.9	54.4	54.5
Capital Expenditure	42.0	40.1	38.4	42.7	43.3	45.06	45.1	45.6	45.4

Source: Finance Division, Ministry of Finance

3.11 Table 3.4 shows that capital spending as percentage of total expenditure was on declining trends during FY15 to FY17 but started showing increasing trend in FY18 to FY19. Whereas, in FY15, ADP was only 4.1 percent of GDP; in FY19 it was 5.8 percent of GDP. The revised estimate for ADP in FY20 stands at 6.9 percent of GDP (Table 3.5).

Table 3.5: Composition of Total Public Expenditure (as % of GDP)

Items	FY14	FY15	FY16	FY17	FY18	FY19	FY20
							Revised
Total Expenditure	14.1	13.8	13.9	13.6	14.3	15.4	17.9
Current Expenditure	8.2	7.9	8.3	8.2	7.9	8.6	9.8
Pay and Allowances	2.0	1.9	2.3	2.5	2.1	2.1	2.2
Goods and Services	1.1	1.1	1.1	1.0	1.0	1.1	1.2
Interest Payments	2.1	2.0	1.9	1.8	1.9	1.9	2.1
Domestic	2.0	1.9	1.8	1.7	1.7	1.8	1.9
Foreign	0.1	0.1	0.1	0.1	0.2	0.1	0.2
Subsidies and Transfers	3.1	2.8	3.1	2.9	2.9	3.4	4.3
Block Allocations and Structural Adjustment	0.3	0.2	0.1	0.2	0.0	0.0	0.4
Food Accounts Balance	0.0	0.1	0.0	0.1	0.3	0.2	0.1
Annual Development Programme	4.1	4.3	4.7	4.3	5.3	5.8	6.9
Non ADP Capital and Net Lending	1.4	1.3	0.8	0.8	1.8	0.9	1.2

Source: Finance Division, Ministry of Finance

Current Expenditure Trends and Medium Term Outlook

3.12 Current expenditure has been hovering around 8 percent of GDP during FY15 to FY19. For FY23, current expenditure is projected to be 9.3 percent of GDP (Table 3.6).

Table 3.6: Trends in Current Expenditure and Mid-Term Outlook (% of GDP)

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
	Actual					Revised	Budget	Projection	
Current Expenditure	7.9	8.3	8.2	7.9	8.6	9.8	9.8	9.2	9.3

Source: Finance Division, Ministry of Finance

Pay and Aallowances

3.13 Expenditure on pay and allowances was 14.0 and 13.8 per cent of total budget respectively in FY14 and FY15. However, a little upswing was noticed in FY16 (16.7) and continued until FY 17 (18.2) due to the introduction of a new pay-scale by the government (Table 3.7). It is reduced to 13.6 percent of total expenditure in FY 18-FY19. Likewise, it has further been reduced to 12.1 percent in revised budget of FY20. It is expected to keep the trend at the same level in the medium term (Table 3.7). In FY22, expenditure on pay and allowances is expected to be 12.2 percent of total budget which will stand at 12.5 percent in FY23.

Table 3.7: Expenditure on Pay and Allowances (Billion Taka)

Fiscal Year	FY 14	FY 15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
			Actual				Revised	Budget	Projections	
Pay and allowances	263.9	288.2	400.5	490.4	478.5	534.0	607.5	650.0	745.3	869.8
% of total Expenditure	14.0	13.8	16.7	18.2	14.8	13.6	12.2	11.6	12.2	12.5

Source: Finance Division, Ministry of Finance (Figures in the bracket indicate percentage of total expenditure)

Goods and Services

3.14 The expenditure on goods and services as a percentage of total expenditure remained below 8.0 percent during FY15 – FY19 (Table 3.8). To keep this outlay within a comfortable range through budgetary process, government has taken several measures which include enhanced transparency of transfer through e-GP and improved public procurement management. For the FY20 it has been estimated at 6.4 percent. In the medium term, the allocation on these heads has been estimated to follow a steady trend. In FY21 the amount is estimated at 6.2 percent of total expenditure, while in FY23 this will be 6.7 percent.

Table 3.8: Composition of the Spending on Goods and Services (Billion Taka)

	FY 15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
			Actual			Revised	Budget	Projection	
Goods and Services	166.3	182.1	205.5	234.8	285.7	322.1	350.0	401.3	465.2
% of Tot. Exp.	8.0	7.6	7.6	7.3	7.3	6.5	6.1	6.6	6.7

Source: Finance Division, Ministry of Finance (Figures in bracket indicate percentage of total expenditure)

Subsidy and Transfer

3.15 Subsidy and Transfer as a whole, plays very crucial role to ensure pro-poor and inclusive growth. Subsidies/incentives are important for influencing the level of production and prices of some specific areas of the economy connected to providing overall positive external effects to the rest of the economy. On the other hand, transfer payments are directly payable to the households or non-profit institutions serving households. Subsidies are given on food account, fertilizer, rural electrification and some other sectors. Besides, cash assistance in the form of net loans and advances is provided to Bangladesh Petroleum Corporation (BPC) and Bangladesh Jute Mills Corporation (BJMC). In FY18 total cash loans sharply decreased compared to that of previous years due to low oil prices (Table 3.9A). As percentage of total expenditure, cash loan decreased from 4.6 percent in FY15 to 0.8 percent in FY18. From FY19 government is not providing cash loan to BPC. In the medium term, through periodic price adjustments, government's plan is to contain cash loan to BPC at a level that does not pose any threat to macroeconomic stability. In FY19 total subsidy was 237.0 billion taka which is 6.1 percent of total government expenditure. For the fiscal year 2020 revised allocation for total cash loan and subsidy is 260.32 billion taka which is 5.2 percent of total government expenditure.

Table 3.9A: Cash Loan and Subsidy (Billion Taka)

Items	FY 13	FY 14	FY15	FY16	FY17	FY18	FY19	FY20
	Actual						Revised	Budget
PDB	44.9	61.0	89.8	27.9	39.9	35.0	95.00	92.00
BPC	135.6	24.8	6.0	0.0	0.0	0.0	-	-
BJMC & others (loan)	2.6	4.1	0.0	1.1	11.8	0.0	50.00	60.00
Total Cash Loan	183.1 (10.5)	89.8 (4.8)	95.8 (4.6)	29.1 (1.2)	51.7 (1.6)	35.5 (0.8)	50.00 (1.3)	60.00 (1.2)
Food	8.4	10.6	12.4	9.0	26.4	14.2	46.00	53.32
Others	0.2	1.6	1.7	1.8	3.00	36.1	96.00	55.00
Total Subsidy	8.6 (0.5)	12.1 (0.6)	14.1 (0.7)	10.9 (0.5)	29.4 (0.9)	50.2 (1.1)	237.00 (6.1)	200.32 (3.9)
Total Cash Loan and Subsidy	191.7 (11.0)	102.0 (5.4)	109.9 (5.3)	39.9 (1.7)	81.17 (2.5)	85.71 (1.9)	287.00	260.32
% of GDP	1.6	0.8	0.7	0.2	0.4	0.4	0.7	0.9

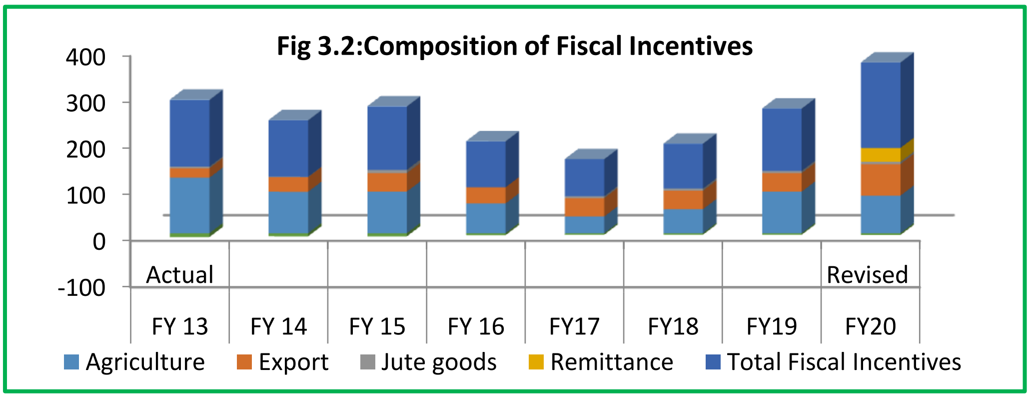
(Fingers in bracket indicate percentage of total expenditure)
Source: Finance Division, Ministry of Finance

3.16 Government usually provides fiscal incentives for agriculture, export and jute goods sectors for the shake of economic welfare. Government puts especial emphasis on these tools to reduce corona impacts on economy and to provide stimulus for economic growth. Agriculture and export being driving force of the economy are getting special attention every year. Accordingly, there is an increasing trend in agricultural incentives since FY17. The fiscal incentive in agriculture increased from TK. 36.1 billion in FY17 to TK.90.0 billion in FY19. In the revised budget of FY20, agricultural incentives have been estimated at Taka 81.3 billion. Government plans more price adjustments to encourage peasants' in using more non-urea fertilizers (which are required less in quantum), and thus reduce agriculture incentives in the medium term. The fiscal incentive for export were around tk.40.00 billion in every year since FY17 to FY19. To encourage remittance through banking channel, incentives for expatriate workers has been introduced in FY20 which is 30.00 billion. Considering the 'Covid-19' pandemic the export incentive has been estimated to be TK. 68.25 billion in FY20. Total incentives as a percentage of total government expenditure decreased from 6.6 percent in FY15 to 3.0 percent in FY19. Revised total incentives in FY20 is estimated to Tk. 184.6 billion which is 3.6 percent of total government expenditure and 0.65 percent of GDP.

Table 3.9B: Fiscal Incentives (Billion Taka)

Items	FY 13	FY 14	FY 15	FY 16	FY17	FY18	FY19	FY20
		Actual						Revised
Agriculture	120.0	89.7	90.0	64.3	36.1	52.0	90.0	81.3
Export	20.5	31.4	40.0	35.01	40.0	40.00	40.0	68.25
Jute goods	3.5	0.95	7.0	0.00	3.95	4.81	4.81	5.00
Remittance	-	-	-	-	-	-	-	30.00
Total Fiscal Incentives	144.0 (8.2)	122.0 (6.5)	137.0 (6.6)	99.3 (4.1)	80.1 (3.0)	96.8 (3.0)	134.8 (3.0)	184.6 (3.6)
% of GDP	1.2	0.9	0.9	0.57	0.41	0.43	0.60	0.65

(Fingers in bracket indicate percentage of total expenditure)
Source: Finance Division, Ministry of Finance



3.17 Bangladesh is committed towards inclusive growth which is evident from its emphasis on allocating resources to welfare and social security programmes. Apart from giving price relief through subsidy support on essential commodities, budget allocations are made for transfer payments through various safety net programmes as an effective means of empowering the poor. In the original budget of FY 2019-20, BDT 5,232 billion (14.2 percent of total budget) was allocated for ranges of safety net programmes, out of which 14 programmes were direct cash transfer programmes amount BDT 352.4 billion (1.22 percent of GDP and 6.74 percent of national budget). However, government has significantly scaled up the cash transfer programmes to protect the poor and vulnerable form COVID-19 economic fallout. In the revised budget of 2019-20, the allocation of cash transfer programmes has risen sharply to BDT 372 billion (1.33 percent of GDP and 7.42 percent of national budget). It includes a new cash transfer program covering 5 million poor households who suddenly lost their source of earning. The resource flow through cash transfer will continue in FY 2020-21 where allocation of the cash transfer programmes has been set at BDT BDT 383 billion (1.21 percent of GDP and 6.74 percent of national budget)

Interest Payment

3.18 Interest payment constitutes a big part of total government expenditure. Therefore, government always lays importance on mobilizing concessionary loan. Interest payments, as percentage of total expenditure showed an increasing trend until FY15. After that, the trend started to decline from 2015-16 to 2018-19 (Table 3.11). However, the revised estimate of interest payment as percentage of total expenditure in FY20 is expected to be lower than that of last year payment. In the medium term, government continues to explore sources of concessionary funding to manage deficit financing and avoid macro imbalances.

Table 3.10: Interest Payments on Government borrowing (% of budget)

Items	FY14	FY15	FY16	FY17	FY18	FY19	FY20
	Actual						Revised
Domestic Interest	14.97	14.09	12.48	12.45	11.85	11.75	10.53
Foreign Interest	0.85	0.74	0.67	0.69	1.12	0.88	0.97
Total Interest	14.92	14.83	13.77	13.17	12.97	12.63	11.50

Source: Finance Division, Ministry of Finance

Trends in Capital Expenditure and Mid-term Outlook

3.19 The main sources of capital expenditure come from the public investment made under Annual Development Program (ADP) and Non-ADP capital expenditure. Capital expenditure was 5.8 percent of GDP in FY15 and it went down to 4.6 percent in FY17. Again, it raised to 6.7 percent in FY19 which has been estimated to be 10.81 for FY20. In the medium term, capital expenditure has been targeted to be raised to 7.8 percent of GDP by FY23 (Table 3.12).

Table 3.11: Trends in Capital Expenditure and Mid-term Outlook (% of GDP)

FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Actual					Revised	Budget	Projection	
5.8	5.6	4.6	5.5	6.7	8.1	8.1	7.8	7.8

Source: Finance Division, Ministry of Finance, Bangladesh

Annual Development Programme (ADP)

3.20 Annual Development Program (ADP) expenditure is the major sources of public sector capital formulation/accumulation. Actual amount of ADP implementation increased from TK. 551.3 billion in FY14 to TK. 1472.9 billion in FY19. The ADP implementation as a percentage of revised budget allocation was varying between 76.0 per cent and 91.9 percent during FY14 to FY19. The actual implementation rate was 88.2 percent in FY19. Amidst the gradual increase of ADP allocation, underperformance of project aid has remained a major challenge for the government. For this, government has put much importance on improvement of ADP performance by introducing ibas++ digital platform in all ministries and by bringing drastic changes in releasing funds for development projects. Project Director has been empowered to three installments of GoB fund. All these initiatives were playing important role in ensuring maximum use of project aid and minimize wastages in project implementation. However, ADP implementation in FY 2019-20 might be much lower than that of other usual years due to outbreak of 'COVID 19' in 2020. One remarkable note is that government has given emphasis on projects which are related with COVID 19' response. in 2019-20 and 2020-21. In medium term the size of ADP will be aligned with that of 8th Five Year Plan.

Table 3.12: ADP Allocation and Implementation

Allocation(In billion Taka)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Budget	658.7	803.1	970.0	1107.0	1533.8	1730.0	2027.2
Revised Budget	600.0	750.0	910.0	1107.0	1483.8	1670.0	1929.2
Actual Implementation	551.3	649.2	808.6	841.0	1195.4	1472.9	907.04*
(as % of GDP)	(4.1)	(4.3)	(4.7)	(4.3)	(5.3)	(5.8)	-(6.9)
Implementation against Revised Budget (%)	91.6	86.6	88.9	76.0	80.6	88.2	47*

Source: Finance Division, Ministry of Finance. *implementation upto March2020

Spending Priorities by Sectors for FY21-FY23

3.21 The government has set immediate, medium term as well as long term strategies to recover the damage caused by corona outbreak and bring economic growth on track. The honorable prime minister has declared stimulus packages on four major areas-increasing public expenditure, providing fiscal incentive, expanding social safety net and increasing money supply. Therefore, the priority in the medium term spending framework would be providing fiscal incentives to improve health care services, stimulate economic growth, ensure food security and social safety net, improve infrastructure promote agricultural and rural development and generate employment. Moreover, mitigation and adaptation associated with climate related adversities will also remain in the government priority list. A highlight of spending programs and program expenditures of major sectors that influenced the budget allocations for FY20-21 and 2022-23 is presented below. Besides, detailed program expenditure is shown in Table-13.14.

Response to 'COVID-19' and Strengthen Health Care[1]

3.22 The government has put the highest priority in allocating resource to health sector for treatment of Corona Patients. The government has formulated 'National Preparedness and Response Plan for COVID 19. The Government allocated additional 300 crore Taka for establishing specialize hospital dedicated for Corona virus treatment including setting laboratory for testing Corona, procuring equipment/PPE for Corona virus treatment, and expanded health service, open isolation unit in hospitals in Dhaka and outside Dhaka. Specialized isolation unit has already been arranged in every hospitals and health centres in every Upazila and Zilla. 14 Hospitals dedicated to treatment of 'Covid 19' have been established at central level in Dhaka and dedicated hospital has also been set at district level. Government has recruited 2000 doctors and 6000 nurses on an emergency basis, outsourced medical technologists lab attendant. Moreover, government has introduced

[1] Covers the activities of the Health Services Division and the Medical Education and Family Welfare Division.

special honorarium equal to basic pay of two months for the doctors, nurses and other healthcare workers who are providing critical healthcare services to the COVD19 patients. Compensation will be given to frontline public servants who might get infected or die. For this compensation and honorarium total Tk. 850 crore has been allocated. Accordingly, a total of Taka 29,247 crore (5.2 percent of the budget) has been allocated to this sector for 2020-21.

Besides, the government has started implementing of two projects to address COVID-19. 'COVID-19 Emergency Response and Pandemic Preparedness' project is being implemented with the support from World Bank and 'COVID-19 Response Emergency Assistance' is being implemented with the support from ADB.

3.23 Government has increased budget for sector-wide programs and projects in every year. Different projects/programs on infrastructure development of health sector has been implemented with priority. Among those are Construction of Medical College in Kustia, Shirajgonj, Manikgonj, Jamalpur, Potuakhali, Tangail and Shunamgonj; Improvement of E-Health; Expansion of Shastho Shurokhkha Kormoshuchi (SSK); Establishment of secondary and Tartiary level Health infrastrucure at Zilla, Divisional and National level. Besides, to strengthen the treatment system of Cardiovascular, Cancer and Kidney diseases, different units will be established such as-'Establishing full-fledged Cancer treatment unit with 100 bed in government medical college hospital in Divisional level', 'Establishing Cardiovascular unit with 150 beds in National Heart Foundation', Establishing Nefrology unit and Kidney dialysis Unit in every hospital at Zilla level'.

3.24 Alongside, health services for 'COVID 19' through mobile phone has been strengthened. To control COVID 19 infection into community government has formulated screening app. and a National 'COVID 19'

Digital Serveilance System having artificial intelligence. Besides increasing manpower in health sector, increasing number of beds, making information system modern and IT based, introducing electronic health service program, servicing through call center named 'Shastho Batayon', expansion of automation in health centers, 24 hours online service etc. are being implemented.

3.25 The government is committed to taking health services to the doorsteps of the people. The government is working to establish a health conscious, healthy, energetic, and active population by ensuring quality health services, nutrition, affordable and quality family planning. For example, the government is currently providing basic health care to the rural people through 13,812 community clinics, where every day 40 people get services from each clinic, 80 percent of which are women and children. During current fiscal year, another 250 community clinics will be established in the country. Telemedicine services are available in 65-upazial and 27-dristrict level hospitals. Health call centre "Health Window" has been working. For all these initiatives, people are getting better health services. Maternal mortality rate, infant mortality rate, child (under-5 years) mortality rate, malnutrition, stunting rate, low-weight rate, etc. are constantly being reduced, and the average life expectancy rate is increasing. In the medium term, the government will give the highest priority to autistic and other people with special needs, and will undertake programs to ensure health care and other social benefits for them. These include establishment of autism and neuro-development cells in government medical hospitals, setting up of child development centers at 16 medical colleges in the country, establishment of Institute of Pediatric Neuro Disorder, etc. Total spending for the health sector is projected to grow to Taka 336.9 billion in FY23.

3.26 The government has taken steps to increase the number of medical universities, medical colleges and hospitals as part of the government's plan to expand and improve medical education. In the medium term, the government will set up medical universities in all the divisions. In the last ten years, the number of medical colleges and number of seats of MBBS courses increased significantly. The number of medical colleges in the country increased from 46 in 2006 to 111 in 2019, similarly, the number of seats of MBBS course increased from 2,050 in 2006 to 10,300 in 2018. Again, to reduce maternal mortality, 3,000 posts for midwives have been created, and 5,100 senior staff nurses were appointed. Three more nursing colleges will be established in FY 2019-20 to expand nursing education. In the medium term, the government also has a priority to promote innovation and expansion of technology-based medical education.

Agriculture[2]

3.27 To address the crisis from coronavirus, agriculture is also one of the top priority sectors and the driving force of national economy of Bangladesh. The sector plays very important role for economic progress of rural people by enhancing productivity and employment opportunity. Government has taken various initiatives in this sector for ensuring food security, income generation and employment opportunity to improve the living standard of the rural poor. Total spending for this sector is projected to grow to taka 351.57 billion in FY23.

[2] Covers the activities of the Ministry of Agriculture, Ministry of Fisheries and Livestock , Ministry of Environment and Forest, Ministry of Land and Ministry of Water Resources

3.28 Contributing more than 13 percent to the GDP, Agriculture is playing a pivotal role in the economy of Bangladesh. Agriculture is the main source of generating income and employment for rural people particularly for the poor. To achieve Sustainable Development Goals, targets of Vision-2041, 8th Five Year Plan and National Agricultural Policy, 2018, government has been implementing various programs/projects by innovating and adopting appropriate technology and modern marketing techniques for poverty alleviation and food security. In medium term, the Ministry of Agriculture has planned to implement several development activities towards increasing environment-friendly and cost-effective agricultural technologies, enhancing mechanization of agriculture, increasing utilization of renewable energy and agricultural land, ensuring women empowerment, introducing ICT in agriculture and familiarizing Genetically Modified Technology etc.. To enhance production and productivity government has been providing subsidies on modern agricultural equipment, 20 percent cash incentive for the export of agricultural products, 20 percent rebate on electricity used for irrigation and providing agricultural loans at a minimum interest rate to the farmers. Moreover, government has declared number of incentives packages to this sector to mitigate corona impact.

3.29 The vision of Fisheries and Livestock Ministry is to ensure secured, sufficient and healthy animal protein for all' in the country. To meet the demand of protein and nutrition in the country, the ministry has been implementing various development projects/programs in light with the targets set by the Five Year Plan and Vision-2041. This sector has been able to supply 62.58-gram fish per day per person against the demand for 60-gram fish per person per day. The continuation of this process will lead to further expansion of the fish production during 2020-21 to 2022-23. In the medium-term, priority will be given to enhancement of productivity and breed development of the livestock etc.

3.30 In light of Sustainable Developments Goals (SDG), 8th Five Year Plan, Vision 2041 and Bangladesh Delta Plan 2100, Ministry of Water Resources is fulfilling the responsibility of ensuring sustainable water supply in the country. Ministry of Water Resources has given highest importance on excavation and re-excavation of rivers and canals, construction and maintenance of the infrastructures. priority will be put on Haor-Baor development as well. As part of 'Bangladesh Delta Plan-2100, initiatives have been undertaken to reconstruct small rivers, canals and water bodies in 64 districts. Steps have already been taken to establish Climate Smart Integrated Coastal Resource Database (CSICRD).

3.31 The government has given highest importance on addressing climate change towards maintaining sustainable environment and optimum forest coverage for the present and future generations. An updated version of Climate Fiscal Framework (CFF) will be published in line with Delta Plan-2100, Sustainable Development In the medium term, initiatives are undertaken to implement projects/programs for adaptation to and mitigation of climate change, reduction of environmental pollution, improvement of biodiversity and enhancement of mangrove forest in the coastal areas. To protect and preserve forestry and wildlife, a target has been set to create mangrove forestry in 18000 hectors of land during 2020-21 to 2022-23.

Social Security and Welfare[3]

3.32 The government is giving high priority to social security and welfare sector. Because, the ministry of social welfare is playing leading role in distributing various social transfers and social security services, which is assumed to be the effective tool of ensuring inclusive growth. Moreover, the government has used targeted and efficiently monitored social safety net program as one of the priority activities to eradicate poverty and extreme poverty. Government has achieved a tremendous success of reducing poverty and extreme poverty rate from 40 percent and 25.1 percent in 2005-06 to 20.5 percent and 10.5 percent in 2018-19 respectively. The government has set at a target to reduce the poverty rate to 12.3 percent and the extreme poverty rate to 4.5 percent by 2023-24. However, sudden outbreak of pandemic creates a serious hindrance to it. The volatility of income due to corona disaster might push vulnerable people below the poverty line again. At present, as much as 25 million people are getting financial assistance under various social safety net programs. The government has increased the allocation as well as coverage of social safety net benefit to overcome corona disaster e.g 5 lac new beneficiaries for old allowance will be added for which allocation will be increased to 300 crore Taka. Moreover, 3.5 lac new beneficiaries for widow and distressed women for which additional 210 crore Taka will be allocated. Additional 2,20,000 disable people will be provided allowance.

3.33 To ensure that the social security program remains effective and to ensure its successful implementation, the National Social Security Strategy 2018 has been formulated. In order to increase the number of

[3] Covers the activities of the Ministry of Social Welfare, Ministry of Women and Children Affairs, Ministry of Liberation War Affairs, Ministry of Food, and Ministry of Disaster Management and Relief.

allowances and beneficiaries under the Social Security Program, as well as to ensure transparency and accountability, direct payments are being made to the beneficiaries through government-to-person (G2P) payment system. The G2P system has been rolled out to 10 cash transfer programs. In order to avoid duplication in beneficiary selections, digital database is being created using national ID. Different types of services are being provided for the empowerment and economic development of the backward, deprived, helpless, autistic and disabled people of the country.

3.34 The Ministry of Social Welfare has set a priority for continuation of providing social security benefits in areas of old age allowance, widow and distressed women allowance, disability allowance, and stipend for disabled students. It will also provide allocations for vedes and other marginal groups, trans-genders, tea-garden workers, and patients suffering from cancer, kidney disease, lever cirrhosis, paralysis due to stroke, and congenital heart disease. The Ministry has started social security payments to beneficiaries using the G2P system. It has made provisions for rehabilitation of autistic, disabled and acid burn people, created autism resource centers, and established 11 special schools for children with autism.

3.35 To incorporate women into the mainstream of the development process, the Ministry of Women and Children Affairs has set a priority to continue the food assistance programme (VGD) for distressed mothers, provision of allowances for pregnant mothers, provision of allowances for lactating and working mothers, and provision of microcredit to ensure women empowerment. To ensure children's welfare the Ministry has established child day care centers to assist working women.

3.36 In order to improve the socio-economic conditions of freedom fighters, the Ministry of Liberation War Affairs ensures the welfare of the freedom fighters. The Ministry provides honorarium, ration and medical allowances to freedom fighters and dependents of martyred freedom fighters. Currently 2 lakh freedom fighters are getting honorarium of TK. 12000 per month. The Ministry has a priority to continue with these social security programs.

3.37 Poverty alleviation programs are being implemented by imparting training to farmers, facilitating agricultural loan, and supplying irrigation and other modern agricultural machinery. To ensure employment during the lean season across the country, the government annually spends an average of Taka 16.5 billion to create 8 million seasonal jobs for a period of 80 days.

3.38 To reduce the risk of poor and disadvantages people due to natural, environmental and human induced hazards, the first priority of the Ministry of Disaster Management and Relief is the expansion of social safety net programs. In the medium term, the Ministry will continue its existing programs like EGPP, VGF, Kabita, TR, GR, etc. Other priorities will include- building multipurpose cyclone shelters, disaster resilient building and flood shelters, construction of houses for the ultra-poor, and construction of Mujib Killas and bridges/culverts to combat disasters. During this crisis from COVID-19, the ministry is implementing cash transfer to targeted workers who lost their livelihood.

Employment Generation

3.39 Bangladesh has been enjoying the benefit of demographic dividend as large number of working age population is adding up every year to the total population. Due to adoption of modern technology in different sector particularly in industry and agriculture, and recent outbreak of coronavirus and the resultant countrywide holiday, closure of factories and businesses, about 1.4 million people lost their jobs. To protect job in some sectors and recover the temporary losses of jobs government has taken initiatives to provide financial support in the form of stimulus packages.

3.40 In order to protect the job of workers and employees of export oriented industries including ready-made garments, Tk. 5000 crore has been allocted as loan for paying the salaries and allowances to the workers. Government will provide financial support as interest subsidy to affected industries so that the momentum of economic activities is continued and side by side, workers are not laid off. Moreover, low-interest loans of Tk. 30,000 to affected industries and service sector organisations as working capital and Tk. 20,000 crore to SMEs as working capital will also contribute in job creation, promote businesses and entrepreneurship.

3.41 Further, to ensure the employment situation in rural areas particularly, in agriculture sector government has expanded the financial support with provisioning of low interest loan. This loan will benefit the poor village farmers, expatriate workers and trained and unemployed youths for their engagement in business and self-employment activities in agriculture, agriculture related production and service, SMEs in rural areas. Government will provide Tk. 2000 crore to four instiotutions namely Employment Bank, Expatriate Welfare Bank, Village Savings Bank and Palli Karma Shahayok Foundation (PKSF) for expanding their credit program for employment generation.

3.42 In addition to these, government has been implementing skills development programs to enhance the skilling capacity and enhance the productivity of labour and increase wages. One of such projects is ‘Skills for Employment Investment Program' of Finance Division in which 8,41,680 youth will be trained to enhance their skills with a view to get job in home and abroad. Under this project training has already been given to 4 lac 28 thousand people and 2 lac 48 thousand have been placed in job. 'National Service programme' is being implemented by Department of Youth Development (DYD) under which training and temporary employment were generated for 2,27,402. National Skills Development Authority (NSDA) has been made operational to undertake various skills development activities of the government in a coordinated manner. National Human Resource Development Fund has been established to ensure financing for skill program. The government is implementing reform programs for job development with the support from World Bank. The program has initiated reforms in three areas: (1) enhance investment for faster job creation, (2) protecting workers and (3) increase access to jobs for vulnerable population.

3.43. The government has been putting efforts to diversify and explore new overseas destination for employment, ensure overall welfare and equality in opportunities for expatriate Bangladeshis. Skill development initiatives contributed to increase overseas employment and remittance earnings of expatriate workers. Currently, over 1.2 crore migrant workers are working in 174 countries across the world. Over 66,33000 persons went abroad in professional, skilled, semi-skilled and unskilled categories in the last 10 years which is about 60% of the total overseas employment. Due to pandemic and lockdown in many countries, overseas employment has been affected severely. The government is trying in diplomatic arena to protect the job of the expatriates.

3.44 Government initiatives such as digitisation of migration process and implementation of different measures for expatriates' welfare, introduction of smart cards, development of visa checking (Saudi

Arabia, Singapore, Bahrain, Qatar, Malaysia and Oman) system through mobile apps, reforms in migration acts and laws have been playing significant role in overseas employment. Further, an incentive at the rate of two (2) percent on expatriate remittances in the budget of the current fiscal year has been introduced to ease the burden of increased expenses in sending remittance and encourage them to send money through legal channels.

Education, Science and Technology

3.45 Education plays key role for building knowledge based society. Education sector's overall goal is to increase access to education, reduce inequality as well as leverage on knowledge and skills in science, technology and innovation for global competitiveness. Recently, the Covid-19 has affected the education system as all educational institutions in the country are closed since mid of March 2020. To contain the impact of Covid-19, at least 35,78,384 pre-primary, 3,82,54,584 primary and 34,16,679 junior secondary school students are currently kept out of school. To make up the loss, the government has taken initiative to popularize distance learning through television and internet. In consideration of the impact of Covid-19 and dissemination of education through modern technology, expenditure on sector will be increased in the next fiscal year.

3.46 Towards achieving, the status of developing country by 2024, Government has undertaken multiple initiatives to transform the entire population of the country into skilled and educated human resources. In this respect, the government has implemented various programs and projects which, in turn, contributed to inclusive and equitable quality education. Moreover, over the past decades, Bangladesh has achieved remarkable progress in primary education. The Government has undertaken activities in expanding and modernizing existing education system establishing new infrastructure, distributing books at free of cost, promoting IT based education, and feeding school students. Ministry of Primary and Mass Education (PMEM) has taken steps to increase the number of teachers, continue stipend, encourage the uses of IT. In the medium term priority will be given to ICT based community learning skill development training in every Zilla, setting up multimedia in every school and providing ICT equipment in every sphere, strengthening e-monitoring in every school.

3.47 The government is implementing 'Seconadry Education Development Program'as a sector wide program. To enhance the capacity of secondary and higher secondary education, initiatives have been taken to expand existing infrastructure and establish new infrastructure through development projects, establish Upazila Training and Resource Center for Education (UITRCE) and Integrated Educational Information Management System (IEMS), expand monthly pay order scheme (MPO) for private education institutes, provide scholarships to extraordinary students, arrange training for teachers etc.

3.48 To promote skilled human resources, the Technical and Madrasa Education Division (MTED) has put emphasis on job oriented technical and vocational education. Moreover, to attract mass people to towards technical and l vocational education MTED, make computer/technical education compulsory, arrange 'Skills Competition', establish Technical School and College (TSC) in 329 Upazilas in addition to existing 100 TSCs, establish women poly-technique in 4 divisional city and 4 engineering university in 4 Divisions.

3.49 Ministry of Science and Technology has been implementing various projects and conducting researches. Government is implementing, 'establishment of National Institute of Biotechnology, Establishment of Nuclear Medical Physics Institute with 3 state-of-the-art laboratories', 'establishment of Institute of Mining, Mineralogy and Metallurgy at Joypurhat with 3 state-of-the-art laboratories for research on mineral resources'. In the medium term it's development plan will include 'Establishment of Cyclotton and Pet-City at Institute of Nuclear Medicine and Allied Sciences (INMAS) in Mymensingh and Chittagong and Institute of Nuclear Medical Physics (INMP),

3.50 Total spending in education, science and technology sector is projected to grow to Taka 1036.54 billion in FY22.

ICT & Digital Bangladesh

3.51 The country is now aspiring to achieve the vision of "Digital Bangladesh" by 2021. ICT division has implemented several projects, programs and activities to ensure universal access to digitally transform services for all, establish High Tech Park, prod uce skilled human resource through ICT & Frontier Technologies, establish digital literacy center and digital content industry, provide incentives for the promotion of IT/ITE sectors. Moreover, 'Formulation of e-Government Master Plan for Digital Bangladesh' project had has been undertaken for effective and efficient implementation of Digital Bangladesh Vision. Government will establish twenty eight Hi Tech parks.

3.52 Posts and Telecommunications Division has undertaken initiatives to strengthen telecommunication facilities and increase the coverage of citizen services by increasing tele-density and tele access. Attempts have also been taken to implement projects to develop infrastructure including facilities such as introducing citizen services through e-banking/mobile banking, provide high speed mobile internet. 'Bangabandhu Satellite-1' has started to provide services in broadcasting activities of TV channels in the country. Moreover, Bangladesh has joined the SEA-ME-WE-5 Submarine Cable Consortium along with South East Asia-Middle East-Western Europe-4 (SEA-ME-WE-4) to increase the bandwidth capacity of the country which will be launched by 2023. The second submarine cable has provided backhaul connections from Kuakata. Besides, automated system has also been introduced to provide quick and better service delivery. In the medium term strategies, priorities will be given to encourage modern telecommunication facilities in remote areas, expand 4G network at Union level, undertake 5G network installation activities, implement National Equipment Identity Register (NEIR), and upgradate and expand of spectrum monitoring system.

Local Government and Rural Development

3.53 In order to make the development inclusive, government is putting emphasis on strengthening local government as well rural development. Government's efforts brought diversity in the rural economy both in agriculture and non-agriculture sectors. To ensure quick and cheap delivery of services at the grassroots level, Union Digital Centers have been established to provide 112 types of services to the people. Among various efforts, My House One Farm' is a remarkable program implemented by the government. Under this program, a loan of 2,775 crore taka has been distributed among 51 lakh beneficiaries, 23 lakh income generating household farms have been established and necessary vocational training has been given to 2.39 lakh beneficiaries. By June 2021, the program will cover 55 lakh poor households in the country. Moreover, Innovative activities like establishing modern housing named 'Palli Janapad' have been undertaken. Again, the development of roads, bridges, culverts, hat-bazars, growth centers, cyclone centers, safe water supply, sanitation facilities, etc. have also been undertaken.

3.54 Government is committed to bring all modern facilities of cities to villages under the 'My Village-My Town' program. Based on the concept, civic amenities and facilities of the town will be made available in the villages. These include- modern transport facilities, creation of opportunities for modern health care and education, electricity and fuel supply, and high-speed internet access. To implement the program, LGED has undertaken a huge action plan for 2020-21. LGED will construct 5,550 km new road, 13, 500 km carpeted road, 31,000-meter bridge and 195 growth centres/bazar complex in rural areas.

3.55 Total spending in the local government and rural development sector is projected to grow to Taka 475.12 billion in FY23.

Power and Energy

3.56 The government is committed to bring every household under electricity coverage. To achieve the objective of supplying quality electricity for all by 2021 at a reasonable cost, the government has already formulated an integrated development plan, medium and long term, for generation, transmission and distribution of electricity. By December 2020 all Upazilas of the country will be under cent percent electricity coverage. ‘Power System Master Plan (PSMP)-2016’ has been formulated by updating the previous plan. Under the master plan, the government has been working to achieve the targets of generating electricity of 24000 MW, 40000 MW and 60000 MW within 2021, 2030 and 2041 respectively. To overcome the problems of gas shortage, the government is implementing new plants to generate power using coal, nuclear and renewable energy.

3.57 At present, the power generation capacity (including captive and renewable) is 21, 787 Megawatt and the construction of 48 power stations with a capacity of more than 16,875 megawatt is under process. At present 628 Megawatts power is being generated from renewable energy sources. A target has been set to generate, at least 10 percent of total power generation from renewable source by 2030. To achieve the target, initiatives have been taken to establish solar panel on the roof-top of every school. To ensure smooth supply of energy sources, various programs have already been implemented and several initiatives are undertaken by the Energy and Mineral Resource Division. Target has been set to reduce the use of energy by 15 per cent and 20 percent by 2021 and 2030 respectively. To reduce the dependency on natural gas, LNG is imported and two LNG terminals are built.

Transport and Communication

3.58 A modern, developed and well-knitted transport and communication system is the pre-requisite to uplift Bangladesh to a developed country by 2041. Government has taken massive action plans and is implementing those plans emphasizing the sector as a priority sector. The Bridges Division is implementing many mega projects like the Padma Multi-purpose Bridge, Karnaphuli river tunnel, Dhaka-Ashulia Elevated Expressway and Dhaka Elevated Expressway, Dhaka subway, Dhaka East-West Elevated Expressway etc. Up to March 2020, 80 percent the construction work of Padma Multi-purpose Bridge has been completed. To achieve SDGs by 2030 and to make Bangladesh a developed country by 2041, the Road Transport and Highways Division has taken initiatives to convert important highways into four or more lanes. The division has taken 10-project to broaden 1140 km regional highways and 10-project to broaden district highways to standard level. In the medium term, plan has been taken to convert national highways into 4 lanes, strengthen highways, widening highways and construct new bridges or culverts.

3.59 The government has given emphasis on development of the railway sector to transform it into an affordable, people friendly and modern public transport system. For this, Government is implementing a 30-year long master plan bearing cost of Taka 5 lac 53 thousand 662 crore over the year 2016 to 2045. In the medium-term, the Ministry of Railways has taken initiatives for construction of new lines & bridges, rehabilitation of existing lines & bridges, construction and remodelling of station yards etc. The Ministry of Shipping has taken massive plans and projects to make our domestic and foreign trade competitive and cost effective by developing the inland waterways, seaports, land ports, vital channels and necessary related infrastructures on a priority basis. In the medium term, initiative has been taken to introduce vessel traffic management and information system. The ministry of Civil Aviation and Tourism is also working for diversification of tourist spots and improvement of service to attract more tourists from home and abroad. In the Medium term, initiative has been taken to enhance capacity and quality of our international and domestic airports.

3.60 Total spending in the transport and communication sector is projected to grow to Taka 773.65 billion in FY23.

The table below presents government expenditure by Sectors from the fiscal year 2017-18 to FY2022-23:

Table-13.13: Expenditure by Sector: FY18–FY23

Name of the Sector	Expenditure and Allocation (Billion Taka)					
	Actual	**Actual**	**Revised**	Budget	**Projection**	
	FY18	FY19	FY20	FY21	FY22	FY23
Public Services	278.76	698.95	804.21	1131.60	1685.55	1726.45
Local Government and Rural Development	215.74	343.21	404.59	395.73	433.51	475.12
Defense Services	211.49	306.73	326.5	344.27	373.07	399.19
Public Order and Safety	220.55	279.36	274.41	286.7	305.44	325.95
Education and Technology	475.74	662.73	770.38	857.62	942.8	1036.54
Health	168.39	223.4	236.92	292.47	306.35	336.99
Social Security and Welfare	180.91	265.66	304.45	315.98	488.46	536.34
Housing	34.56	59.32	74.46	69.37	74.92	80.91
Recreation, Culture and Religious Affairs	44.6	45.53	47.90	47.38	48.10	50.84
Fuel and Energy	285.62	255.02	267.58	261.54	281.92	297.06
Agriculture	191.26	250.62	299.8	270.18	320.07	351.57
Industrial and Economic Services	24.25	37.59	39.38	39.78	38.16	40.58
Transport and Communication	400.76	468.88	645.79	584.88	707.33	773.65
Total Programme Expenditure	**2732.63**	**3915**	**5015.80**	**5679.98**	**5930.80**	**6350.27**

Source: Finance Division

Chapter Four

Revenue Mobilization and Debt Strategy

An effective fiscal policy is critical for adequate revenue mobilization as well as maintaining the growth momentum generated in the past decade. Revenue mobilization has been recognized as the single most challenging task in the second perspective plan (Vision 2041) adopted by the government to meet the necessary infrastructure gaps that is important for the country's future growth and development. The country requires massive investment in public health to fight the COVID-19 pandemic as well as continue the ongoing infrastructure projects in the medium term. Therefore, the government has to carefully design its fiscal policy to mobilize the required revenue to contain its' budget deficit at sustainable level as well as stimulating the economy in the medium term.

4.2 This chapter discusses the fiscal performance of Bangladesh in comparison to its peers and related regional blocks, the recent trend in its revenue mobilization, revenue outlook in the medium term (FY21-FY23) and fiscal reforms already undertaken by the government and the extent of further reforms required to achieve medium term revenue targets. At the same time, it discusses government's deficit financing strategy, and sheds light on how to improve the financing strategy as well as manage government's contingent liabilities for sustainable debt management.

Performance in Revenue Mobilization

4.3 Despite sustained high economic growth and development over the decade, Bangladesh fell short of the desired level of domestic resource mobilization. Government's revenue mobilization has been lower compared to other countries in the region and regional blocks. The average revenue-GDP ratio stood at 9.9 percent in Bangladesh compared to 25.6 percent in emerging and developing Asia, and 35.9 percent in advanced economies during the last five years. Even South Asian countries, such as India (19.8), Nepal (23.9), Pakistan (14.7), and Sri Lanka (13.5) were clearly ahead in terms of revenue mobilization (Table 4.1). Comparative analysis reveals weaknesses in the revenue mobilization strategy of Bangladesh. Therefore, the country needs to revisit its revenue mobilization strategy as it is critical for a sustainable fiscal position in the medium term.

Table 4.1: Comparative scenario of revenue mobilization

Country/Region	General Government Revenue (% of GDP)					
	2015	2016	2017	2018	2019*	Avg.
Bangladesh	9.8	10.1	10.2	9.7	9.9	9.9
India	19.9	20.2	19.8	19.8	19.6	19.8
Nepal	20.8	23.3	24.1	25.3	26.2	23.9
Pakistan	14.5	15.5	15.5	15.2	12.8	14.7
Sri Lanka	13.3	14.1	13.7	13.4	12.9	13.5
Emerging and Developing Asia	25.8	25.3	25.2	26.1	25.7	25.6
Advanced Economies	36.1	36.0	36.0	35.6	35.9	35.9

Source: World Economic Outlook, IMF October 2019, * Indicates IMF staff estimates

Trend in Revenue Earnings

4.4 The trend in revenue earnings was not smooth at all in the last five years despite 14.6 percent average growth. Revenue growth fluctuated significantly (6.3 percent standard deviation) in this period with the highest being 18.5 percent in FY16 and the lowest being 4.0 percent in FY15 (Table 4.2 and Figure 4.1). It slowed down to 7.6 percent in FY18 from its peak in FY16, which subsequently rebounded in FY19 with 16.3 percent growth. Apart from the volatility in revenue collection, the gap between the revenue target and the actual realization has widened from 2.0 percentage point in FY16 to 3.4 percentage point in

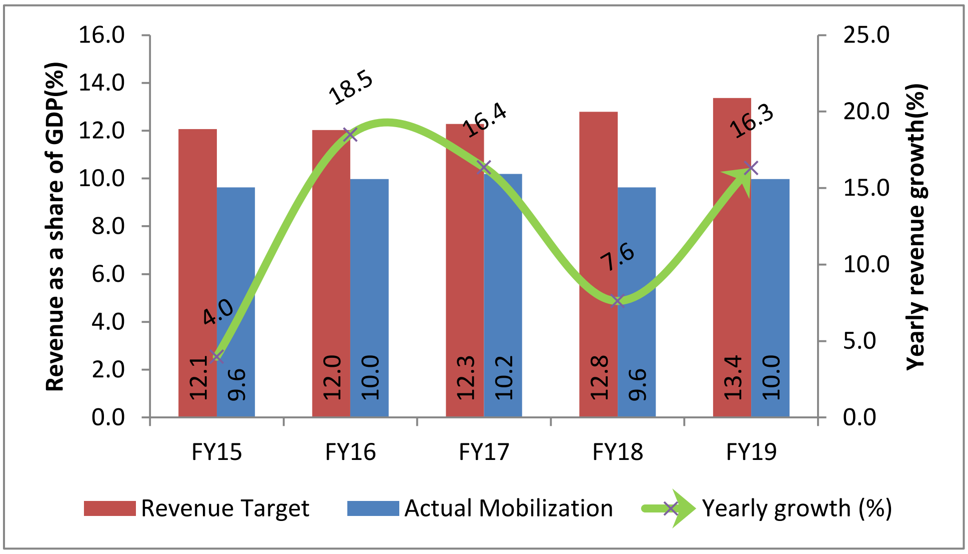
FY19. Volatility and the widening gap in revenue collection suggest that substantial reforms in the revenue administration are necessary, especially expansion of tax base, reduction in the number of exemptions, rationalization of tax rates, and strengthening of the revenue administration with higher compliance and better service delivery.

Table 4.2: Revenue performance in FY15-FY19 **(Billion Taka)**

Year	FY15	FY16	FY17	FY18	FY19
Revenue Target	1829.5 (12.1)	2084.4 (12.0)	2427.5 (12.3)	2879.9 (12.8)	3392.9 (13.4)
Actual Mobilization	1459.6 (9.6) {4.0}	1729.5 (10.0) {18.5}	2007.5 (10.2) {16.4}	2165.6 (9.6) {7.6}	2518.8 (10.0) {16.3}

Source: Finance Division; Figure in ( ) indicates % of GDP, { } indicates yearly growth (%);

Figure 4.1: Revenue mobilization scenario (% of GDP)



Source: Figure drawn by using data from Table 4.2;

Revenue by sources

4.5 Tax revenue accounted for 88.8 percent and Non-tax revenue (NTR) accounted for 11.2 percent (on average) of the total revenue collected in the last five years. National Board of Revenue (NBR) collected the bulk (96.8 percent) of the tax revenue while the rest (3.2 percent) came from narcotics and liquor duties, taxes on vehicles, land revenue and non-judicial stamp duties etc. collected by other government agencies. Total tax revenue increased by 15.1 percent, on average, in the last five years, the highest being 17.9 percent in FY16 and the lowest being 9.1 percent in FY18. At the same time, NTR revenue, which predominantly comes from administrative fees & charges and dividend & profits, experienced 10.8 percent average growth in the last five years. However, Tax-GDP ratio was still hovering around 9 percent at the end of FY19 (Table 4.3).

Table 4.3: Main sources of revenue **(Billion Taka)**

Revenue Sources	Fiscal Year				
	FY15	FY16	FY17	FY18	FY19
(a) Tax Revenue (a1+a2)	1287.9 (88.2) {8.5}	1518.8 (87.8) {8.8}	1780.7 (88.5) {9.0}	1943.3 (89.7) {8.6}	2259.6 (89.7) {8.9}
(a1) NBR Taxes	1239.7 (84.9)	1462.4 (84.6)	1716.4 (85.3)	1871.0 (86.4)	2186.2 (86.8)
(a2) Non-NBR Taxes	48.2 (3.3)	56.4 (3.3)	64.4 (3.2)	72.2 (3.3)	73.4 (2.9)
(b) Non-Tax Revenue (NTR)	171.7 (11.8)	210.7 (12.2)	231.6 (11.5)	222.3 (10.3)	259.2 (12.6)
Total revenue (a+b)	1729.5	2012.3	2165.6	2165.6	2518.8

Source: Finance Division; Figure in ( ) indicates % of total revenue, { } indicates % of GDP;

NBR tax revenue

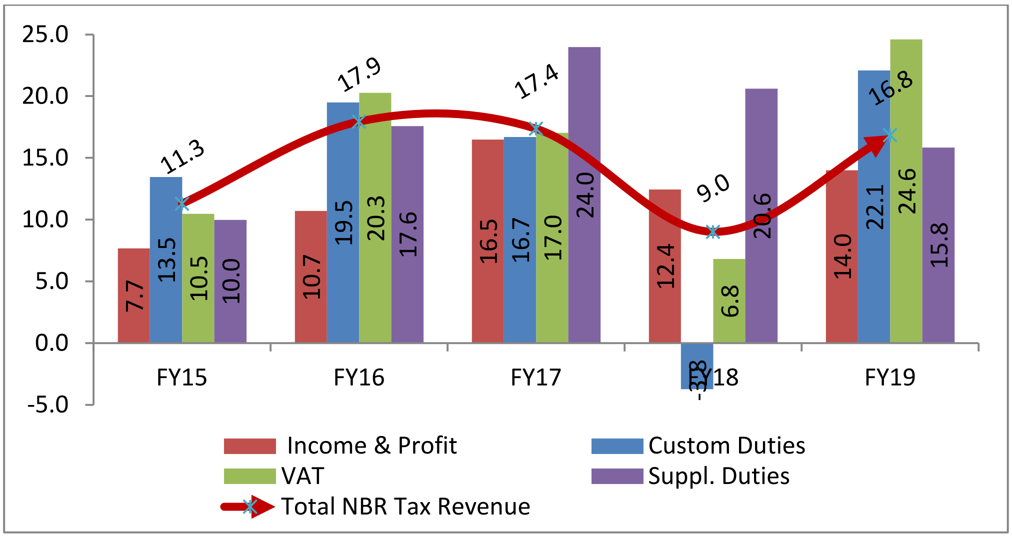
4.6 As NBR collects the major share of the total revenue, it is important to look into the performance of NBR tax revenue. NBR taxes, which comprises of Income Tax, Value Added Tax (VAT), Supplementary Duty, Customs Duty, and Excise Duty and other taxes, grew by 15.2 percent, on average, over the last five years. VAT, which accounts for 37.3 percent of the total NBR taxes over the last five years, grew by 17.0 percent (on average). The second largest source of NBR tax revenue is income and profit taxes (31.3 percent) which grew by 13.4 percent followed by a growth of 16.2 percent in supplementary duties and 13.1 percent in customs duties, on average, in the last five years (Table 4.4).

Table 4.4: Sources of NBR Tax Revenue (Billion Taka)

Source	Fiscal Year				
	FY15	FY16	FY17	FY18	FY19
Income and Profit	407.2	450.8	525.0	590.3	672.9
	(32.8)	(30.8)	(30.6)	(31.6)	(30.8)
	{7.7}	{10.7}	{16.5}	{12.4}	{14.0}
Customs Duties	148.9	178.0	207.6	199.9	244.0
	(12.0)	(12.2)	(12.1)	(10.7)	(11.2)
	{13.5}	{19.5}	{16.7}	{-3.8}	{22.1}
VAT	453.8	545.8	638.7	682.2	850.1
	(36.6)	(37.3)	(37.2)	(36.5)	(38.9)
	{10.5}	{20.3}	{17.0}	{6.8}	{24.6}
Supplementary Duties	210.8	261.3	315.2	365.1	384.3
	(17.0)	(17.9)	(18.4)	(19.5)	(17.6)
	{17.6}	{24.0}	{20.6}	{15.8}	{5.3}
Other NBR Taxes	19.2	26.6	29.9	33.6	34.9

Source: Finance Division; Figure in ( ) indicates %of NBR tax revenue, { } indicates yearly growth (%);

Figure 4.2: Yearly growth (%) of NBR tax revenue and its components



Source: Figure drawn by using data from Table 4.4;

4.7 Despite 15.2 percent average growth in the last five years, NBR tax revenue growth exhibited significant volatility (4.1 percent standard deviation) in this period (Figure 4.2). The momentum achieved by the bullish trend in NBR tax revenue (FY16-FY17) was lost considerably in FY18 when all components of NBR tax Revenue slowed down, with VAT slowing down significantly and customs duties even entering into the negative growth territory. However, this trend reversed in FY19 as NBR tax revenue rebounded with a 16.8 percent growth with the highest being 24.6 percent growth in VAT. This volatility in NBR's revenue performance has affected the government's total revenue collection.

Non-NBR Tax Revenue

4.8 Non-NBR tax revenue contributed 3.2 percent of the total revenue, on average, during the last five years (FY15-FY19). It experienced an average growth of 11.1 percent during that period (Table 4.3).

Non-Tax Revenue (NTR)

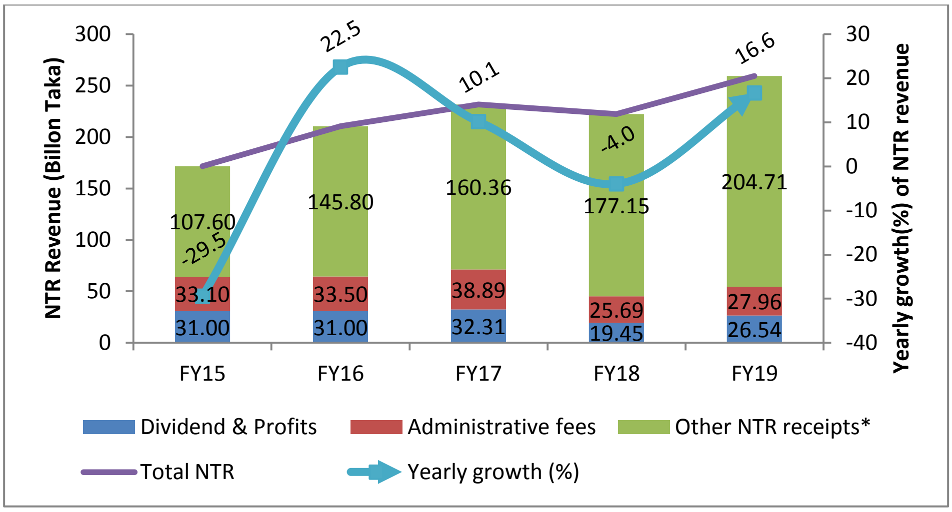
4.9 Non-Tax Revenue (NTR) collections grew by 10.8 percent (on average) from FY15 to FY19 (Table 4.5). However, NTR growth fluctuated significantly (20.7 percent standard deviation) in the last five years, the highest being 22.7 percent growth in FY16 after declining by 29.5 percent in the previous year (Figure 4.3). Dividend & Profits, Administrative fees & Charges, two major components of NTR, also fluctuated considerably during the period, and went down significantly in FY18 that dragged down their share in the overall NTR revenue. However, NTR collection rebounded in FY19 with 16.6 percent growth from the previous year.

Table: 4.5: Composition of Non-Tax Revenue (Billion Taka)

	FY15	FY16	FY17	FY18	FY19
Dividend & Profits	31.0	31.0	32.3	19.5	26.5
	(-31.0)	(0.0)	(4.2)	(-39.8)	(36.4)
Administrative fees	33.1	33.5	38.9	25.7	28.0
	(9.2)	(1.2)	(16.1)	(-33.9)	(8.8)
Interests	7.8	7.8	22.1	19.9	15.1
Fines, Penalties and Forfeitures	2.8	2.8	5.8	6.0	6.9
Services fee	7.6	7.6	5.8	35.5	39.6
Tolls and levies	3.5	3.5	11.0	6.1	6.8
Non-commercial sales	5.0	5.0	5.5	17.4	9.0
Capital Revenue	0.6	0.7	2.5	7.0	2.6
Other receipts	102.0	117.2	87.3	158.9	79.4
Total Non-Tax Revenue (NTR)	171.7	210.3	231.6	222.3	259.2
	(-29.5)	(22.7)	(10.1)	(-4.0)	(16.6)

Source: Finance Division; Figure in () indicates yearly growth (%);

Figure 4.3: Non Tax Revenue (NTR) mobilization in FY15-FY19



Source: Figure drawn by using data from Table 4.5; *Other NTR receipts include all NTR receipts except Dividend & Profits, and Administrative fees;

Overall Revenue Performance in FY 20 (Up to March 2020)

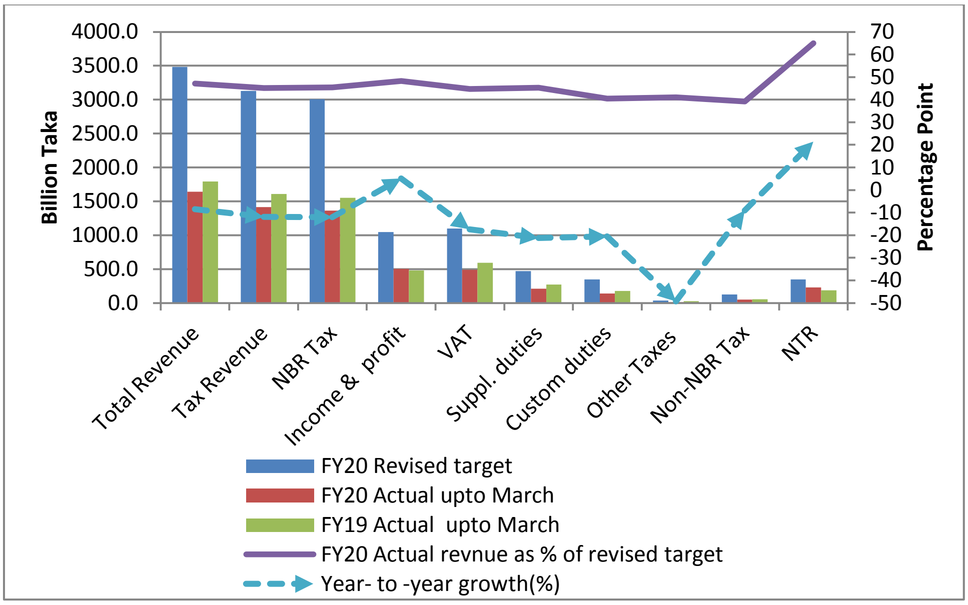
4.10 Revenue collection has suffered a setback in FY20 (July -March) due to the nationwide economic shutdown in the wake of COVID-19 pandemic. Overall revenue collection stands at Tk. 1.64 trillion up to March FY20, which is 47.2 percent of the revised budget target in FY20. NBR Tax, Non-NBR Tax and Non-Tax revenue has contributed 83.1 percent, 3.0 percent, and 13.9 percent of the total revenue collection respectively. A negative growth in all components except income and profit tax has resulted 12.1 percent decline of the overall NBR tax revenue in July-March period of FY20. At the same time, non-NBR tax revenue has declined by 9.2 percent while Non-tax revenue registered 21.3 percent growth during the period.

Table 4.6: Revenue Performance in FY20 (**Billion** Tk.)

	2019-20		2019-20 (Jul- Mar)		2018-19 (Jul- Mar)	Yearly growth
Items	Target	Target ®	Actual	% of target®	Actual	(%)
Total Revenue	3778.1	3480.7	1641.4	47.2	1794.1	-8.5
Tax Revenue	3401.0	3130.7	1413.7	45.2	1606.5	-12.0
NBR Tax	3256.0	3005.0	1364.5	45.4	1552.3	-12.1
Income & profit	1139.1	1028.9	505.2	49.1	480.6	5.1
Value Added Tax (VAT)	1230.7	1098.5	491.3	44.7	595.4	-17.5
Supplementary duty	481.5	471.4	213.3	45.3	271.2	-21.4
Customs duties	244.0	337.3	140.3	41.6	176.6	-20.5
Other Taxes	39.2	68.9	14.4	20.9	28.5	-49.3
Non-NBR Tax	145.0	125.7	49.2	39.2	54.2	-9.2
Non Tax Revenue (NTR)	377.1	350.0	227.6	65.0	187.6	21.3

Source: Finance Division;

Figure 4.4: Revenue mobilization scenario in FY20



Source: Figure drawn by using data from Table 4.6;

4.11 Total revenue collection in the first nine months of FY20 demonstrates that the actual revenue collection might fall short of the budget target of FY20. Therefore, revenue target has been downsized by 7.9 percent to Tk. 3.5 trillion in the revised budget from Tk. 3.8 trillion in the original budget of FY20. However, this target is still 38.2 percent higher than the actual revenue collection of FY19.

Reform Initiatives in Revenue Sector

4.12 Two main reasons why the tax-GDP ratio of Bangladesh has not improved are low tax compliance and narrow tax base. Therefore, the underlying objective of the tax reform is to improve tax compliance without increasing tax rates. The country requires continuous and meaningful reforms in the taxation system, such as i) strengthening revenue administration and improving compliance, ii) broadening tax base and simplifying tax structures, and iii) elimination of, or reduction in, tax exemptions and tax holidays awarded for prolonged periods.

4.13 The government is committed to implement substantial reforms in tax policy and tax administration to widen the prevailing narrow tax base. Accordingly, the government has undertaken a number of programmes for legal and structural reforms in the revenue administration, some of which have already been implemented while others are on-going. These reforms, both completed and on-going, are as follows:

- ✓ The VAT & Supplementary Duty Act 2012 has been implemented in July 2019. To facilitate the process of implementation of the new VAT law, the NBR has made some amendments to the VAT law. These covered areas such as Multiple VAT Rates, Central registration, and Input Tax Credit. With the implementation of the new VAT law, collection of VAT and supplementary duty is expected to receive a significant boost in the medium term.

- ✓ In order to implement the new VAT law, the National Board of Revenue has undertaken the 'VAT online Project (VoP)' under which the Online Registration has begun in March 2017. The central registration system has been in force since July 2019. The number of central VAT registrations upto January 2020 was 3,047. Further, the NBR has introduced Online Return submission in July 2019. The digital filing system has been introduced in the form of online submission of VAT returns. NBR expects to expand the coverage of digital filing system by incorporating areas such as payments and refund.
- ✓ To stop evasion in VAT and enhance VAT collection, the government has decided to install Electronic Fiscal Devices (EFD) with sales data controller mechanism. The government has already imported 1,020 EFD machines. While the coronavirus outbreak has affected the operation of EFDs, the NBR expects to begin their operation as soon as the outbreak subsides, initially at sales/services installations with annual turn overs of BDT 50 lac or above. NBR has selected 24 sectors, including residential hotels, bakeries and fast foods, decorators and caterers, sweat meats etc. for the purpose.
- ✓ To prevent tax evasion and to bring transparency in VAT record keeping, the government has made the use of NBR-prescribed VAT software mandatory in VAT-registered industries with annual turn overs of BDT 5 crore or above.
- ✓ At present, many sectors of the economy enjoy tax benefits including tax holidays and reduced tax rates. During the last year's budget, the government decided to discourage giving such exemptions. Government's resolve was evident from NBR

statistics that shows that as compared to FY19, income tax exemptions has been reduced by 41 percent in FY20. Similarly, Customs exemptions has been reduced by 21.34 percent and VAT exemptions has been reduced by 92 percent in FY20.

- ✓ The new customs law has been placed before the Parliament for enactment. The new law will replace the existing Customs Act 1969. It has incorporated international best practices in customs including that of the World Customs Organization (WCO) revised KYOTO Convention and the WTO Trade Facilitation Agreement. The law aims to harmonize and simplify customs processes to facilitate collection of custom duties.
- ✓ To prevent duty evasion through misdeclaration and to facilitate quick customs clearance, the government has planned to install scanners at all points of customs inspection so as to bring all import and export consignments under scanning procedures. In addition to the existing 5 scanners, the NBR has installed 2 scanners in FY20. The NBR is in the process of finalizing the procurement of 14 more scanners. Again, the risk management system will be operational to ensure that no more than 10 percent of the consignments are subject to physical examination. To that end, the NBR has progressed with the plan to establish a central Risk Management Unit/Commissionerate for Customs, for which the approval from the Ministry of Public Administration has already been received, and the approval from the Finance Division is under process. These measures will reduce tax evasion, enhance tax compliance and boost tax revenue.
- ✓ The government has taken measures to simplify income tax return procedure and to reform the reporting system of tax at source and related procedures. The NBR has continued to

upgrade the income tax return submission process since FY17 using the BITAX Software System. An e-Portal has been introduced in the NBR website that allows tax payers to pay their income taxes online through various mobile financial services (MFS), such as bKash, Rocket, SureCash, Nagad etc. along with the normal banking channel. Minimum interface between the taxpayers and tax collectors as a result of simplification of the return submission procedure will help expand the currently low personal income tax base.

- ✓ The government aims to increase the number of taxpayer to 10.0 million in the medium term from the existing base of 2.3 million taxpayers in FY19. The number of TIN-holders was 4.9 million in FY19, and the NBR has undertaken surveys and arranged a substantial number of tax fairs across the country in order to increase the number of taxpayers in the upcoming years.
- ✓ The government has taken measures to upgrade the online-based ASYCUDA World software to modernize Customs assessment and clearance system. Again, to streamline the bonded warehousing system, reduce its misuse and make it transparent, the government has taken a project that aims to automate the bond management system by June 2021.
- ✓ The government has enacted a new law 'Submission of Surplus Funds of Autonomous, Semi-Autonomous, State-Owned, and Public Non-Financial Corporations to the National Treasury Act 2020' to bring all the idle and surplus money of the state owned enterprises to the national treasury. Under this law, ten state-owned enterprises have deposited a total of Tk. 16,046 crore to the national treasury in FY20.

The ongoing and the proposed reform plan undertaken by the government is expected to boost domestic revenue mobilization, which would provide adequate fiscal space for critical infrastructure spending in the upcoming years. Increased infrastructure spending would remove the supply side bottlenecks of the economy and attract both domestic and foreign investment to sustain long term growth.

Medium-Term Revenue Outlook

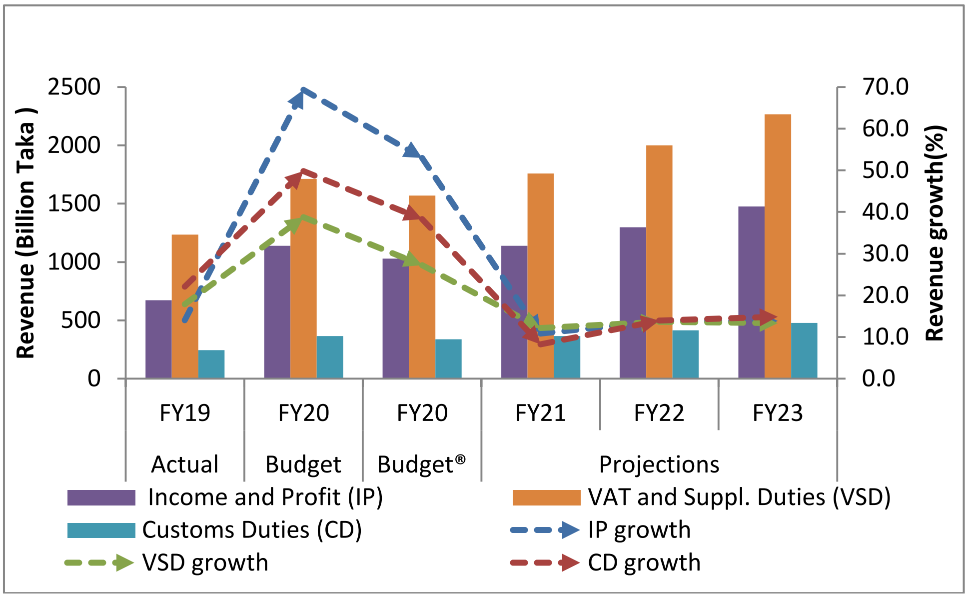
4.14 Reform measures undertaken by the government are expected to help achieve government's fiscal targets in the medium term. The government has set revenue target of Tk. 3.8 trillion for FY21, which is 8.6 percent higher than that of the revised target in FY20. To achieve this target in FY21, revenue collection needs to grow by 22.5 percent (on average) from the actual collection in FY19. Revenue mobilization is expected to be strengthened in the medium term when the VAT law would be implemented in full swing with necessary infrastructure, such as installation of the electronic fiscal device (EFD) in business establishments in mid-2020, and with the implementation of the new Customs law.

Table 4.7: Revenue Projection in the Medium Term (Billion Taka)

Items	FY19 Actual	FY19 Budget	FY20 Budget(R)	FY21 Projection	FY22 Projection	FY23 Projection
Total Revenue	2518.8 (16.3)	3778.1 (50.0)	3480.7 (38.2)	3780.0 (8.6)	4318.0 (14.2)	4927.6 (14.1)
Tax Revenue	2259.6 (16.3)	3401.0 (50.5)	3130.7 (38.6)	3450.0 (10.2)	3934.6 (14.0)	4490.7 (14.1)
NBR Tax of which	2186.2 (16.8)	3256.0 (48.9)	3005.0 (37.5)	3300.0 (9.8)	3755.4 (13.8)	4268.2 (13.7)
Income and Profit	672.9 (14.0)	1139.1 (69.3)	1028.9 (52.9)	1140.0 (10.8)	1297.2 (13.8)	1476.7 (13.8)
Customs Duties	244.0 (22.1)	365.5 (49.8)	337.3 (38.3)	365.0 (8.2)	415.7 (13.9)	477.4 (14.8)
VAT and Suppl. Duties	1234.4 (17.9)	1712.2 (38.7)	1569.8 (27.2)	1760.0 (12.1)	1999.5 (13.6)	2265.6 (13.3)
Non-NBR Tax	73.4 (1.6)	145.0 (97.5)	125.7 (71.2)	150.0 (19.4)	179.2 (19.4)	222.5 (24.2)
NTR	259.2 (16.6)	377.1 (45.5)	350.0 (35.0)	330.0 (-5.7)	383.4 (16.2)	436.9 (14.0)

Source: Finance Division; Figure in ( ) indicates yearly growth (%)

Figure 4.5: Decomposition of NBR Tax Projection



Source: Figure drawn by using data from Table 4.7;

4.15 Since NBR is the main revenue earning agency, decomposition of the NBR tax revenue projection is important to get a sense of the overall revenue projection. Budget target of all components of NBR tax revenue has been downsized in the revised budget of FY20 based on the actual impact of COVID-19. Income and Profit taxes, Customs duties, VAT and Supplementary duties have been downsized by 9.7 percent, 7.7 percent, and 8.3 percent respectively in the revised budget FY20. However, the revised target of Income and Profit taxes, Customs duties and VAT and Supplementary duties of FY20 are 52.9 percent, 38.3 percent, 27.2 percent higher than the actual collection of FY19. The government projects to collect Tk. 1140 billion from Income and Profit taxes, Tk. 365 billion from Customs duties and Tk. 1760 billion from VAT and Supplementary duties in FY21. Income and Profit taxes, Customs duties, and VAT and Supplementary duties require growing by 30.2 percent, 22.3 percent, and 19.4 percent respectively, on average, from the actual collection in FY19 to achieve revenue targets in FY21.

Deficit Financing and Debt Management

Deficit Financing

4.16 The government relies on deficit financing to fill the gap between the revenue collection and its targeted expenditure plan. Both domestic and external sources (based on availability of funding) are used to finance the budget deficit. Generally, fiscal deficit is kept within 5.0 percent of GDP. The average budget deficit was 4.3 percent of GDP in the last five years from FY15 to FY19. Such fiscal discipline has helped to maintain public debt at a tolerable level. However, adverse impact on revenue mobilization due to the fallout from COVID-19 while additional government expenditure on emergency healthcare and stimulus plan are likely to widen the fiscal deficit in the medium term.

Domestic Financing

4.17 The government issues treasury bills (less than one-year maturity) and bonds (more than one-year maturity) to borrow from the market. These treasury securities are tradable in the secondary market. Moreover, some central bank instruments, such as ways and means advances and overdraft, are used to meet daily cash demand of the government as an instant mechanism. The government met 9.9 percent of deficit financing (on average) from the banking source in the last five years (Table 4.8). Apart from this, non-marketable saving instruments, such as National Saving Certificates (NSCs) of various maturities, are used for government's non-banking finance. The government met 66.2 percent of the deficit financing (on average) from the non-banking source in the last five years.

Table 4.8: Trend in Deficit Financing (Billion Taka)

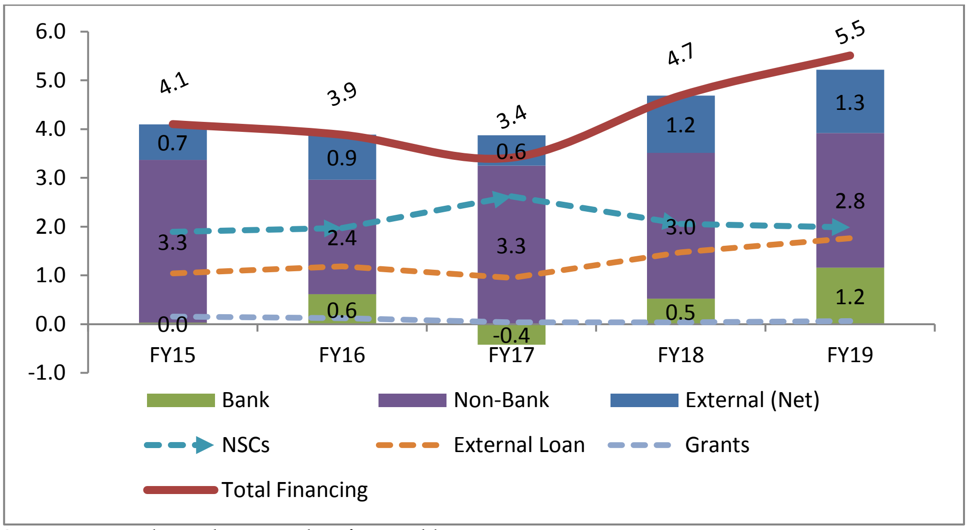
Financing Sources	FY15	FY16	FY17	FY18	FY19
Total Financing	621.9	673.2	675.0	1054.9	1397.6
	(4.1)	(3.9)	(3.4)	(4.7)	(5.5)
External (Net)	110.2	159.8	123.0	264.9	329.7
	(0.7)	(0.9)	(0.7)	(1.2)	(1.3)
External Loan	157.8	204.8	188.5	331.3	447.9
Grants	23.2	21.7	7.0	8.7	16.8
Amortization	70.8	66.6	72.0	75.1	135.0
Domestic	511.7	513.4	559.9	790.0	994.4
	(3.4)	(3.0)	(2.8)	(3.5)	(3.9)
Bank	5.1	106.1	-83.8	117.3	294.8
Non-Bank	505.1	407.3	642.5	672.7	699.6
NSC	287.1	341.5	518.0	462.9	503.6
Others	218.1	65.7	124.5	209.8	218.8

Source: Finance Division; Figure in ( ) indicates % of GDP;

External Financing

4.18 The government borrows from external sources due to availability of concessional loans, even though these loans carry foreign exchange risk as its value goes up with the depreciation of local currency. Of the external sources, loans/grants are received mainly from bilateral and multilateral development partners against various projects. The amount of borrowing from external sources depends on the level of implementation of foreign aided projects. The loans are mostly of concessional nature. The government met 22.3 percent of the deficit financing (on average) from the external source in the last five years (Table 4.8).

Figure 4.6: Deficit Financing Trend (% of GDP) in FY15-FY19



Source: Figure drawn by using data from Table 4.8;

Trend in Deficit Financing (FY15-FY19)

4.19 The government borrowed Tk. 884.5 billion (on average) to finance its budget deficit in the last five years, with the highest borrowing of Tk. 1.4 trillion in FY19 as the gap between revenue target and actual collection widened (Figure 4.1). The fiscal deficit has surpassed the government's usual target of containing budget deficit within 5 percent of GDP in FY19. Domestic borrowing contributed 76.2 percent while external borrowing contributed 22.3 percent of the total financing (on average) in the last five years (FY15-FY19). In the case of domestic borrowing, ratio of bank and non-bank borrowing stood at 1:6.7 and the share of nonbank borrowing, which predominantly consists of NSCs declined to 2.8 percent of GDP in FY19 from 3.3 percent of GDP in FY17. Meanwhile, bank borrowing increased to 1.2 percent of GDP in FY19 from 0.6 percent of GDP in FY16. In case of external financing, contribution of external loan has increased to 1.8 percent of GDP in FY19 from 1.0 percent of GDP in FY15 while contribution of grants became insignificant during the period (Figure 4.6) and thus the ratio of loans and grants increased to 26.7 in FY19 from 6.8 in FY15.

Medium-Term Financing Outlook

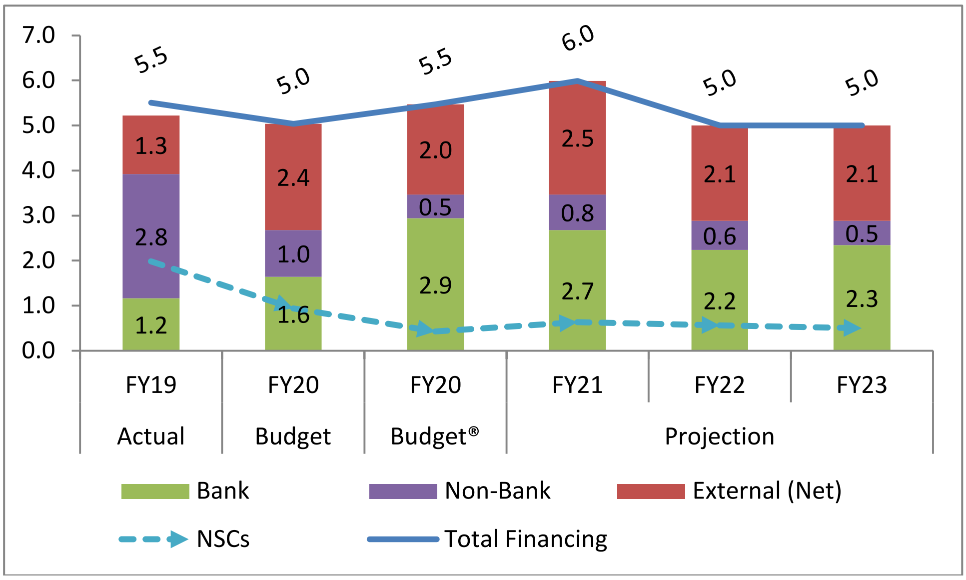
4.20 The government is seeking additional financing sources to implement the declared ranges of COVID-19 response measures worth 1.03 trillion Tk. (3.7 percent of the projected GDP in FY20) to revive the economy as quick as possible. Government's request for budgetary/BOP support has received favourable response from major development partners, including the World Bank, the Asian Development Bank, Asian Infrastructure Investment Bank (AIIB), Japan International Cooperation Agency (JICA), International Monetary Fund (IMF), etc. ADB has already disbursed 500 million US$, and World Bank and AIIB both are in the process of disbursing 250 million US$ in FY20 as budget support. Further, IMF has provided BOP support worth 732 million US$. The government expects to receive additional support worth approx. US$ 2 billion in FY21 from its' development partners. Along with this support, government's deficit financing target is projected to increase by 23.8 percent from FY20 (revised target) and would stand at Tk. 1.9 trillion in FY21 (6 percent of the projected GDP in FY21). Financing from external sources is projected to increase by 0.5 percentage point of GDP while financing from bank is expected to moderate in FY21 after a borrowing surge in FY20 (Figure 4.7). However, domestic source would remain the major source of financing in the medium term (Table 4.9).

Table 4.9: Medium-Term Financing Outlook (Billion Taka)

Source of Borrowing	Actual	Budget	Budget®	Projection		
	FY19	FY20	FY20	FY21	FY22	FY23
Total Financing	1397.6	1453.8	1535.1	1900.0	1791.7	2022.8
	(5.5)	(5.0)	(5.5)	(6.0)	(5.0)	(5.0)
External (Net)	329.7	680.2	561.6	800.2	759.7	855.8
	(1.3)	(2.4)	(2.0)	(2.5)	(2.1)	(2.1)
	{23.6}	{46.8}	{36.6}	{42.1}	{42.4}	{42.3}
External Loan	447.9	753.9	636.6	888.2	860.0	971.0
Grants	16.8	41.7	34.5	40.1	43.0	54.8
Amortization	135.0	115.4	109.5	128.2	143.3	169.9
Domestic	994.4	773.6	973.5	1099.8	1032.0	1167.0
	(3.9)	(2.7)	(3.5)	(3.5)	(2.9)	(2.9)
	{71.2}	{53.2}	{63.4}	{57.9}	{57.6}	{57.7}
Bank	294.8	473.6	824.2	849.8	802.0	947.0
Non-Bank	699.6	300.0	149.2	250.0	230.0	220.0
NSC	503.6	270.0	119.2	200.0	200.0	200.0
Others	218.8	30.0	30.0	50.0	30.0	20.0

Source: Finance Division; Figure in ( ) indicates % of GDP, { } indicates % of total borrowing;

Figure 4.7: Medium-Term Financing Trend (% of GDP)



Source: Figure drawn by using data from Table 4.9

4.21 The government projects to bring back its usual fiscal deficit (5.0 percent of GDP) in the medium term when the economy turned back to normal (Figure 4.7). Domestic financing target is projected to be 2.9 percent of GDP and external financing target is projected to be 2.1 percent of GDP by FY 23. In the medium term, the share of expensive nonbank borrowing (e.g. NSCs) would remain low while bank financing would remain the major source of domestic finance (Figure 4.7).

Cost of Financing

4.22 Historically, Bangladesh enjoyed low cost financing from external sources thanks to high proportion of concessional loans. For instance, average implicit interest rate[4] for external financing was 1.0 percent only and the share of interest expense for the external finance was only 0.8

[4] Implicit interest rate is calculated by dividing the current year's interest payments with the average debt stock of the current year and the previous year.

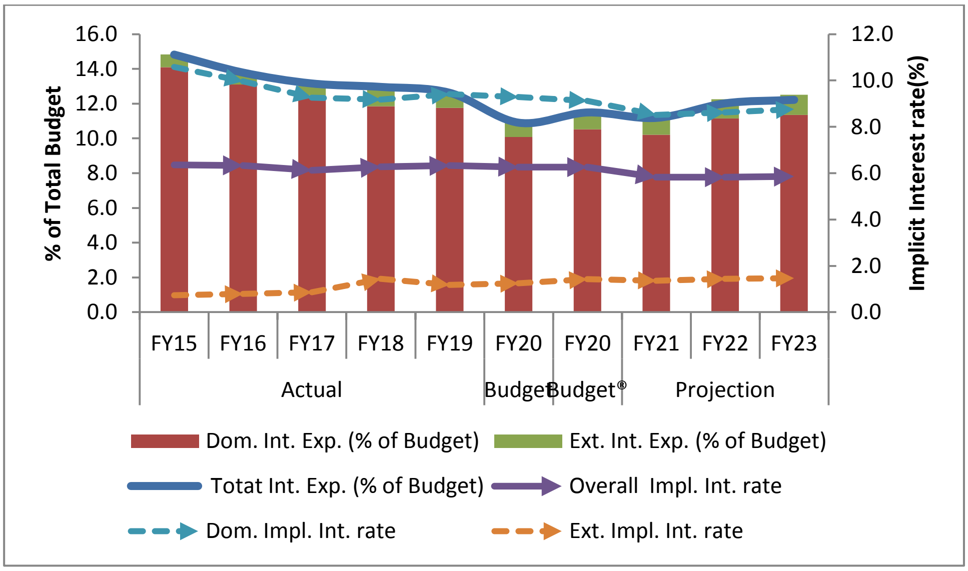
percent of the budget in the last five fiscal years (FY15-FY19). However, rising share of loans and declining share of grants in external financing has raised the external interest payments slightly (Table 4.10). At the same time, domestic interest expense declined by 2.3 percentage point of the total budget in FY19 from that of FY15 on the back of various public financial reforms undertaken by the government. As a result, implicit domestic interest rate also declined to 9.4 percent in FY19 from 10.6 percent in FY15. Since domestic financing is the major source of finance to meet the budget deficit, overall interest expense declined by 2.2 percent of government expenditure in FY19 from that of FY15 despite slight increase in external interest payments.

Table 4.10: Cost of Financing (Billion Taka)

Items	Actual					Budget	Budget®	Projection		
	FY15	FY16	FY17	FY18	FY19	FY20	FY20	FY21	FY22	FY23
Interest Payments	309.7	331.1	353.8	417.7	494.6	570.7	576.6	638.0	748.9	869.8
	(14.8)	(13.8)	(13.2)	(13.0)	(12.6)	(10.9)	(11.5)	(11.2)	(12.3)	(12.5)
	{6.4}	{6.3}	{6.1}	{6.3}	{6.3}	{6.3}	{6.3}	{5.9}	{5.9}	{6.0}
Domestic	294.4	314.7	335.4	381.6	460.1	528.0	528.0	582.5	680.8	788.9
	(14.1)	(13.1)	(12.5)	(11.8)	(11.7)	(10.1)	(10.5)	(10.3)	(11.1)	(11.4)
	{10.6}	{10.0}	{9.3}	{9.2}	{9.4}	{9.3}	{9.1}	{8.6}	{8.6}	{8.8}
External	15.4	16.5	18.4	36.1	34.5	42.7	48.7	55.3	68.1	80.9
	(0.7)	(0.7)	(0.7)	(1.1)	(0.9)	(0.8)	(1.0)	(1.0)	(1.1)	(1.2)
	{0.7}	{0.8}	{0.9}	{1.4}	{1.2}	{1.2}	{1.4}	{1.4}	{1.4}	{1.5}

Source: Finance Division; Figure in ( ) indicates % of total budget and { } indicates implicit interest rate (%);

Figure 4.8: Trend of financing cost



Source: Figure drawn by using data from Table 4.10;

Financing Strategy

4.23 In line with the Public Money and Budget Management Act, 2009, government's financing strategy aims at minimizing interest costs and risks of financing by choosing an appropriate borrowing mix. Bangladesh used to enjoy concessional financing facilities from bilateral and multilateral development partners in the past. However, this facility has shrunk slightly as the country elevated into the lower middle income bracket[5] in 2015 from the low income bracket. However, this development has increased the credit worthiness of the country and created opportunity for new financing options with slightly higher cost from the World Bank and other development partners. Interest rate of foreign loan is still cheaper than that of the domestic financing although foreign currency denominated loans has some foreign exchange risk

[5] A criteria set by the World Bank

when local currency depreciates. Hence, the government pursues a borrowing strategy to maintain a balance between domestic and external source.

4.24 As the government finances the major share of its budget deficit from domestic sources, appropriate borrowing mix is important for reducing the cost of domestic financing and hence reducing the overall cost of financing. In the recent past, nonbank borrowing, especially through NSCs was a major source of domestic financing (47.8 percent of the total deficit, on average, in FY15-FY19 period). However, since financing budget deficit though NSCs is an expensive choice (maximum interest rate 11.76 percent), the government has shifted its focus from nonbank borrowing (Figure 4.7) towards relatively cheaper bank borrowing by implementing several reform measures in the National Saving scheme, postal saving scheme, and the postal banking system. For instance, NID based national database has been used to sell NSCs so that any individual cannot cross his maximum allowable limit of investment in NSCs and the source tax on interest income from investment in NSCs has been raised to 10 percent from 5 percent since FY20. Besides, the postal savings scheme and the postal banking system have also been automated.

Debt Profile

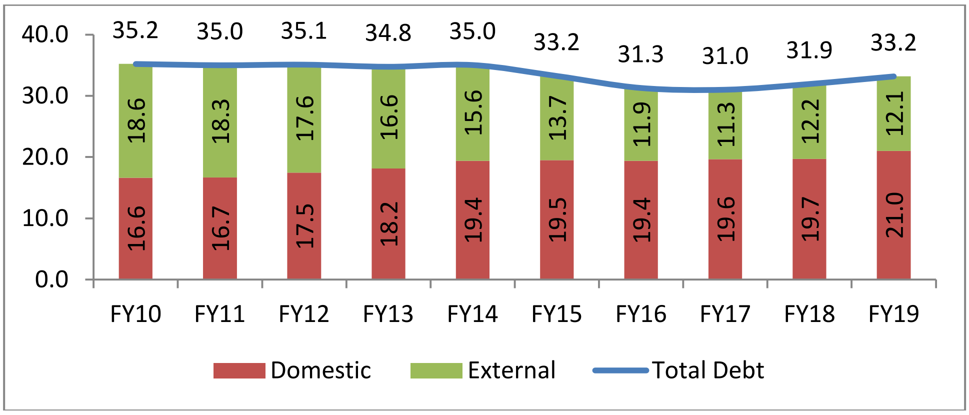
4.25 Robust GDP growth (6.8 percent on average), stringent fiscal deficit (4 percent on average), appropriate borrowing mix from prudent fiscal policy, and stable exchange rate contributed to stabilize government debt over the decade (FY10-FY19). Government's outstanding debt hovered around 35.0 percent of GDP in FY10-FY14 period. It declined to 31.0 percent of GDP in FY17 and then the trend reversed slightly and stood at 33.2 percent of GDP in FY19. Composition of debt has also changed in the last ten years, as domestic debt gradually increased from 16.6 of GDP in FY10 to 21.0 percent of GDP in FY19 and external debt gradually declined from 18.6 percent of GDP in FY10 to 11.3 percent of GDP in FY17 and then slightly increased to 12.1 percent of GDP in FY19. Favorable debt dynamics created by high GDP growth compared to low interest rate has contributed to decline the debt to GDP ratio in the FY15-FY19 period (Figure 4.9).

Table 4.11 Debt Profile (FY10-FY19)

	Fiscal Year									
Indicator	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
Total Debt	2807.9	3205.9	3704.1	4167.0	4708.0	5038.6	5419.5	6123.1	7185.9	8419.1
	(35.2)	(35.0)	(35.1)	(34.8)	(35.0)	(33.2)	(31.3)	(31.0)	(31.9)	(33.2)
Domestic	1324.1	1525.7	1842.3	2176.2	2606.7	2955.3	3360.9	3881.0	4434.5	5338.1
	(16.6)	(16.7)	(17.5)	(18.2)	(19.4)	(19.5)	(19.4)	(19.6)	(19.7)	(21.0)
	{47.2}	{47.6}	{49.7}	{52.2}	{55.4}	{58.7}	{62.0}	{63.4}	{61.7}	{63.4}
External	1483.8	1680.2	1861.8	1990.8	2101.2	2083.3	2058.7	2242.1	2751.3	3081.0
	(18.6)	(18.3)	(17.6)	(16.6)	(15.6)	(13.7)	(11.9)	(11.3)	(12.2)	(12.1)
	{52.8}	{52.4}	{50.3}	{47.8}	{44.6}	{41.3}	{38.0}	{36.6}	{38.3}	{36.6}

Source: Finance Division; Figure in ( ) indicates % of GDP and { } indicates % of total debt stock;

Figure 4.9: Debt Profile (FY10-FY19) as % of GDP



Source: Figure drawn by using data from Table 4.11;

4.26 Outstanding government debt stock is expected to stand at Tk. 10.0 trillion (35.6 percent of GDP) at the end of FY20 where the ratio of domestic and foreign debt is 1.7. Total debt stock is projected to increase by 1.7 percentage point of GDP in the revised budget of FY20 from the original budget in FY20 as the government requires to meet additional financing requirements (A stimulus package worth Tk. 1.03 Trillion equivalent to 3.7 of the projected GDP in FY20) to revive the economy from the damage caused by COVID-19 pandemic amid less than expected revenue growth in FY20. Domestic debt stock is projected to increase by 1.3 percentage point of GDP while external debt stock is projected to increase by 0.4 percentage point of GDP in the revised budget of FY20 from that of the original budget FY20.

Medium Term Outlook of Debt Stock

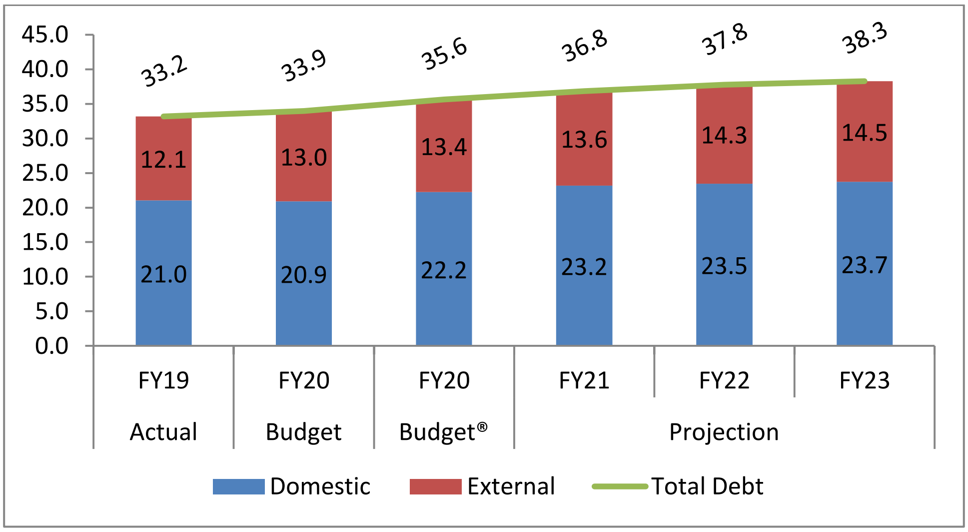
4.27 Outstanding total debt stock is projected to rise by 1.2 percentage point of GDP from that of FY20 and stands at Tk. 11.7 trillion (Domestic vs. external ratio 63:37) at the end of FY21 as the government meets additional financing requirements to rebound the economy from the damage caused by the Covid-19 pandemic. Government debt is projected to rise in the subsequent years (FY22 and FY23) and the outstanding debt would likely to be 38.3 percent of GDP at the end of FY23 where domestic debt is 23.7 percent of GDP and external debt is 14.5 percent of GDP (Table 4.12). In the medium term, the global interest rate is likely to remain significantly low as the global growth turned negative in this year due to the global pandemic, and it would take some time to make a full economic recovery. Therefore, deficit financing from external source would be cheaper and hence appropriate borrowing mix between external and domestic source is critical in reducing the cost of financing and slowing down the accumulation of outstanding debt stock.

Table 4.12: Medium-Term Outlook of Debt Stock (Billion Taka)

Indicators	Actual	Budget	Budget®	Projection		
	FY19	FY20	FY20	FY21	FY22	FY23
Total Debt	8419.1	9795.1	9996.9	11678.3	13531.5	15480.4
	(33.2)	(33.9)	(35.6)	(36.8)	(37.8)	(38.3)
Domestic	5338.1	6031.3	6235.8	7355.5	8408.6	9597.8
	(21.0)	(20.9)	(22.2)	(23.2)	(23.5)	(23.7)
	{63.4}	{61.6}	{62.4}	{63.0}	{62.1}	{62.0}
External	3081.0	3763.8	3761.1	4322.8	5122.9	5882.6
	(12.1)	(13.0)	(13.4)	(13.6)	(14.3)	(14.5)
	{36.6}	{38.4}	{37.6}	{37.0}	{37.9}	{38.0}

Source: Finance Division; Figure in ( ) indicates % of GDP and { } indicates % of total debt stock;

Figure 4.10: Medium-Term Outlook of Debt Stock as % of GDP



Source: Figure drawn by using data from the table 4.12;

Debt Sustainability

4.28 Implementation of the declared fiscal stimulus package by the government in the wake of COVID-19 pandemic aided by the expansionary monetary policy by Bangladesh Bank is expected to bring back the growth momentum of the economy as GDP growth is projected to 8.2 percent in FY21. Higher GDP growth along with low interest rate on the back of domestic reform measures in debt management and global low interest rate would create favorable debt dynamics in the near future. Therefore, slight upward trend (Figure 4.10) of debt-GDP ratio will not be a cause for concern at all in the medium term.

4.29 Major share of the government debt is from domestic sources i.e. BDT denominated debt, which does not any have foreign exchange risk. Choosing appropriate borrowing mix is important to reduce domestic debt servicing cost. The government has already reduced its dependence on expensive NSCs to finance budget deficit, which would decrease government interest payments in the future. Further, the government has strengthened its Treasury Single Account (TSA) in the recent past by bringing all the surplus funds of the state owned enterprises to the national exchequer with the enactment of the 'Submission of Surplus Funds of Autonomous, Semi-Autonomous, State-Owned, and Public Non-Financial Corporations to the National Treasury Act 2020'. Reduction in the debt servicing cost would create additional fiscal space to finance priority emergency health services and implement priority development projects.

4.30 Bangladesh's external debt stock has remained reasonably low and the country has a solid and strong track record in debt service payments. External debt stock stands at 44.5 billion USD, which is 13.4 percent of the projected GDP in FY20. The country's external debt service liability that includes amortization of long term external debt and interest payments stands at 1.9 billion USD in FY20, which is 5.1 percent of the projected export earnings and 4.5 percent of the projected revenue of FY20. The IMF recently (May 2020) conducted the Debt Sustainability Analysis (DSA) of Bangladesh which revealed that the Public and Publicly Guaranteed debt service-to-export ratio and debt service-to-debt revenue stand at 5.3 percent and 8.4 percent respectively at the end of 2019. The analysis also reveals that the overall external debt is 18.5% of GDP at the end of 2019 which indicates that Bangladesh's external debt lies far below the threshold level and the government has adequate repayment capability. However, the government should remain cautious about the exchange rate risk that comes from depreciation of the local currency.

4.31 Prudent fiscal policy adopted by the government is expected to keep the public debt sustainable level over the medium term. The country's debt sustainability analysis by the World Bank-IMF shows that government debt remains at a low risk of debt stress. External and domestic debt indicators are below their respective thresholds under the baseline and stress test scenarios until 2029. The composite index (CI) rating for Bangladesh is calculated as 3.06 and the debt carrying capacity is assessed strong (IMF article IV report 2019). According to the government projection, debt to GDP ratio would stand at 38.3 percent of GDP by FY23, where external debt is 14.5 percent of GDP and domestic debt is 23.7 percent of GDP. This level of debt is significantly lower than the threshold limit (Total public debt 70 percent of GDP and external debt 55 percent of GDP) suggested by the joint Bank-Fund DSA framework.

4.32 Bangladesh's debt carrying capacity has been recognized by The Economist's intelligent unit as it has listed Bangladesh as the ninth strongest economy in its recent report on the financial strength of 66 emerging economies in the wake of the Covid-19 fallout. The ranking examines the vulnerability of selected economies across four potential sources of peril: public debt as percentage of GDP, foreign debt (both public and private), cost of borrowing and reserve cover. Bangladesh's economy has featured as strong or relatively strong in all said indicators and it is ahead of China, India and other South Asian countries according to the ranking.

Contingent Liabilities

4.33 The government usually provides guarantees/counter guarantees against loans incurred by the state owned enterprises in line with government's priority sectors, such as power, energy, and agriculture etc. These liabilities would come into effect only if the concerned enterprise fails to pay back the loan.

4.34 As of May 2020, the face value of government guarantees/counter guarantees stands at 60,653.07 crore taka, which is 2.16 percent of the projected GDP in FY20 and 10.68 percent of the government expenditure in FY21. Power and Energy sector alone accounts for 58.61 percent of the total contingent liabilities followed by Bangladesh Biman and Agriculture sector as 16.95 percent and 6.07 percent respectively.

4.35 Having such extent of contingent liabilities, the government has devised necessary monitoring system under a risk framework so that these guarantees do not turn into government liabilities. Sovereign guarantee/counter guarantee guidelines issued by the government is expected to keep the contingent liabilities within a sustainable limit.