Macroeconomic Wing

Finance Division, Ministry of Finance

Government of the People's Republic of Bangladesh

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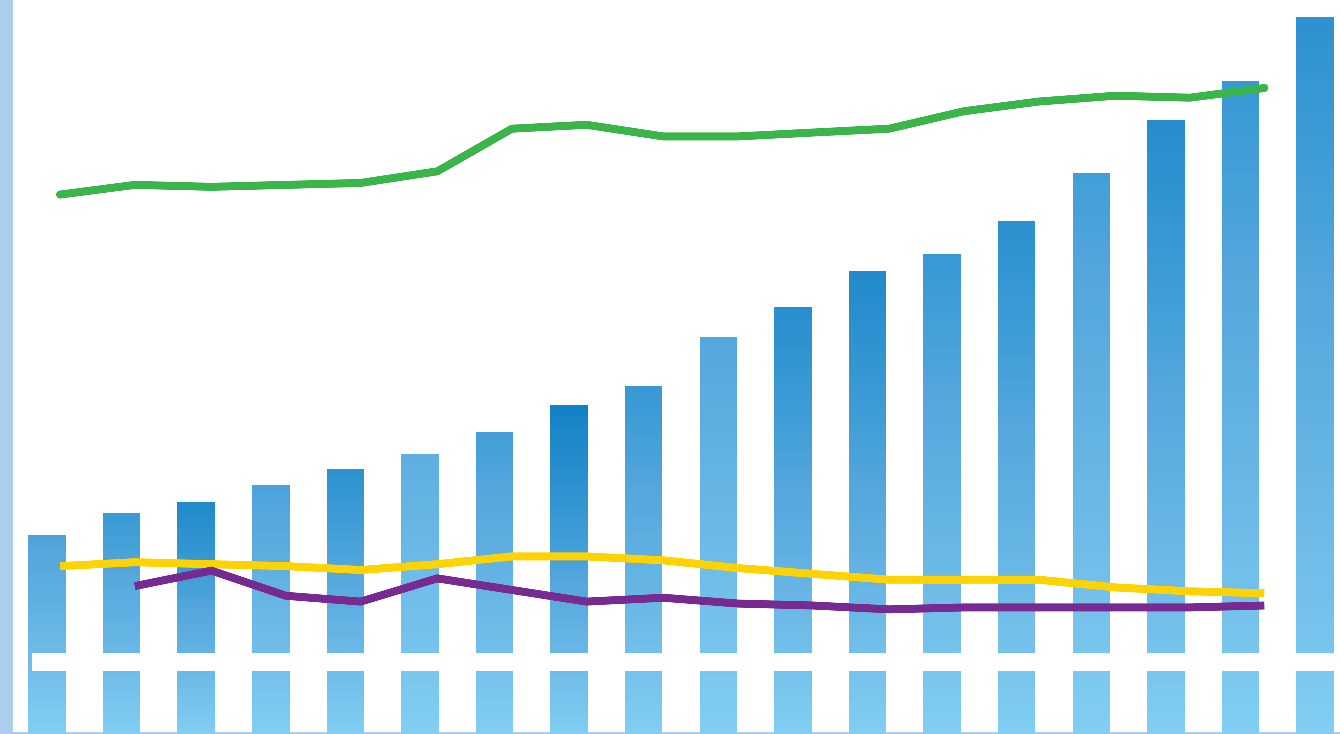
MEDIUM TERM MACROECONOMIC POLICY STATEMENT 2022-23 to 2024-25

Medium Term Macroeconomic
POLICY STATEMENT
2022-23 to 2024-25



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Medium Term Macroeconomic Policy Statement

2022-23 to 2024-25

Placed before the Parliament
in accordance with section 11 of
Public Money and Budget Management Act 2009

Macroeconomic Wing
Finance Division, Ministry of Finance
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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

Under the visionary leadership of Hon'ble Prime Minister Sheikh Hasina, Bangladesh has been marching towards the 'Golden Bengal' envisioned by the Father of the Nation Bangabandhu Sheikh Mujibur Rahman. We have just celebrated the golden jubilee of our independence and the birth centenary of Bangabandhu. Confirmation of our graduation into a developing country came at the time of the momentous and joyful occasion. Graduation was indeed a remarkable milestone for our government that has been made possible by the right steps and prudent policies and strategies. Furthermore, we are now among the five fastest growing economies in the world, and is ranked 41st in terms of GDP size. During the 13 years of the government, our poverty rate came down from 33.4 percent to 20.5 percent. Per capita income jumped to nearly fourfold to US$ 2,824. Social safety net programmes made significant expansion with the coverage of the old age allowance and mother & child benefit programme to 262 poorest Upazilas in the country. Vision 2041 stipulates elimination of extreme poverty and securing the upper middle-income country status by 2031 and becoming a high-income country by 2041. A number of large infrastructure projects, such as Padma Multi-Purpose Bridge, Metrorail, Bangabandhu Sheikh Mujibur Rahman Tunnel, are going to open for traffic this year transforming the communication infrastructure of the country.

Bangladesh, like other countries, was affected by the COVID-19 pandemic that constrained economic activities causing a slide in GDP growth in FY20 to 3.45 percent. However, growth accelerated to 6.9 percent in FY21 and 7.25 percent in FY22 led by a strong rebound in manufacturing and service sector activities thanks to the fiscal and monetary stimulus packages adopted by the government under the direct guidance and supervision of Hon'ble Prime Minister. We have also done well at the health front, as nearly all population above 12 years of age have been fully vaccinated in Bangladesh. However, economic recovery faces new challenges following increasing global commodity prices amid the uncertainty created by the Russia-Ukraine conflict. The conflict has escalated at a time when the world has just begun to recover from the economic fallout of the pandemic. The conflict has already had some impact on Bangladesh, as rising inflation due to increase in global prices of oil, energy, fertilizers and food products, the supply chain backlog, the disruption in exports, etc. have affected Bangladesh. Overall, the Russia-Ukraine military conflict is going to have a negative impact on the Bangladesh economy in the short and medium term. How serious the long-run impact will be will depend on the conflict itself and the prolongation of the crisis that has unfolded as a result of the conflict.

In this backdrop, we are publishing the Medium Term Macroeconomic Policy Statement 2022-23 to 2024-25 which is being placed before the Parliament as per Section 11 of the Public Money's and Budget Management Act 2009. As an elaborate discourse on medium term plans and strategies, this Policy document provides an outline of the recent macroeconomic situation together with an assessment of growth potential of the economy, medium term targets and strategic priorities of the government. The book also analyses the medium term borrowing strategies and targets along with the risks involved and the ways of mitigating the risks. Special emphasis has been given on the strategies to tackle the inflationary pressure and mitigate the pressure on the balance of payment caused by the global geopolitical scenario and upsurge in global commodity prices. Furthermore, to achieve its vision of attaining the upper middle-income status by 2031, Bangladesh needs strategies to create jobs and employment opportunities through a competitive business environment, increased human capital and skilled labor force, efficient infrastructure, and a policy environment that attracts private investments which are also discussed in the policy statement.

I believe that all concerned including the Honorable Members of the Parliament, policymakers, researchers, academics, business leaders and citizens from all walks of life will find the Policy statement very useful. I extend my appreciation to all concerned officials of the Finance Division for their untiring efforts and valuable contribution in the preparation of the document.

(A H M Mustafa Kamal FCA, MP**)**
Minister
Ministry of Finance

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Acronyms

ADB	Asian Development Bank
ADP	Annual Development Programme
BACs	Budget and Accounting Classification System
BAU	Business as Usual
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BCCSAP	Bangladesh Climate Change Strategy and Action Plan
BCCTF	Bangladesh Climate Change Trust Fund
BCIC	Bangladesh Chemical Industries Corporation
BDP	Bangladesh Delta Plan
BDT	Bangladesh Taka
BIDA	Bangladesh Investment Development Authority
BJMC	Bangladesh Jute Mills Corporation (BJMC)
BOP	Balance of Payment
CMSME	Cottage, Micro, Small and Medium Enterprise
BPC	Bangladesh Petroleum Corporation
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
COVID-19	Coronavirus disease 2019
DSA	Debt Sustainability Analysis
EDF	Export Development Fund
EFD	Electronic Fiscal Devices
EFT	Electronic Fund Transfer
EGPP	Employment Generation Programme for the Poorest
EMDEs	Emerging market and Developing Economies
EPZ	Export Processing Zone
EZ	Economic Zone
FDI	Foreign Direct Investment
EPI	Expanded Vaccination Programme
FYP	Five Year Plan
FY	Fiscal Year
FFW	Food for Work
FTA	Free Trade Agreement
G2P	Government 2 Private
GDP	Gross Domestic Product
GNI	Gross National Income
GR	Gratuitous Relief
HIC	High-Income Country
IMF	International Monetary Fund
iBAS	Integrated Budget & Accounting System
ICT	Information and Communication Technology
IDA	International Development Assistance
LCs	Letter of Credits
LDC	Least Developed Countries
LICs	Low-Income Countries

MPS	Monetary Policy Statement
MRT	Mass Rapid Transit
MTBF	Medium Term Budgetary Framework
MTMF	Medium Term Macro Framework
MSME	Micro Small and Medium Enterprises
MTMPS	Medium Term Macroeconomic Policy Statement
MW	Mega Watt
NAP	National Adaptation Plan
NAPA	National Adaptation Programme of Action
NBFIs	Non-Bank Financial Institutions
NBR	National Board of Revenue
NDCs	Nationally Determined Contributions
NHRDF	National Human Resource Development Fund
NSC	National Savings Certificate
NSDA	National Skills Development Authority
NSSS	National Social Security Strategy
NTR	Non-Tax Revenue
OMS	Open Market Sale
OSS	One Stop Service
PDB	Power Development Board
PFM	Public Financial Management
PMO	Prime Minister's Office
PPP	Public Private Partnership
PTA	Preferential Trade Agreement
RMG	Ready Made Garment
SD	Supplementary Duty
SDGs	Sustainable Development Goals
SDC	Sales Data Controller
SDSN	Sustainable Development Solutions Network
SEIP	Skills for Employment Investment Programme
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
SROs	Statutory Regulatory Orders
TR	Test Relief
TSA	Treasure Single Account
VAT	Value Added Tax
WEO	World Economic Outlook
UK	United Kingdom
UMIC	Upper-Middle Income Country
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
VGF	Vulnerable Group Feeding
WCO	World Customs Organization
WTO	World Trade Organization

Chapter One

Return of Growth Momentum through Resilient Economic Recovery

Bangladesh has been transformed significantly during the last 13 years. Sustained high income growth coupled with dramatic reduction of poverty has changed the lives of millions. Elevated from the group of Low-Income Countries (LICs) in 2015, the nation is now poised to graduate from the list of the Least Developed Countries (LDCs) in 2026. Throughout this journey, significant progress has been made in key socio-economic indicators like rapid rise in per capita income, increased life expectancy, improved literacy rate, improved calorie intake per capita, etc. The nation is now aspiring to become a 'Upper-middle-income country' by 2031 and a developed country by 2041 and realizing the dream of the Father of the Nation Bangabandhu Sheikh Mujibur Rahman.

1.2 The COVID-19 pandemic and accompanying economic downturn on a global scale has made major interruption in the development journey of the nation in recent years. The growth rate was dropped to 3.45 percent in FY20 from 7.88 percent in the preceding year. The government responded quickly to protect the lives and livelihood of the people. A range of fiscal and monetary stimulus packages were designed and implemented to bring the economy back on track. As a result, the economy bounced back sharply to achieve a growth of 6.94 percent in FY21. The recovery continued in FY22 with a growth estimate of 7.25 percent. However, the conflict arisen between Russia and Ukraine in early 2022 and subsequent energy and food price volatility in the global market have posed another round of challenges to the economy. So, in preparing the budget of FY23, the government is focusing on three major issues: achieving full economic recovery from the losses of the pandemic, cushioning the economy from global external shocks and making the success of income growth and poverty alleviation sustainable in the medium to long term.

1.3 This Policy Statement elaborates key macroeconomic policies that would be pursued by the government in the medium term to address the three major issues mentioned above. The policies have largely been translated through the budget proposal for FY23 and forecasts for FY24 and FY25. The first chapter explores the fundamental issues and policies that will influence and guide the economic journey of Bangladesh in coming years considering the COVID-19 fallout. Chapter Two discusses the medium term macroeconomic outlook, Chapter Three presents the government's spending framework and sectoral priorities, while revenue performances and debt sustainability issues are elaborated in Chapter Four.

Key Issues

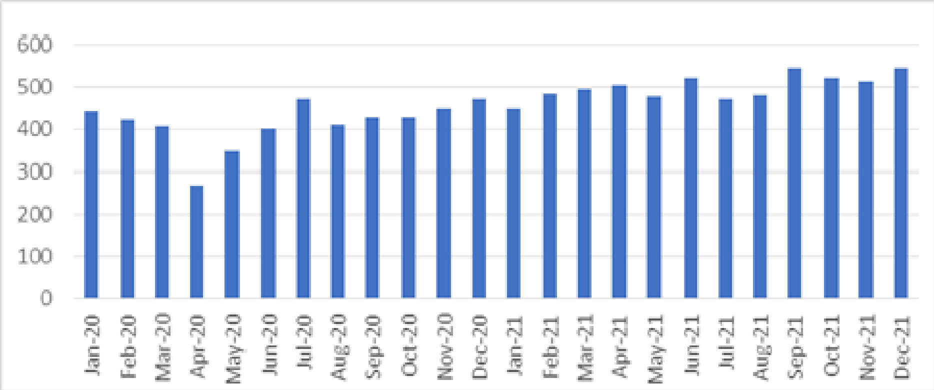
Recovery from the Pandemic

1.4 The economic impact of the COVID-19 pandemic has been subsiding since the latter half of 2021. Although the infection surged during the Delta (July to August 2021) and Omicron (January to February 2022) waves of the pandemic, wider vaccine coverage and well-prepared health system have significantly limited its impact on both public health and economic activities. High frequency indicators of trade, industrial activity and credit growth point to a continuing expansion in the first half of FY22. However, the recovery faces new headwinds following the surge in global commodity prices in the context of the war in Ukraine, which exacerbates the current account deficit and inflationary pressure.

1.5 Strong recovery in FY21 continued in the first half of FY22. On the supply side, growth was driven by a rebound of the manufacturing and service sectors. On the demand side, acceleration in exports and private consumption led the growth. After remaining stable in FY21, inflation rose in FY22, driven in part by rising global energy, food and commodity prices. Poverty declined in FY21 as household income recovered. According to 'Bangladesh Development Update' published by the World Bank in April 2022, poverty declined to 11.9 percent in FY21 from 12.5 percent in FY20 using the international poverty line (US$ 1.9 a day in 2011 PPP). While the global economy continued to recover, commodity prices surged. Global trade in goods reached new heights, despite persistent supply bottlenecks. Economic activity rebounded in both advanced and emerging market and developing economies (EMDEs) in 2021, with which the Bangladesh economy kept pace. Bangladesh entered the pandemic with strong policy buffers to mitigate its negative impact. The stimulus programme and accommodative macroeconomic policies protected productive capacity in the manufacturing sector and helped offset income losses.

1.6 On the supply side, growth was underpinned by a rebound of manufacturing and service sector activity. The Quantum Index for Large and Medium Scale Manufacturing rose by 18.64 percent in FY21 and 18.52 percent during July-December of FY22 over that period of FY21. Sub-indices of major industry groups which increased during July-December of FY22 were: leather and related products by 43.71 percent, wearing apparel by 33.91 percent, textile by 24.13 percent, fabricated metal products except machinery by 21.07 percent, basic metals by 17.80 percent, pharmaceuticals & medicinal chemical by 9.18 percent, non-metallic mineral products by 4.27 percent and food products by 3.41 percent, largely driven by the recovery in external and domestic demand.

Figure 1.1: Quantum Index of Manufacturing (Base 2005-06=100)

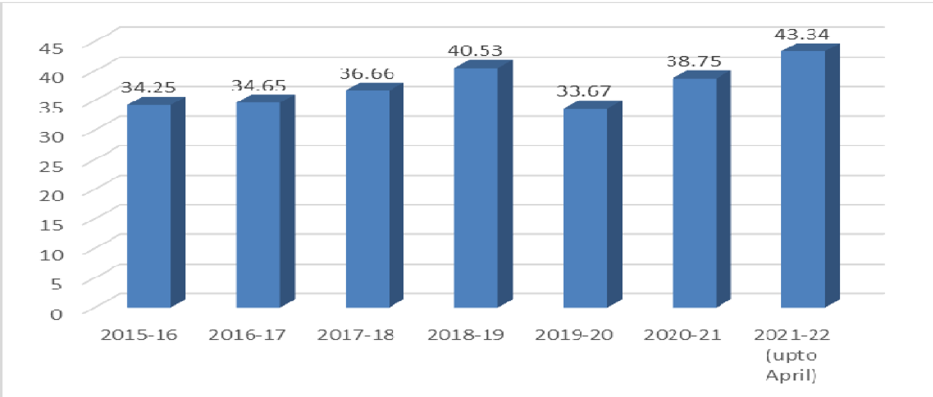


Source: BBS

1.7 In the service sector, retail sales, hotel and restaurant activity rebounded as movement restrictions eased. Growth was also attributable to commodity exports and a rebound of private consumption. After declining in FY20, exports grew by 15.10 percent in FY21 and 35.14 percent in the first ten months (July-April) of FY22, with recovery in global demand for readymade garment (RMG). Bangladesh gained market share in Europe and the United States, as buyers diversified global supply chains. In addition to RMG, exports of home textiles, pharmaceuticals, engineering and agricultural products also recorded strong growth. During July-March of FY22 the imports increased by 43.84 percent. According to the import data of July-February of FY22 this increase was mainly due to rise in opening of import LCs of petroleum & petroleum products (+73.09%), industrial raw material (+52.78%), intermediate goods (+55.36%) and capital machinery (+56.09%), which points to a strong recovery in private consumption and industrial production. Public investment as percent of GDP was 7.3 percent in FY21 and increased to 7.62 percent in FY22 as government infrastructure megaproject implementation progressed.

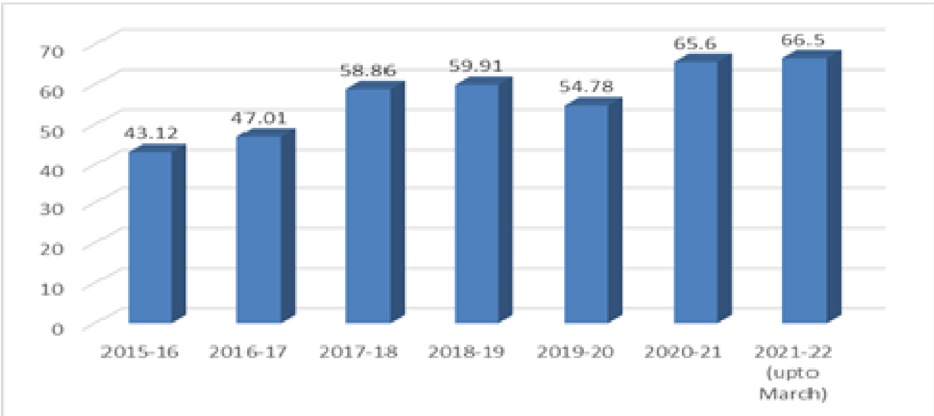
A gradual acceleration in growth of credit to the private sector and a sharp increase in capital goods imports demonstrate a continued recovery of private investment as well.

Figure 1.2: Export (In US$ Billion)



Source: Bangladesh Bank

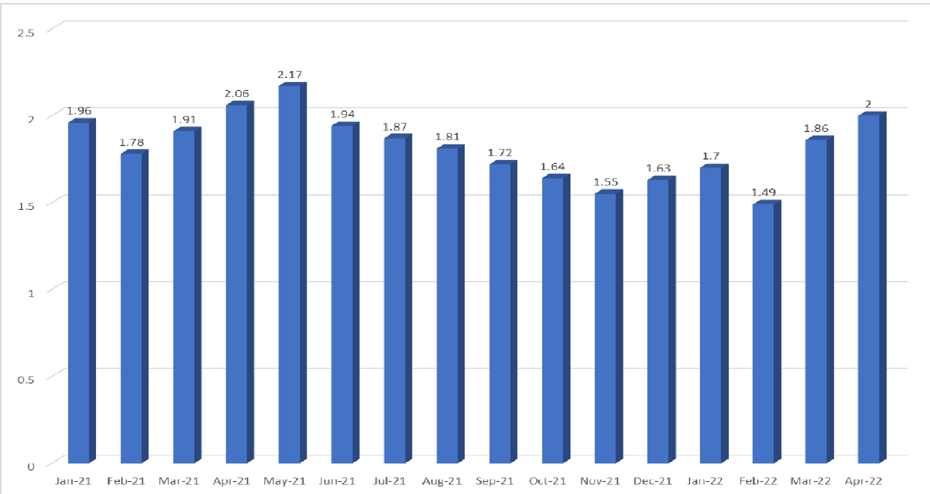
Figure 1.3: Import (In US$ Billion)



Source: Bangladesh Bank

1.8 Wage earners remittances exhibited a 36.10 percent growth in FY21 thanks to various facilities provided by the government in this regard. The receipts of workers' remittances have considerably slowed down during July-April of FY22 to US$ 17.31 billion against US$ 20.67 billion during the same period of FY21. It is observed that the inflow of remittances has been declining since the beginning of FY22. The underlying reasons are; many Bangladeshi migrants lost their jobs, some migrants were laid off by their companies and many others who returned home during COVID-19 could not go back. Also, after the resumption of international flights and remittance through informal channels might have increased which are not reflected in the official remittance data. This might be another important reason for declining remittances. However, in April 2022 it showed a sign of recovery and a total of US$ 2.09 billion was sent in a month.

Figure 1.4: Remittances Inflow (In US$ Million)



Source: Bangladesh Bank

Implementation of the Eighth Five Year Plan

1.9 Prior to the pandemic, the progress of the 7th Five Year Plan (7th FYP) was quite positive in achieving major development targets related to economic growth, economic transformation and poverty reduction. GDP grew faster than the target of the 7th FYP. In the first 4 years of the Plan, the average GDP growth of 7.6 percent exceeded the target of 7.4 percent. But the pandemic has broken out in the terminal year of the plan and the actual average GDP growth achieved during the plan period ended up at 7.13 percent. During this plan period, Bangladesh became one of the fastest growing countries in the world. Much progress has been made in the transition from a rural agrarian economy to a urban manufacturing and service dependent economy. The export-oriented manufacturing sector reached a new height with an average annual growth of 12.7 percent. Poverty and extreme poverty rates have declined significantly in the first four years of the 7th FYP. In FY19, the poverty rate came down to 20.5 percent and extreme poverty came down to about 10.5 percent.

1.10 Building on the success of the 7th FYP, the 8th Five Year Plan (8th FYP) was adopted in 2020 with an implementation period of July 2020 to June 2025. The Plan centers around six core themes, such as i) rapid recovery from COVID-19; ii) GDP growth acceleration, employment generation and rapid poverty reduction; iii) a broad-based strategy of inclusiveness; iv) a sustainable development pathway that is resilient to disaster and climate change; v) improvement of critical institutions necessary to lead the economy to Upper Middle-Income Country status by 2031; and vi) attaining Sustainable Development Goals (SDGs) targets and mitigating the impact of LDC graduation. The Eighth Plan sets a target of 8.51 percent GDP growth by FY25. Priority is also given to achieve inclusive growth that will bring down the incidence of poverty to 15.6 percent and extreme poverty to 7.4 percent.

Sustainable Development Goals

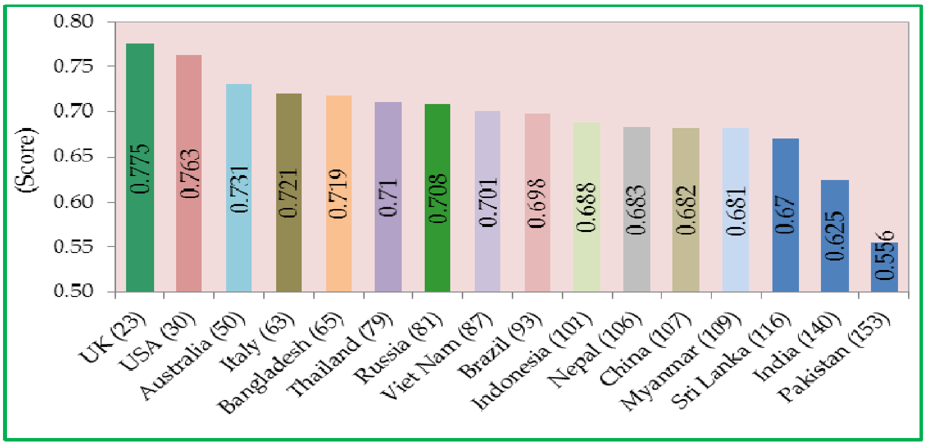
1.11 The Global Agenda 2030 stresses that increasing economic growth, eliminating poverty, protecting negative effects of climate change, ensuring sustainable consumption and production and good governance provide the foundation of development. Bangladesh aspires to achieve the SDGs within the stipulated time and our commitment to attain sustainable development is rooted in Bangabandhu Sheikh Mujibur Rahman's dream. In line with the dream the country has made strong progress in SDGs implementation. The UN-sponsored Sustainable Development Solutions Network (SDSN) has conferred Prime Minister Sheikh Hasina with the "SDG Progress Award" for Bangladesh's steady course in responding to the universal call to end poverty, protect the planet and ensure peace and prosperity for all.

1.12 The government has played a critical role in formulating SDGs and has been contributing since the Rio+20 Earth Conference in 2012. Under the prudent leadership of Hon'ble Prime Minister and her strong commitment, the government has played an important role in shaping SDGs. It integrated SDGs in the 7th Five Year Plan and the ongoing 8th Five Year Plan.

1.13 Bangladesh has continued to make impressive progress in socio-economic development in many key indicators. The average life expectancy in Bangladesh is now 72.8 years. In 2020, infant mortality of less than 5 years per thousand live births has gone down to 28 and infant mortality rate of less than 1 year has gone down to 21. In addition, the maternal mortality rate per thousand is now 1.63 persons from 1.65 in 2019. Reducing poverty is one of the major objectives of the government. To combat poverty the government is committed to pursue an inclusive growth strategy, and has adopted a coordinated approach combining various initiatives including the overall government development programmes, private investment and social security programmes. Bangladesh Planning Commission has published the “Revised Mapping of Ministries/Divisions and Custodian/Partner Agencies for SDGs Implementation in Bangladesh” to ensure that ministries/divisions play their constructive and meaningful roles in achieving the SDGs.

1.14 Bangladesh is on the right track in implementing the SDGs. According to the Global Gender Gap Report 2021, Bangladesh ranks 65th out of 153 countries in the Gender Inequality Index in the world, the highest in South Asia, which is a sign of the government's overall success in women's development and elimination of gender inequality.

Figure 1.5: The Global Gender Gap Index 2021 Rankings



Source: World Economic Forum

Inflation and Financial Sector

1.15 Despite injections of government funds through stimulus packages and disruptions in the supply chain due to lockdowns, commodity and food prices were largely stable during the pandemic due to the prudent fiscal and monetary policies of the government. Twelve-month average general inflation was at 5.56 percent in June 2021. However, inflation rose in FY22 due to higher commodity prices in the international market along with rise in domestic demand. At the end of April, 2022 general inflation (12-month average) increased to 5.81 percent. Reviewing the existing situation, it is evident that the upward trend in inflation will continue in the remaining two months of the current financial year. A gradual acceleration in private sector credit growth began in FY21 and continued in FY22. At the end of March 2022, credit to the private sector increased by 11.29 percent compared to the same period of the previous year. At the end of March 2022, public sector credit growth was 28.96 percent. To increase investment in the productive sector and reduce the government's expenditure in interest rate on savings certificates, the rate of return on National Savings Certificates (NSCs) for large investors has been reduced in September 2021. However, the interest rate for small and marginal investors has been kept at the same level.

Medium Term Policy and Strategic Goals

Policy and Goals for Sustaining Post-COVID-19 Recovery

1.16 During the first wave of the pandemic in 2020, our economy slowed down as in other countries. Overall exports declined due to the declining demand in major export markets. In addition, nationwide restriction on movement to control the spread of the virus threatened the livelihoods of millions of people, including workers in industry and services. This had some impact on the income from the agriculture, industry and services sectors and the overall demand generated from them. The Continuation of the pandemic posed further challenges to the country's economy. However, since the beginning of the COVID-19 pandemic, the government has dealt with the situation cautiously and as a result, Bangladesh has been successful in controlling the number of COVID patients, mortality rate and economic losses. While being successful in protecting lives, it has also done well in facilitating economic recovery, as discussed earlier.

1.17 Economic recovery was largely due to the pursuit of prudent macroeconomic policies by the government. The government has formulated a comprehensive economic recovery programme with short, medium and long term goals to overcome the crisis. There are four main strategic aspects of the recovery programme; (a) to increase government spending, especially in creating jobs and discouraging luxury spending, (b) to introduce low interest rate credit facility through banking system to revive economic activities and increase the competitiveness of the businesses at home and abroad, (c) to increase the coverage of social security programmes to provide protection to the extremely poor, unemployed low-income people and people engaged in informal activities, and (d) to increase money supply in the market. The government undertook 28 fiscal and stimulus packages to the tune of Tk. 187,679 crore or US$ 22.08 billion which is 5.31 percent of GDP (Table 1.1). These packages have been designed in a way to ensure that the maximum number of populations is benefitted and to ensure that Bangladesh makes a quick recovery from the economic losses.

Table 1.1 Various Fiscal Packages Declared by Honorable Prime Minister for COVID-19 Response

Sr. no	Name of the Package	Amount (Crore Tk.)
1	Special Fund for Salary support to export oriented industry workers	5,000
2	Working Capital loans for affected industries and service sector	73,000
3	Working Capital loans for SMEs including the cottage industries	40,000
4	Expansion of facility provided through Export Development Fund	17,000
5	Pre-Shipment Credit Refinance Scheme	5,000
6	Special Honorarium for doctors, nurses, medical workers	138
7	Health Insurance and life insurance	750
8	Free Food Distribution	2,500
9	OMS of rice at 10 taka/kg	770
10	Cash Transfer for targeted poor people (3.5 million households)	1,326
11	Expansion of Cash Allowance Programs to 112 Upazilas	815
12	Construction of home for homeless people	2,130
13	Support for farm mechanization	3220
14	Subsidy for agriculture	9,500
15	Agriculture Refinance Scheme	8,000
16	Refinance scheme for professional farmer and small traders	3,000
17	Employment creation through five State owned financial institutions	3,200
18	Subsidy for commercial bank's suspended interest of April-May, 2020	2,000
19	Credit Risk Sharing Scheme for SME Sector	2,000
20	Safety net program for Export Oriented Industry's distressed workers	1,500
21	Revitalizing the rural economy and job creation in rural area through eight govt. NGOs	1,500
22	Expansion of Cash Allowance Programs to another 150 Upazilas	1,200
23	2nd Tranche Cash transfer to 3.5 million poor households + 1,00,000 Boro farmers	930
24	Cash Transfer to 17,24,470 workers	450
25	Special OMS at the city area (Rice: 20,000 MT and Flour: 14,000 MT)	150
26	Fund for Deputy Commissioners for food support to vulnerable people using 333 phone no.	100
27	Employment creation through three State owned financial institutions - 2nd phase	1,500
28	Working Capital credit facility to pay wages for employees of hotel/motel/theme parks	1,000
	Total (In Crore Taka)	**187,679**
	Total (In Million USD)	**22,080**
	As % of GDP	**5.31**

Social Security, Employment Generation and Skills Development

1.18 The government has been continuing the social safety net programmes with a view to alleviating poverty through improvement of socio-economic conditions of the ultra-poor. The government has adopted the life cycle approach of social safety net. In FY22 a total of Tk. 1,076 billion has been allocated in the budget for social safety net programmes, which is 17.83 percent of the budget of the same fiscal year. To eradicate poverty, the use of targeted and efficiently monitored social safety net programmes has seen a manifold increase. The increase made in the number of beneficiaries of various programmes are as follows: beneficiaries of the old age allowances to 57.01 lakh, beneficiaries of the allowance programme for widows and women deserted by husbands to 24.75 lakh, beneficiaries of the maternity allowance and allowance for lactating mothers to 10.45 lakh, beneficiaries of state honorarium for valiant freedom fighters to 2 lakh and beneficiaries of allowances for insolvent persons with disabilities to 20.08 lakh. Again, the number of beneficiaries of the stipend programme for primary school students has been increased to 120.14 lakh and for secondary and higher secondary school students to 66.12 lakh. The government formulated the National Social Security Strategy, 2015 to reduce poverty and discrimination, and implemented the NSSS Action Plan 2016-2021. The second phase of the Action Plan (2021-2026) is now under implementation. Steps have been taken to establish MIS for all programmes and databases for all beneficiaries, which will bring greater transparency and efficiency in service delivery and reduce inclusion and exclusion errors. Payments are being made directly from the government to the beneficiaries through the G2P system, which has been rolled out to 12 cash transfer programmes. The government has set the target to bring all social protection programmes having cash transfer components under the G2P system by June 2022.

1.19 The Ashrayan project aims to ensure housing for the poor landless and homeless people. This has become one of the most important tools in social and economic development, including poverty reduction. In *Mujib Borsho*, the government re-introduced the housing programme proposed by the Father of the Nation to provide houses as well as land to the homeless and landless people in the quickest time, which is now being known as the 'Sheikh Hasina's model for inclusive development'.

1.20 The government has been giving special emphasis on enhancing investment and ensuring an investment-friendly environment for the private sector which will help generate greater employment in this sector. For enhancing productive investment, the government is striving to remove key bottlenecks in the economy with special emphasis on power and energy, ports, communication and ICT sectors. Besides, higher and targeted spending on the health and education sectors and reforms in related policies would likely to contribute in enhancing employability and addressing skill mismatch. Targets have been set for the overall improvement of education, achieving qualitative excellence and expansion of education. The government also wants to ensure business-friendly tax management and increase public sector investment. Achieving the projected GDP growth will also require infrastructural development. To that end, the government emphasizes timely implementation of all important infrastructure projects including mega projects. To facilitate private sector development, the government has taken various reform initiatives to streamline business processes. The government slashed down fees and charges applicable on various business processes to reduce costs of doing business. Bangladesh Investment Development Authority (BIDA) has launched an online One Stop Service (OSS) portal and so far, launched 58 business process in the portal with the target of providing more than 150 services of various service providers through this portal. During FY22 (July-February), a total of TK. 1,080 billion investment proposal was received through 763 industrial projects registered for local and foreign investment.

1.21 The government also lays emphasis on the implementation of projects under Public-Private Partnership (PPP) to attract investment required for realization of its development plans. At present, as many as 77 projects are scheduled to be implemented under the PPP, with a projected investment of US$ 35.6 billion. Agreements have already been signed with private partners for the implementation of 16 projects with an estimated investment of US$ 4.3 billion. The government is promoting Economic Zones (EZ) responding to the need for serviced industrial land and infrastructural facilities to both local and foreign investors. 100 EZs are being established. Construction work of 'Bangabandhu Sheikh Mujib Industrial Area', the largest, planned and modern industrial area on 30,000 acres of land at Mirsharai, Sonagazi and Shitakunda Upazila, is progressing first. In addition, progress has been made in developing the Maheskhali, Srihatta (Sylhet) and the Jamalpur EZs.

1.22 The government has been working for human resource development by enhancing the skills of our growing population. To create employment opportunities for the country's active population and facilitate skills, the government has recently adopted the National Skills Development Policy 2020 by upgrading the 2011 Policy. Again, to finance the activities aimed at human resources development, the National Human Resource Development Fund (NHRDF) has been created. National Skills Development Authority (NSDA) established under the Prime Minister's Office has framed the National Skills Development

Authority Rules, the Training Institutes Registration Rules and the National Human Resource Development Fund Management Rules. The government has approved the organogram of the NSDA. To create jobs for the unemployed youths and generate self-employment opportunities, skill development training on various occupations is being provided to youths who are one-third of the country's total population. To facilitate skills development in line with the demands from the job market, the Finance Division is implementing a 10-year long 'Skills for Employment Investment Programme (SEIP)' to develop the skills of 1.5 million people in three stages and put them into formal jobs. To establish connectivity between the job market and the industries, Industry Skills Councils for 12 sectors have been formed.

Long Term Policy and Strategy

Vision-2041 and 2nd Perspective Plan (2021-2041)

1.23 Realizing the importance of effective planning to achieve the long term goals, the government under the guidance of Hon'ble Prime Minister Sheikh Hasina has formulated several long term plans, following Bangabandhu's development philosophy. Hon'ble Prime Minister reiterated her solidarity with the people and demonstrated her unwavering commitment of fighting poverty by announcing Vision 2021 and the associated Perspective Plan 2011-2021. Riding on the success of Vision 2021, the government has recently formulated the Perspective Plan 2021-2041 (Vision 2041).

Box 1.1: Development Priorities of the 2nd Perspective Plan

Over the next two decades, Bangladesh will experience an accelerated pace of change that will be rapid and transformational. The development priorities during the PP 2021-2041, considered pivotal for the transformation of the current economy into a developed one, are as follows:

- Ensuring good governance
- Poor-inclusive macro-economy
- Eradicating poverty from all spheres of society
- Developing human capital through quality education and harnessing the demographic dividend
- Maintaining sustainable agriculture for food security and rural development
- Industrialization, export diversification and employment generation
- Ensuring sustainable power and energy
- Creating an innovation economy through fostering ICT and scientific research
- Building transport and communication infrastructure for sustained rapid growth
- Managing the urban transition to a high-income economy
- Ensuring a sustainable environment, creating a climate-resilient nation and unlocking the potential of a blue economy.

Box 1.2: Major Physical Targets of the 2nd Perspective Plan

The following strategic targets have been set and will be pursued as the essential components of economic policy over the long term:

- Eradication of extreme poverty by 2031 and reducing poverty to less than 3 percent by 2041;
- Become an Upper Middle-Income country by 2031;
- Become a High-Income country by 2041;
- Industrialization with export-oriented manufacturing for required structural transformation into the future;
- Paradigm shifts in agriculture for enhancing productivity, ensuring nutrition and food security for the future;
- Service sector capable of transforming the rural agrarian economy into a primarily industrial and digital economy;
- Efficient urban transition for moving to a high-income economy;
- Efficient energy and infrastructure to create an enabling environment that facilitates rapid, efficient and sustainable growth;
- Building a Bangladesh resilient to climate change and other environmental challenges; and
- Establishing Bangladesh as a knowledge hub for promoting a skill-based society.

1.24 Vision 2041 seeks to eliminate extreme poverty and step into Upper Middle-Income Country (UMIC) status by 2031 and High-income Country (HIC) status by 2041, with poverty approaching extinction. The PP 2041 draws on the best practice experiences of current UMICs and HICs that have already traveled the development path that Bangladesh endeavors to go through. Two principal visions underpinning the PP2041 are (a) Bangladesh will be a developed country by 2041, with a per capita income of over US$ 12,500 in today's prices and entirely in tune with the digital world and (b) complete eradication of poverty and hunger.

Bangladesh Delta Plan 2100

1.25 Given the long term challenges of climate change and natural hazards, the government has been implementing a long term plan for the sustainable development of the country titled 'The Bangladesh Delta Plan 2100' (BDP 2100). This is a comprehensive strategy to address the risks posed to this deltaic country, including natural disasters and climate change. The dynamic implementation of the delta plan will be a major tool in mitigating climate risk and will greatly enhance the potential for sustainable development and poverty reduction. The Plan, an integrated techno-economic plan, seeks to integrate the medium to long term development aspirations of Bangladesh with the longer term challenge of sustainable management of water, ecology, environment and land resources in the context of their interaction with natural disasters and climate change. The BDP 2100 looks primarily at the delta agenda up to 2050 and recognizes that today's decisions have implications up to 2050 and beyond.

Box 1.3: BDP 2100 Goals

BDP 2100 has set 3 national-level goals and 6 delta specific goals that are as follows:

National Level Goals Goal

Goal 1. Eliminate extreme poverty by 2030;
Goal 2. Achieve Upper Middle-Income Country (UMIC) status by 2031 and
Goal 3. Become a prosperous country beyond 2041.

Delta specific Goals

Goal 1. Ensure safety from floods and climate change-related disasters.
Goal 2. Enhance water security and efficiency of water usage.
Goal 3. Ensure sustainable and integrated river systems and estuary management.
Goal 4. Conserve and preserve wetlands, ecosystems and promote their wise use.
Goal 5. Develop effective institutions and equitable governance for in-country and trans-boundary water resources management
Goal 6. Achieve optimal and integrated use of land and water resources.

Environment and Climate Change

1.26 The government has integrated environmental disasters and climate change into a medium term and long term planning process and identified specific objectives and strategies for environmental protection and climate change. Bangladesh is actively participating in global discussions on climate change and has signed all major global initiatives. Laws and regulations have been enacted over the years to protect the environment. Various programmes and policies have been formulated to adapt and mitigate the negative effects of climate change. Progress made during the 7th FYP period will be continued by the government during the ongoing 8th FYP. Special emphasis will be given on water and air pollution control. In addition to the legal framework, focus is also made on controlling air pollution from brick kilns and reducing water pollution from the leather industry. Important steps have been taken to regenerate forests and conserve biodiversity.

1.27 Bangladesh has expressed its desire, in the recently upgraded Nationally Determined Contributions (NDCs), to take mitigation measures to reduce greenhouse gas emissions by following the path of low carbon development. Bangladesh has voluntarily committed to reduce 12 million metric tons of carbon dioxide in the power, transport and industrial sectors by 2030 or to bring them down to 5 percent Business as Usual (BAU) in those sectors. Furthermore, conditional upon international support, additional 24 million metric tons of carbon dioxide is committed for reduction. The country is at the forefront of adaptation efforts. Bangladesh has developed a roadmap towards developing a comprehensive National Adaptation Plan (NAP) aimed at mitigating the risks of climate change by increasing adaptation capacity and tolerance. Based on the National Adaptation Programme of Action (NAPA) and the Bangladesh Climate Change

Strategy and Action Plan (BCCSAP), NAP integrates new and existing relevant policies, programmes and activities, especially development planning processes and strategies in all relevant sectors and at various stages. BCCSAP is currently being updated. Climate change adaptation efforts have been supported through a pilot programme funded by the Bangladesh Climate Change Trust Fund (BCCTF). Disaster management programmes have been well implemented. The ability to mitigate the loss of life and property has been created by following prompt precautionary measures, construction and availability of shelters and timely relief and cooperation measures.

Chapter Two

Macroeconomic Performance and Medium Term Outlook

Bangladesh economy has upheld the growth trend by maintaining macroeconomic stability and inclusiveness after the COVID-19 shock in FY20. Despite the slump to 3.45 percent in FY20, growth recovered in FY21 and FY22. As elaborated in Chapter 1, this growth momentum is attributable to strong domestic demand and supportive fiscal and monetary policies. As the country exhibits excellent progress in macro variables, i.e. the impetus in private investment due to private sector credit growth and continuity in political stability, increase in total government expenditure including ADP and increase in exports and imports after the post COVID-19 period, the real GDP growth has recorded 6.94 percent in FY21 and 7.25 percent (estimates) in FY22. However, the Russia-Ukraine conflict has heightened geopolitical uncertainty and rattled commodity and financial markets amid the COVID-19 pandemic. Fortunately, COVID-19 Omicron variant has had a milder impact than other variants and progress on vaccination has allowed economies across the world to remain more open than in earlier COVID-19 waves. Bangladesh economy fared well in comparison to many other countries but the current state of uncertainty associated with the Russia-Ukraine conflict poses a threat as the world economy faces the risk of serious disruption to supply chain which may put Bangladesh at risk. Due to the disruption caused by the conflict and the economic sanctions imposed on Russia, commodity prices may upsurge in the coming days projecting 12 months average inflation in Bangladesh at 5.8 percent in FY22. Keeping food and commodity prices within the reach of mass people will be a daunting challenge for the government.

2.2 Bangladesh has already qualified for graduation from the LDC. It has met all the eligibility criteria for LDC graduation involving income per capita, human assets index and economic vulnerability index. The 'Vision 2041' has been adopted in the line of Vision 2021. The 8^{th} Five Year Plan (July 2020-June 2025) is being implemented for the last two years. For quick recovery from the COVID-19 shocks, the budget for FY22 has been formulated with an emphasis on achieving long term and sustainable development goals in line with the current and far-reaching goals of the government as well as helping recover the domestic economy and creating quality new jobs by overcoming the detrimental effects of the pandemic. In response to the COVID-19, the government has made additional allocations in the health sector for new recruitment, procurement of medical equipment, purchase of medicines, etc. in this financial year. Implementation of mega projects, economic zones and infrastructure development projects such as power, energy, road, rail, bridges, ports, etc. are also given priority in the national budget.

2.3 This chapter begins with a discussion of recent developments in the global economy. Later, it analyses 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 war in Ukraine has led to extensive loss of life, triggered the biggest refugee crisis in Europe since World War II and severely set back global recovery. According to the latest World Economic Outlook (WEO) published by International Monetary Fund (IMF), global activity has slowed down after a strong recovery from COVID-19 in 2021. Global growth is projected to decline from an estimated 6.1 percent in 2021 to 3.6 percent in both 2022 and 2023. The ongoing war in Ukraine and sanctions on Russia are expected to reduce global growth in 2022 through direct impacts on the two countries and global spillovers. The advanced economy as well as emerging and developing Asia projected a setback in 2022. The advanced economy is projected for a growth rate of 3.3 percent in 2022 which was 5.2 percent in 2021. Similar scenario is prevalent in emerging and developing Asia, which is projected for sharp fall from 7.3 percent in 2021 to 5.4 percent in 2022 (Table-2.1).

2.5 According to the World Economic Outlook (WEO) by International Monetary Fund (IMF) of April 2022, world trade volumes triggered to massive 10.1 percent growth in 2021 from 7.9 percent contraction in 2020. But the projection for 2022 is less than 2021 which is 5.0 percent. Commodity price has experienced a high trend due to Russia-Ukraine war in the first half of 2022. Oil price soared to US$ 69.07 per barrel in 2021, 79.2 percent higher than the previous year. The oil price is projected even higher at US$ 106.83 per barrel in 2022 due to the Russia-Ukraine conflict.

Table 2.1: Global Economy: Growth and Inflation Scenario

Country/Region	Real GDP growth				Inflation			
	Actual		Projection		Actual		Projection	
	2020	2021	2022	2023	2020	2021	2022	2023
World	-3.1	6.1	3.6	3.6	-	-	-	-
Advanced Economies	-4.5	5.2	3.3	2.4	0.7	3.1	5.7	2.5
USA	-3.4	5.7	3.7	2.3	1.2	4.7	7.7	2.9
Euro area	-6.4	5.3	2.8	2.3	0.3	2.6	5.3	2.3
Emerging and Developing Asia	--0.8	7.3	5.4	5.6	3.1	2.2	3.5	2.9
China	2.2	8.1	4.4	5.1	2.4	0.9	2.1	1.8
India	-6.6	8.9	8.2	6.9	6.2	5.5	6.1	4.8
Middle East and Central Asia	-2.9	5.7	4.6	3.7	10.6	13.2	12.8	10.5

Source: World Economic Outlook, April 2022, IMF

Domestic Economic Trends and Medium Term Outlook

Real sector

2.6 During the last five-years real GDP growth in Bangladesh was quite steady except in FY20 because of the COVID-19 pandemic. The growth rate got back to its trend of 6.94 percent growth in FY21 after passing a shocking 3.45 percent GDP growth in FY20. Main factors behind this quick recovery were - increasing domestic demand particularly strong private consumption and private investment (Table 2.2). On the other hand, the supply side growth was mainly attributed to manufacturing and services sectors.

Table 2.2: Demand Side Contributions to Growth

Components	FY17	FY18	FY19	FY20	FY21
Private Consumption	4.19	6.28	3.30	1.98	5.27
Govt. Consumption	0.42	0.31	0.78	0.12	0.41
Private Investment	1.36	3.42	2.16	0.06	1.91
Public Investment	1.17	0.31	0.05	1.19	0.68
Net Exports	-1.16	-3.33	1.35	-0.18	-1.46
Statistical Discrepancy	0.60	0.33	0.24	0.28	0.12
Real GDP growth (%)	6.59	7.32	7.88	3.45	6.94

Source: Finance Division and Bangladesh Bureau of Statistics

2.7 The GDP growth target for FY22 was originally set at 7.2 percent in the Medium Term Macroeconomic Framework (MTMF) at the time of budget declaration in June 2021. Several important macro variables are indicating the full economic recovery from COVID-19 shock. The export and import for July-March period showing full recovery of our economy. On the other hand, public and private sector employment increase is expected to contribute to achieving the growth target by boosting private consumption and investment spending. It is noteworthy that the preliminary estimates published by the Bangladesh Bureau of Statistics for FY22 confirmed Finance Division’s projection with an estimated growth of 7.25 percent.

2.8 During the last five years (FY17 – FY21), the annual average growth rate of the industrial sector was 8.8 percent followed by the services sector at 5.9 percent and the agricultural sector at 3.3 percent (Table 2.3). After the COVID-19 period, manufacturing sub-sector bounced back tremendously to 11.6 percent in FY21 from 1.6 percent in FY20.

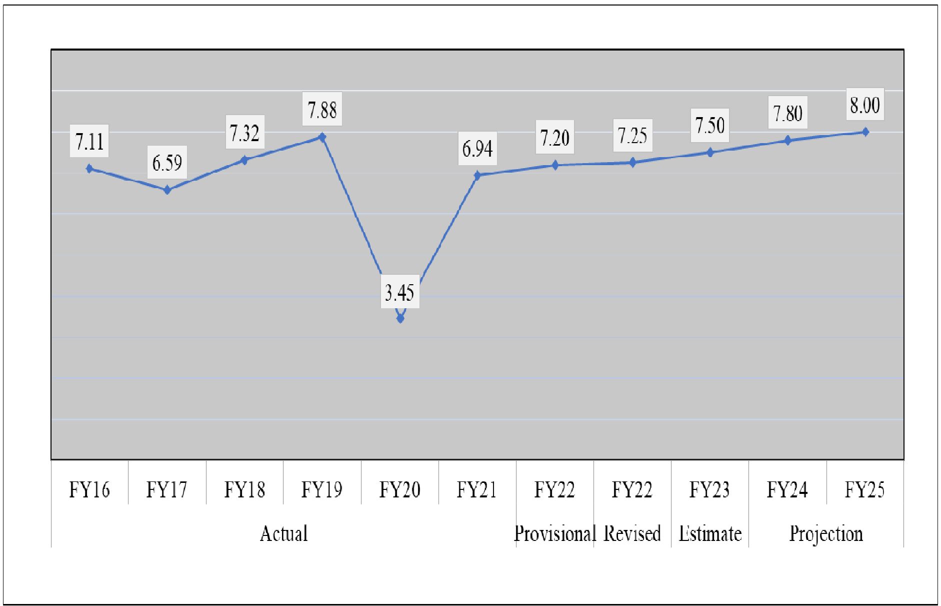
Table 2.3: GDP Growth by Sector

Sectors	FY17	FY18	FY19	FY20	FY21
Agriculture	3.20	3.54	3.26	3.42	3.17
Industry	8.27	10.20	11.63	3.61	10.29
Services	6.37	6.55	6.88	3.93	5.73

Source: Bangladesh Bureau of Statistics

2.9 Medium Term Macroeconomic Framework (MTMF) envisages growth of 7.5 percent, 7.8 percent and 8.0 percent respectively in FY23, FY24 and FY25 (Figure 2.1). In FY25 agriculture, industry and services sectors are expected to grow by 5.0 percent, 8.8 percent and 7.9 percent respectively. About 7-8 percent real GDP growth is targeted over the medium term based on the assumptions of the gradual recovery of the world economy from the impacts of the COVID-19 pandemic and the early resolution of the Russia-Ukraine conflict.

Figure 2.1: GDP Growth (%)

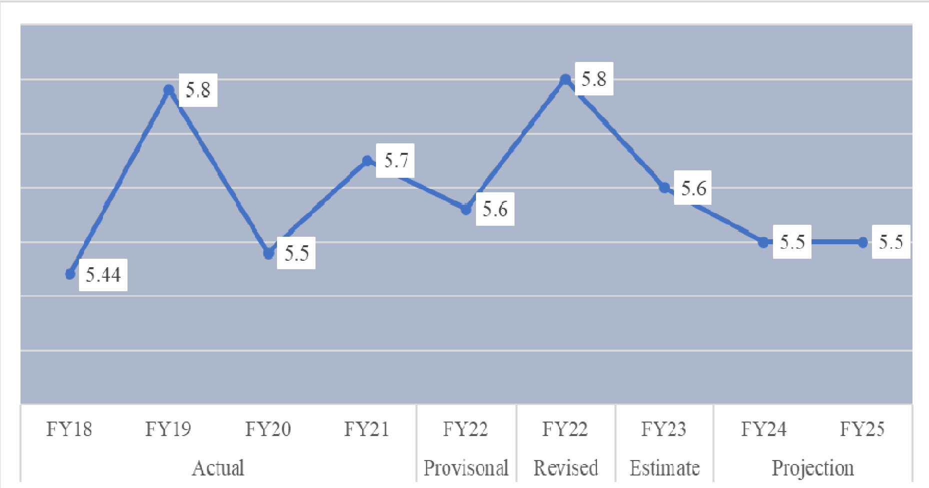


2.10 The projected GDP growth for the FY25 reflects constant growth scenario for recent years. Broadly, agriculture, industry and service sectors have achieved 3.2 percent, 10.3 percent and 5.7 percent growth rates respectively for FY21, which is significantly higher than that of the previous year clearly indicating the sign of economic recovery from COVID-19 pandemic. Among other factors, agricultural loan has made a significant contribution to the growth in the agricultural sector. During July-March FY22, the disbursement of agricultural credit and non-farm rural credit amounted to Tk. 215.05 billion against the target of Tk. 283.91 billion, which is 16.15 percent higher than that in the previous year. The quantum index of manufacturing industry grew by 18.52 percent during the July-December period of FY22 than the same period of the previous year reflecting a significant expansion in industrial production.

2.11 Private investment needs to be boosted along with public investment to increase capital accumulation. Total investment in FY21 stands at 31.0 percent of GDP where the contributions of private and public sectors are 23.7 percent and 7.3 percent respectively. But this level of investment is not adequate to achieve around 8.0 percent growth over the medium term. Public investment could not be increased to an expected level due to the lack of capacity in implementing the annual development programme. Recognizing this, the government has taken steps to bring about some structural changes at both project design and implementation levels.

2.12 A potentially huge global supply shock that may reduce growth and push up inflation is affecting the post-COVID-19 recovery. Russia's invasion of Ukraine and the economic sanctions on Russia that followed put global energy supplies at risk. Russia supplies around 10 percent of the world's energy, including 17 percent of its natural gas and 12 percent of its oil. The jump in oil and gas prices will add to industry costs and reduce consumers' real income. A record-high inflation is currently evident, which also affects Bangladesh. Twelve-month average inflation in the country was 5.6 percent for FY21. Considering the inflation scenario of trade partners, inflation projection for FY22 is as high as 5.8 percent and 5.6 percent for FY23. On the other hand, point-to-point inflation is moving higher to 6.29 percent on March 22 which was 5.56 percent in the previous year.

Figure 2.2: 12-month Average Inflation Trend (%)



Fiscal Sector

2.13 In preparing fiscal policy, the government has been maintaining an expansionary fiscal stance by keeping budget deficit at a moderate level. Moreover, the government has taken up many reform initiatives to improve the revenue-GDP ratio which is low compared to the neighbouring countries. Due to the rebasing of GDP to 2015-16 base year, the ratio is lowered even further. Although revenue-GDP ratio has been growing slowly due to high GDP growth, revenue growth has a positive trend. Several reform initiatives, discussed in detail in Chapter 4, have been taken by the government to reinforce domestic resource mobilization as well as to improve the revenue-GDP ratio. It is envisaged that positive impacts of ongoing and future reforms will ensure significantly higher revenue and hence, total revenue is projected to grow at 10.6 percent of GDP in FY25.

2.14 One of the main objectives of public expenditure policy is to reduce infrastructure gaps and galvanize private investment, generate employment opportunities, expansion of social safety net programmes and ensure efficient redistribution of wealth through pro-poor and inclusive fiscal policy. Besides, the government is implementing policies to overcome the COVID-19 induced shocks. Following the outbreak of the pandemic in March 2020, the government had rightly undertaken a large number of expenditures under the economic recovery programme to mitigate the economic losses suffered by the people and businesses in various sectors. The timely flow of funds to the economy has proved effective, as the economy paced back to pre-pandemic level. However, the government is pursuing the policy of keeping the budget deficit within the sustainable range of 5 percent of GDP. The size of public expenditure is historically low relative to GDP. It was only 13.0 percent of GDP in FY21, while it stands at 14.9 percent in the revised budget of the current fiscal year. Public spending is targeted to be elevated to around 15.6 percent of GDP in FY25. Actual budget deficit stood at 3.7 percent of GDP in FY21. On the whole, deficit is expected to remain within the range of 5 percent of GDP over the medium term.

2.15 The government is pursuing the PFM reforms process. The Public Financial Management (PFM) Reform Strategy 2016-21 has been formulated 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. Implementation of the PFM Action Plan, 2018-23 is ongoing. Under PFM reforms, pension automation with the help of iBAS++ software, E-chalan automation system and a new budget and accounting system (iBAS++) have been introduced, and new accounting BACS has been completed. In addition, steps have been taken to complete all government allocations from government institutions as well as all semi-government, autonomous, and state-owned enterprises through Treasury Single Account (TSA). All beneficiary programmes have come under the government to person (G2P) payment system with the iBAS++ system. Again, simplifying the fund release process, and disbursement of government employees' salaries and pensions through electronic fund transfer (EFT) will increase the efficiency of expenditures. The government has initiated process of introducing the Universal Pension System in July 2022. The draft of the "Universal Pension Management Act, 2022" has been formulated to commence the universal scheme and stakeholder consultation was held.

Money and Credit

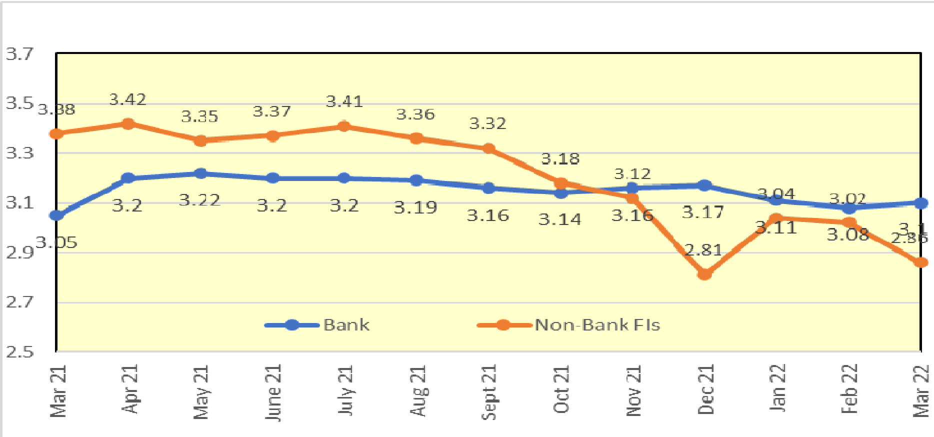
2.16 Three primary goals of the monetary policy are to maintain price stability, sustain economic growth, and generate employment. To materialize these goals, the Monetary Policy Statement (MPS) of Bangladesh Bank for FY22 has been prudently designed to make adequate space for money and credit growth to achieve targeted GDP growth and inflation. Considering the need for economic recovery from the COVID-19 pandemic, Bangladesh Bank has taken several immediate and proactive policy initiatives to reduce possible economic losses. The measures include reductions in cash reserve ratio (CRR) from 5.5 percent to 4.0 percent, repo rate from 5.25 percent to 4.75 percent, and reverse repo rate from 4.75 percent to 4.0 percent, respectively, to manage liquidity effectively to facilitate demand for credit because of government's stimulus packages. Moreover, Bangladesh Bank has set the target for broad money (M2) and domestic credit growth to 15.0 percent and 17.8

percent, respectively, to accommodate the estimated GDP growth rate of 7.25 percent and the projected CPI inflation rate of 5.8 percent. Again, to contain inflation, Bangladesh Bank has recently raised the repo rate from 4.75 percent to 5.0 percent.

2.17 At the end of March 2022 broad money (M2) recorded an annual growth of 9.85 percent which is lower than the target of 15.0 percent, stipulated in the Monetary Policy Statement (MPS). In March 2021 broad money growth was 13.21 percent which is higher than in March 2022. At the same time, net foreign assets decreased by 1.60 percent and net domestic assets grew by 13.54 percent. At the end of March 2022, growth of the reserve currency stood at 5.76 percent as against 11.26 percent in the same period of the previous year. Growth-friendly monetary and financial policies are primarily designed to support micro, small, and medium-sized enterprises (MSMEs) in the manufacturing, agriculture, and service sectors to create decent jobs.

2.18 Interest rates on deposits and loans continued to decline from March 2021 to March 2022. The interest rate on deposits (weighted average) was 4.01 percent in March 2022, and the same on loans was 7.11 percent, with a spread of 3.10 percent. The reduction in market-based interest rates is due to the surplus liquidity of the banks as well as the reduction of interest rates on policy rates, bank rates and refinancing schemes adopted by Bangladesh Bank. The interest rate differential for non-bank financial institutions (NBFIs) in March 2022 was 2.86 percent. The percentage share of classified loans to total outstanding loans in December 2021 was 7.93 percent, which was 8.18 percent in June 2021.

Figure 2.3: Trends of Interest Rate Spread of Banks and NBFIs



Source: Bangladesh Bank

2.19 In the medium term, broad money (M2) and credit growth targets**,** in particular, will remain more or less similar to monetary policy statements that will help achieve inflation and economic growth targets. Additionally, the exchange rate will remain flexible to make the foreign exchange market viable and to facilitate the external sector.

External Sector

2.20 According to UNCTAD (February 2022), despite the COVID-19 pandemic, global trade value increased to 25 percent in 2021 compared to 2020. Trade-in goods and services share a similar pattern until Q1 of 2022. Due to the Russia-Ukraine Conflict, trade growth may not grow as envisaged.

2.21 The export and import in Bangladesh show signs of recovery from the impact of the COVID-19 pandemic. Export increased by 35.14 percent during July-April of FY22, which was 8.74 percent during July-April of FY21. Despite the COVID-19 pandemic, export from Bangladesh to North American and European markets has increased sharply in FY22 compared to the same period of FY21. It is observed that exports of woven garments (34.23 percent), knitwear (37.49 percent), home textiles (39.13 percent), agricultural products (26.29 percent), leather and leather products (32.97 percent), frozen and live fish (17.45 percent), chemical products (45.3 percent) plastic products (34.08 percent), engineering products (54.7 percent) and miscellaneous products (15.52 percent) have shown an increase during the July-April period of FY22 over the same period in FY21. However, exports of raw jute and jute products showed a decrease of 6.68 percent over the same period.

2.22 The countercyclical measures adopted by the government to foster a recovery in the export sector from the impact of COVID-19 induced economic fallout include a special fund of BDT 5,000 crore to pay the salary of the workers of export-oriented industries, working capital loan of BDT 73,000 crore to affected industries and service sector enterprises, an working capital loan of Tk. 40,000 crore to the affected CMSME sector, an increase in the Export Development Fund (EDF) to US$ 6.0 billion from US$ 3.5 billion, interest rate reduced to a fixed 2 percent, and a pre-shipment credit refinance scheme of BDT 5,000 crore. Moreover, the government has taken several initiatives to increase exports through developing the capacity of export-oriented industries, diversification of export products through research and development, exploring new markets for export goods, developing transport and utility facilities, and signing bilateral and multilateral preferential and free trade agreements (PTAs and FTAs), etc. Additionally, the government is creating exclusive economic zones to boost exports. Side by side, the government has been continuing export subsidies/incentives to promote exports. The government has approved Export Policy 2021-24 for boosting exports. Considering the COVID-19 pandemic and the Russia-Ukraine Conflict, the government has set the target of export growth at 34.1 percent in FY22 and projected a growth of 18.0 percent in FY25.

2.23 Imports by Bangladesh in FY21 shown a growth of 19.7 percent compared to a contraction of 8.56 percent in FY20. Up to March of FY22, import growth is 43.84 percent which is much higher than the same period in FY21 (6.07 percent). Despite the continuation of the COVID-19 pandemic, import is estimated to grow at 30.0 percent in FY22 and is projected to grow at 14.5 percent in FY25.

2.24 Foreign remittances have been playing a significant role in augmenting GDP growth through stimulating domestic demands. Side by side, foreign remittances increase the living standard and saving level at the micro-level. The government has adopted several measures to increase remittance inflow as well as overseas employment, which include providing cash incentives of 2.5 percent for sending remittances through institutional channels, simplification of remittance related rules and regulations, reducing the administrative cost of sending remittances through institutional channels, exploring new markets for manpower export, etc.

2.25 Continuation of the COVID-19 pandemic has adversely affected remittance inflow in FY22. As of April 2022, the amount sent by Non-Resident Bangladeshis stood at US$ 17.3 billion, which is 16.25 percent lower than that in the same period of the previous fiscal year. Considering this decreasing trend, remittance inflow has been targeted to grow at 1.0 percent in FY22, but expecting a rebound it is projected to grow at 10.0 percent in FY25.

2.26 Although exports growth is satisfactory, higher imports growth and lower level of remittance inflow resulted in higher current account deficit of US$ 14.07 billion during the July-March period of FY22, while it was only US$ 555 million in the same period of the previous fiscal year. Contrarily, due to the increases in the amount of medium and long term debt during July-February, FY22, there was a surplus of US$ 10.93 billion in the financial account. During July-February, the overall balance was negative amounting to US$ 2.22 billion, while there was a surplus of US$ 6.9 billion during the same period of the previous year.

2.27 The gross foreign exchange reserve as of May 25, 2022, stood at US$ 42,293 million, which was US$ 44,895 million on May 25, 2021. It is to be noted that the current reserve of foreign exchange is capable of meeting the import cost for five months.

2.28 Higher level of public and private investment is essential to accelerate GDP growth, which eventually requires a higher amount of productive imports. In the medium term, Bangladesh is implementing several megaprojects to achieve higher GDP growth that requires substantial foreign reserves. Consequently, the current account may inevitably incur larger deficits. Yet, project support and budget support from development partners and the larger inflow of FDI may mitigate the deficits. The government has received US$ 3.1 billion as budget and vaccine support in FY22. Considering these, the current account deficit is estimated to remain negative at US$ 10.2 billion in FY22 and projected to remain negative at a lower volume of US$ 5.3 billion in FY25. The foreign exchange reserve is targeted at US$ 42 billion in FY22, and is projected at US$ 63.72 billion in FY25.

2.29 Foreign direct investment in Bangladesh has shown an increasing trend in recent times. The net FDI has been increased by 11.65 percent amounting to US$ 1.16 billion during the period of July- February of FY22, compared to the same time in the last fiscal year.

Addressing Emerging Macroeconomic Challenges

2.30 The ongoing Russia-Ukraine conflict has brought some challenges. The unprecedented price hike in energy, food and other essential commodities and the widespread disruption in international supply chain have adversely affected the global economy, including Bangladesh. The conflict is likely to emerge as a new obstacle in the way of achieving full recovery and targeted development goals. The prices of essential import commodities for Bangladesh like oil, gas, fertilizer, edible oil, etc. have skyrocketed in the international market. According to Finance Division estimate, only nine essential commodities (crude and refined oil, LNG, wheat, fertilizer, palm oil, coal, soybean oil, maize and rice) imported to Bangladesh will cost an additional amount of US$ 8.2 billion in 2022 considering the rise in their prices over that in 2021. The other key import items like consumer goods, capital machineries and industrial raw materials have also seen significant price escalations in the international market. In addition, the costs of international logistics are on the rise. 'Imported inflation' is, therefore, gradually emerging as a major concern for the government. By April, 2022 general inflation (12-month average) has gone up to 5.81 percent. On the other hand, point-to-point inflation stood at 6.29 percent.

2.31 The country's imports have also seen huge growth. In the first nine months of FY2021-22 (July-March), imports of goods rose by 43.9 percent. Despite an impressive 33 percent growth in exports during the same period, higher volume of imports is widening the trade deficit, which stood at a very high level of US$ 24.9 billion in March 2022. With the trade balance always in the negative, workers' remittances have been playing a critical role in Bangladesh of minimizing the current account deficit. However, due to delayed post-COVID economic recovery in our major labor markets remittances have slowed down in the current fiscal year with a negative growth of 17.7 percent. These have contributed to a current account deficit of US$ 14.1 billion in the first nine months of this fiscal year, which was discussed earlier.

2.32 Amidst all these, the government's subsidy management is strenuous. In FY22 budget, the government allocated Tk. 538.52 billion for subsidies and incentives. However, due to the price hike of fuel and fertilizer in the international market, expenditure on subsidy/incentives is soaring. As a result, revised budget estimates for subsidy/ incentives have been increased to Tk. 668.25 billion (1.70 percent of GDP). In FY23 budget, the amount will be increased to Tk. 827.45 billion (1.90 percent of GDP).

2.33 In brief, three major interlinked challenges for the Bangladesh economy are imported inflation, subsidy management, and soaring current account deficit. The government is taking steps to mitigate these challenges. To stabilize the local currency (Taka) value, Bangladesh Bank is increasing supply of foreign exchange dollars in the market. Furthermore, Bangladesh Bank is maintaining money supply using appropriate tools to control inflation and achieve targeted private sector credit growth. Fiscal measures are also afoot. The Trading Corporation of Bangladesh on behalf of the government is selling essential goods to low-income people at a lower price. In urban areas rice and wheat are being sold under the OMS program. Moreover, considerable numbers of poor people are under social safety nets to whom government can send cash digitally. The government's main strategy is to enhance supply keeping the demand unaffected. Therefore, in allocating operation budget, savings will be gained through reducing luxury and less important expenditures and these savings shall be directed to more productive functions. For keeping import spending at a reasonable level, import of luxury goods and commodities that are locally produced will be discouraged. Priority, as well as additional allocation will be made to those development projects that will create greater employment and boost output. Relevant policy support will be given in the medium term to facilitate the growth of private sector investment.

Table 2.4: Medium Term Macroeconomic Framework (2022-23 to 2024-25)

Indicators	FY21	FY22	FY22	Estimate	Projection	
	Actual	Budget	Revised	FY23	FY24	FY25
GDP growth (%)	6.94	7.2	7.25*	7.5	7.8	8.0
CPI inflation (%)	5.6	5.3	5.8	5.6	5.5	5.5
Gross Investment (as % of GDP)	31.0	31.7	31.68	31.5	32.8	33.6
Private Investment (as % of GDP)	23.7	23.31	24.06	24.81	25.91	26.65
Public Investment (as % of GDP)	7.3	8.4	7.62	6.7	6.9	7.0
Revenue (as % of GDP)	9.3	11.3	9.8	9.7	10.4	10.6
NBR Revenue (as % of GDP)	7.5	9.5	8.3	8.3	8.8	9.0
Non-NBR Revenue (as % of GDP)	0.2	0.5	0.4	0.4	0.5	0.5
NTR (as % of GDP)	1.7	1.2	1.1	1.0	1.1	1.1
Expenditure (as % of GDP)	13.0	17.5	14.9	15.2	15.5	15.6

Indicators	FY21	FY22	FY22	Estimate	Projection	
	Actual	Budget	Revised	FY23	FY24	FY25
of which, ADP (as % of GDP)	4.5	6.5	5.3	5.5	6.3	6.4
Budget Deficit (as % of GDP)	-3.7	-6.2	-5.1	-5.5	-5.1	-5.0
Domestic Financing (as % of GDP)	2.3	3.3	3.1	3.3	2.9	2.8
of which, Bank (as % of GDP)	0.9	2.2	2.2	2.4	2.3	2.3
Foreign Financing (as % of GDP)	1.4	2.9	2.0	2.2	2.2	2.3
Money Supply (growth in %)	13.6	13.8	15.0	15.6	16.0	16.5
Domestic Credit (growth in %)	10.1	14.0	17.8	16.0	16.0	17.0
Private Sector Credit (growth. in %)	8.3	11.0	14.8	15.0	15.0	16.0
Export (growth in %)	15.4	12.0	34.1	20.0	18.0	18.0
Import (growth in %)	19.7	11.0	30.0	12.0	14.0	14.5
Remittances (growth in %)	36.1	35.0	1.0	16.0	10.0	10.0
Current Account Balance (% of GDP)	-0.91	-0.06	-2.19	-1.19	-0.86	-0.81
Foreign Exchange Reserve (B. US$)	46.39	48.37	42.05	46.46	54.29	63.50
Nominal GDP in Crore Taka	35,30,185	34,56,040	39,76,462	44,49,959	49,91,337	56,06,269
Nominal GDP in Billion US$	416.2	393.9	465.0	516.2	579.7	651.1

Source: Finance Division, BBS

* provisional data

Chapter Three

Government Spending and Sectoral Priorities

Bangladesh has stepped into a new journey to become a developing country in 2026 as it has twice met all the eligibility criteria for graduation from the list of LDCs. The plan now is to become a higher-middle-income country by 2031 and a developed country by 2041 and set government spending and sectoral priorities accordingly. In the meantime, the COVID-19 pandemic has temporarily hampered our development journey; But due to the timely efforts taken by the government, it has been possible to recover from the economic shocks. However, due to the overall volatility in the global economy, including high commodity prices, supply chain disruptions and the ongoing Russia-Ukraine crisis, government needs to formulate economic plans more cautiously to achieve the desired development goals. Amidst such a situation, the government expenditure management is given high importance. Planned government spending promotes GDP growth by stimulating overall demand and marginal productivity. Besides, if government spending is pro-poor and inclusive, it would effectively contribute to sustainable economic growth by establishing efficient redistribution systems. Considering all these factors, the Medium Term Government Expenditure Strategy (FY23 to FY25) has been formulated. In the strategy, the focus has been given on allocating resources in the priority programmes in line with Vision 2041, the 8th Five Year Plan and SDGs.

3.2 The government's main objective in the last two budgets, FY21 and FY22, was to reduce the impact of the COVID-19 pandemic through an economic recovery programme consisting of financial and stimulus packages. That is why large additional allocations had to be made in sectors like health, agriculture, social welfare, food, disaster management, and employment protection. In the coming FY23 budget, in determining the priority area of government expenditure, focus will be made on allocations aimed at fully overcoming the impact of the pandemic as well as effectively addressing the impact of the ongoing volatility in the global economy and continuing the developmental progress. In formulating the budget, the government has been focusing on spending in priority sectors, particularly, increasing agricultural and industrial production, ensuring food security, creating jobs, expanding healthcare, developing human resources, alleviating poverty through equitable distribution of resources, expanding social safety net programmes and adapting to climate change. Necessary allocations have been made in human resources development, including education and skills development to meet the needs of the 4th Industrial Revolution. Necessary expenditures will be made in the health sector to ensure public healthcare. At the same time, implementation of incentive packages announced by the Hon'ble Prime Minister will be continued to ensure full recovery of the most affected industries, CMSMEs, services and rural informal sector from losses. In addition, the government's programmes to increase the coverage of the social safety net and housing for the homeless poor and distribute free/low-cost food among the low-income people will continue.

3.3 A detailed account of government expenditure, recent sectoral spending trends, priority areas of various sectors and allocation of resources to prioritised sectors has been included in this chapter. It also highlights the potential pattern of spending and forecasts from FY23 to FY25.

Government Expenditure Outlays

3.4 The government plans to gradually increase public spending as a percentage of GDP to facilitate private sector growth. As a percentage of GDP, government spending in Bangladesh is comparatively lower at present than in some other developing and emerging economies. For example, in 2021, government spending in Bangladesh was 13.0 percent of GDP, while India, Malaysia and Vietnam spent 28.8 percent, 22.3 percent and 20.4 percent respectively. Moreover, the size of government expenditure in developed economies is much larger than that in Bangladesh (Table 3.1). Therefore, the strategy under the 8th Five Year Plan and the Perspective Plan of 2041 is to increase government spending significantly as a percentage of GDP and increase spending on basic social and economic services to provide better and quality public services. However, increasing the size of public spending with limited resources and controlling inflation at the same time remains a significant challenge for the government.

Table 3.1: Government Expenditure of Some Countries in 2021

(as % of GDP)

Country	Government expenditure/GDP
France	57.0
Sweden	49.4
UK	41.7
Australia	39.0
USA	36.8
China	33.7
India	28.8
Malaysia	22.3
Vietnam	20.4
Bangladesh	13.0

Source: World Economic Outlook database (April 2022), IMF and Finance Division, Ministry of Finance

Government spending on combating COVID-19

3.5 The government has implemented various financial and incentive packages to address the adverse economic effects caused by the COVID-19 pandemic. The pandemic temporarily disrupted production, causing many to lose their jobs and severely disrupting the supply chain. Moreover, to protect the lives of the people, it was necessary to provide special healthcare and ensure vaccination for all. For rapid economic recovery through mitigating the adverse economic impact caused by the pandemic and ensuring additional healthcare needs, the government adopted an integrated incentive and economic recovery programme. An analysis of the packages under the programme and their implementation status during FY22 has earlier been made in detail in Chapter 1.

Trends in Total Government Spending and Medium Term Outlook

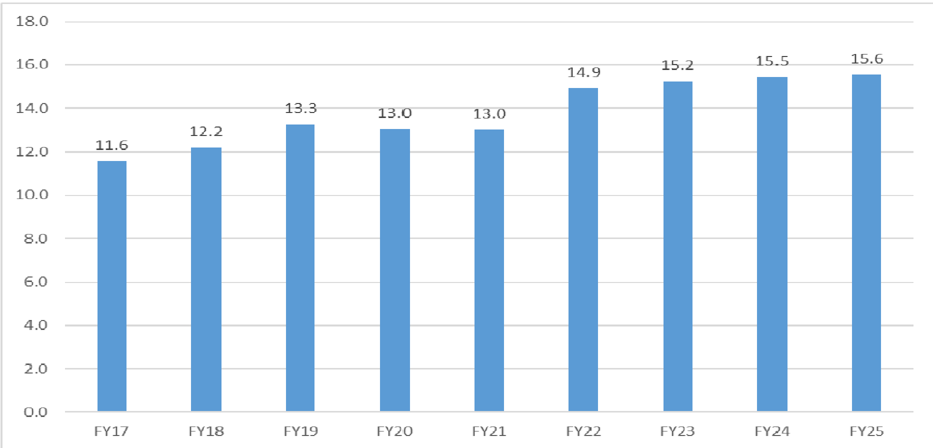
3.6 The government aims to gradually increase its expenditure as a percentage of GDP. For example, government expenditure was 13.0 percent of GDP in FY21, which increased to 14.9 percent in FY22 (revised budget). This has been made possible due to the successful implementation of reforms in public financial management. Again, due to the pandemic, the government changed its spending priorities to adopt the stimulus programme for the purpose of economic recovery and for expanding healthcare services. In the medium term, the government intends to pursue a moderate consolidation path to keep the budget deficit within a sustainable limit. In the medium term, the government expenditure target has been projected to reach 15.6 percent of GDP in FY25.

Table 3.2: Total Government Expenditure as Percent of GDP

FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Actual					Revised	Budget	Projection	
11.6	12.2	13.3	13.0	13.0	14.9	15.2	15.5	15.6

Source: Finance Division, Ministry of Finance

Figure 3.1: Total Government Expenditure as Percent of GDP



3.7 The average growth rate of nominal government expenditure from FY17 to FY21 was 14.6 percent, which fluctuated between 5.6 to 21.6 percent over that period. As per the revised budget of FY22, increase in nominal government expenditure was 26.0 percent, which is the highest during the FY17-FY22 period. Medium term government expenditure targets have been set considering the long term development goals and the ground reality.

Table 3.3: Growth Rate of Nominal Government Expenditure

FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
					Revised	Budget	Projection	
11.9	19.8	21.6	5.6	11.1	26.0	14.2	13.8	13.0

Source: Finance Division, Ministry of Finance

Current and Capital Expenditure

3.8 Current expenditure and capital expenditure are the two major categories of budget allocation. 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 'food account operation' are also included in the current expenditure category. On the other hand, capital expenditure comprises the 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 programmes financed from the revenue budget, Non-ADP projects and Non-ADP FFW (Food for Work) and transfer.

3.9 It is crucial for developing countries like 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. Expanding the size of capital expenditure is necessary to meet the growing demand for public investment. At the same time, expanding current expenditure is vital for improving the quality of public service delivery and meeting the need for the existing infrastructure network. Table 3.4 shows an increasing trend in capital expenditure as a percentage of the total expenditure with some fluctuations, whereas a decreasing trend can be observed in the current expenditure. As per the revised budget of FY22, current expenditures consisted of 57.4 percent of the total budget, which is expected to be reduced to 54.6 percent by FY25. On the other hand, capital expenditure in the same fiscal year was 42.6 percent of the total budget, which is projected to increase to 45.4 percent by 2025.

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

Items	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
						Revised	Budget	Projection	
Current Expenditure	61.5	55.5	55.6	56.7	57.1	57.4	55.0	54.8	54.6
Capital Expenditure	38.5	44.5	44.4	43.3	42.1	42.6	45.0	45.2	45.4

Source: Finance Division, Ministry of Finance

3.10 Table 3.5 shows that current expenditure as a percentage of GDP was on an increasing trend from FY17 to FY18 but shown a declining trend during FY19 – FY21. In FY17, ADP was only 3.6 percent of GDP, but increased to 4.5 percent of GDP in FY21. The revised estimate for ADP in FY22 stands at 5.3 percent of GDP.

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

	FY17	FY18	FY19	FY20	FY21	FY22
	Actual					Revised
Current Expenditure	7.1	6.8	7.4	7.4	7.5	8.6
Pay & Allowances	2.1	1.8	1.8	1.7	1.7	1.8
Goods & Services	0.9	0.9	1.0	0.9	0.9	0.9
Interest Payments	1.5	1.6	1.7	1.8	2.0	1.8
Domestic	1.4	1.4	1.6	1.7	1.9	1.6
External	0.1	0.1	0.1	0.1	0.1	0.2
Subsidies & Transfers	2.6	2.5	2.9	2.9	2.9	4.1
Block Allocations	0.0	0.0	0.0	0.0	0.0	0.1
Food Account Balance	0.0	0.3	0.1	0.1	0.1	0.0
Annual Development Programme	3.6	4.5	5.0	4.8	4.5	5.3
Non-ADP Capital & Net Lending	0.9	0.6	0.8	0.7	0.8	1.1
Non-ADP Capital Spending	0.7	0.6	0.8	0.8	0.8	1.0

Source: Finance Division, Ministry of Finance

Current Expenditure Trends and Medium Term Outlook

3.11 The current expenditure has averaged 7.2 percent of GDP during FY17 - FY21. However, as per the revised budget of FY22, it has increased to 8.6 percent. For FY25, it is estimated to be 8.5 percent of GDP (Table 3.6).

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

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	Actual					Revised	Budget	Projection	
Current Expenditure (in billion TK)	1652.1	1788.8	2178.0	2343.8	2658.9	3405.7	3732.4	4229.5	4739.7
% of GDP	7.1	6.8	7.4	7.4	7.5	8.6	8.4	8.5	8.5

Source: Finance Division, Ministry of Finance

Pay and Allowances

3.12 Expenditure on salaries and allowances as a percentage of total expenditure is showing a declining trend, as it was 18.2 percent of the total budget in FY17 and steadily declined to 13.1 percent by FY21. It is expected to remain at the same level in the medium term. In FY23, expenditure on pay and allowances is expected to be 11.3 percent of the total budget, which will stand at 11.4 percent in FY25.

Table 3.7: Expenditure on Pay and Allowances

Fiscal Year	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	Actual					Revised	Budget	Projection	
Pay and allowances (in billion TK)	490.2	478.5	534.0	554.8	616.7	715.3	764.1	873.5	997.3
% of total Expenditure	18.2	14.9	13.6	13.4	13.1	12.1	11.3	11.3	11.4

Source: Finance Division, Ministry of Finance

Goods and Services

3.13 The average expenditure on goods and services as a percentage of total spending remained around 7 percent during FY17 – FY21 (Table 3.8). To keep this outlay within a comfortable range through the budgetary process, the government has taken several measures, including enhanced transparency in transfers through e-GP and improved public procurement management. The expenditure on goods and services has been revised at 5.9 percent for FY22. In the medium term, the allocation to these heads is projected to follow a slightly increasing trend. In FY23, the amount is projected at 5.7 percent of total expenditure, while this will be 6.3 percent in FY25.

Table 3.8: Composition of the Spending on Goods and Services

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	Actual					Revised	Budget	Projection	
Goods and Services (in billion TK)	205.3	234.8	285.7	284.4	304.6	349.7	383.3	474.2	543.6
% of Tot. Exp.	7.6	7.3	7.3	6.9	6.5	5.9	5.7	6.2	6.3

Source: Finance Division, Ministry of Finance

Subsidy and Transfer

3.14 Subsidies and incentives are considered essential for tackling production levels and prices in certain areas of the economy, which has a positive external effect on the economy as a whole. Therefore, the government makes spending on subsidies and transfers to ensure pro-poor and inclusive growth. Subsidies are given on food account, fertilisers, rural electrification and some other sectors. On the other hand, transfer payments are directly payable to the households or non-profit institutions serving households. Besides, cash assistance in the form of net loans and advances is provided to Bangladesh Petroleum Corporation (BPC) and Bangladesh Jute Mills Corporation (BJMC). Since FY16, the government has not been providing cash loans to BPC. As a percentage of total expenditure as per the revised budget of FY22, cash loans decreased to 2.25 percent from 2.34 percent in FY21, whereas subsidies increased to 3.50 percent of total spending from 1.95

percent in FY21 (Table 3.9A). The government's total expenditure on subsidies in FY22 has increased significantly due to a sharp rise in oil, gas and fertiliser prices in the international market. The continued surge in global prices of oil, gas and fertiliser is likely to increase government spending on subsidies in the medium term.

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

Items	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
	Actual							Revised
PDB	89.80	27.94	39.94	35.50	79.66	74.39	89.45	120.00
BPC	6.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BJMC & Others (loan)	0.04	1.13	11.79	0.02	33.75	54.47	21.04	13.73
Total Cash Loan	95.84	29.07	51.73	35.52	113.41	128.86	110.49	133.73
% of Total Exp.	4.59	1.21	1.92	1.10	2.90	3.12	2.34	2.25
Food	12.40	9.04	26.43	14.15	66.30	41.70	36.60	55.00
Gas & Others	1.70	1.82	3.00	36.05	25.14	35.16	52.97	153.00
Total Subsidy	14.10	10.86	29.43	50.20	91.44	76.86	89.57	208.00
% of Total Exp.	0.68	0.45	1.10	1.56	2.33	1.86	1.95	3.50
Total Cash Loan and Subsidy	109.94	39.93	81.16	85.72	204.85	205.72	200.06	341.73
% of Total Exp.	5.26	1.66	3.02	2.66	5.23	4.98	4.25	5.76
% of GDP	14.22	11.56	11.56	12.20	13.27	13.04	13.35	15.05

Source: Finance Division, Ministry of Finance

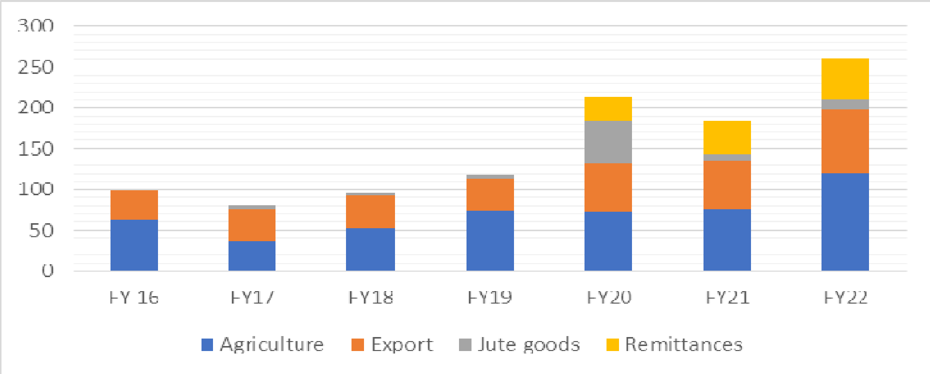
3.15 To boost economic growth and ensure sustainable development, fiscal incentives are generally provided to priority sectors, e.g. agriculture, export-oriented industries and small-scale industries. Being the economy's driving force, agriculture and exports are getting special attention every year. During the COVID-19 pandemic, the government has increased incentives in these sectors to reduce the impact of the pandemic and sustain economic growth, as well as providing incentives for the extremely poor who have lost their jobs due to the pandemic. Total fiscal incentives increased from Tk. 182.6 billion in FY21 to Tk. 260.25 billion as per the revised budget of FY22. Of this, agricultural incentives alone have increased from Tk. 76.3 billion in FY21 to Tk. 120 billion as per the revised budget of FY22. Cash incentives for exports were around Tk. 58.46 billion in FY21 and has increased to Tk. 78.25 billion as per the revised budget of FY22. To encourage remittance through the banking channel, a 2 percent cash incentive for expatriate workers was introduced in FY20, which has been increased to 2.5 percent in January 2022. Incentives for remittance have been estimated to be Tk. 50 billion in FY22.

Table 3.9B: Fiscal Incentives (Billion Taka)

Items	FY 16	FY17	FY18	FY19	FY20	FY21	FY22
	Actual						Revised
Agriculture	64.3	36.1	52	73.36	72.5	76.32	120
Export	35.01	40	40	40	60.44	58.46	78.25
Jute goods	0	3.95	4.81	4.81	50	8	12
Remittances	-	-	-	-	30.6	39.78	50
Total Fiscal Incentives	99.31	80.05	96.81	118.17	213.54	182.56	260.25
(As % of Total Govt. Exp.)	4.14	2.98	3.01	3.02	5.16	3.97	4.39
% of GDP	0.48	0.34	0.37	0.40	0.67	0.52	0.65

Source: Finance Division, Ministry of Finance

Figure 3.2: Composition of Fiscal Incentives (Billion Taka)



Interest Payment

3.16 Interest payments are a considerable part of government expenditure. Since concessional loans from external source are cheaper in terms of interest payments, the government always lays emphasis on mobilizing concessional loans. As per Table 3.10, interest payments as a percentage of total spending tended to decrease from FY16 to FY19. In FY20 and FY21, interest payments, as a percentage of total expenditure, showed a tendency to increase, but in FY22, it again decreased to 12.0 percent of total spending. In the medium term, the government's strategy of exploring sources of concessional funding to meet budget deficit and avoid macroeconomic imbalances will continue.

Table 3.10: Interest Payment on Government Borrowings (% of budget)

Items	FY16	FY17	FY18	FY19	FY20	FY21	FY22
	Actual						Revised
Domestic Interest	13.10	12.48	11.85	11.75	12.85	14.07	10.95
Foreign Interest	0.67	0.69	1.12	0.88	1.04	0.91	1.05
Total Interest	13.77	13.17	12.97	12.63	13.89	14.98	12.0

Source: Finance Division, Ministry of Finance

Trends in Capital Expenditure and Medium Term Outlook

3.17 Main sources of capital expenditure are the public investment made under the Annual Development Programme (ADP) and the non-ADP capital expenditure. For Bangladesh, capital expenditure is significant for economic growth because it can impact the production level of goods and services in the economy. Capital expenditure in Bangladesh shows an increasing trend (Table 3.11). It was 6.3 percent of GDP as per the revised budget of FY22. In the medium term, capital expenditure has been targeted to increase to 7.1 percent of GDP by FY25.

Table 3.11: Trends in Capital Expenditure and Medium Term Outlook (% of GDP)

FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Actual					Revised	Budget	Projection	
4.5	5.4	5.9	5.6	5.55	6.3	6.7	7.0	7.1

Source: Finance Division, Ministry of Finance

Annual Development Programme (ADP)

3.18 The Annual Development Programme (ADP) is the main sources of public sector capital formation/accumulation. The budget allocation for ADP and the actual implementation status are shown in Table 3.12 below. As shown in the table, ADP implementation varies in different fiscal years. Between FY16 and FY21, ADP implementation as a percentage of budget allocation revolved around 74.9 percent to 88.9 percent and implementation as a percentage of GDP ranged from 3.6 percent to 5.0 percent. Although ADP implementation in FY21 was expected to be much lower than any normal fiscal year due to the prevalence of COVID-19, it was instead very encouraging, accounting for 81.2 percent of the allocation. With the growth in ADP allocations, project implementation has emerged as a major challenge. Therefore, the government has taken various steps to increase implementation efficiency of relevant agencies by focusing on improving the rate of ADP implementation. The government has launched the iBAS++ digital platform, bringing all ministries together on this platform and has simplified the process of managing and releasing funds. In addition, since the last fiscal year, project managers have been given the power to release all instalments of GoB funds. These initiatives will play an important role in ensuring maximum utilisation of project funds, reducing wastage and expediting project implementation. In the medium term, the size of ADP will be aligned with that of the 8th Five Year Plan.

Table 3.12: ADP Allocation and Implementation

(In billion Taka)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Budget Allocation	970.0	1107.0	1533.8	1730.0	2027.2	2051.4	2253.2
Revised Budget	910.0	1107.0	1483.8	1670.0	2011.9	1976.4	2099.8
Actual Implementation	808.6	841.0	1195.4	1472.9	1507.8	1604.0	1198.2 *
Implementation as % of GDP	3.9	3.6	4.5	5.0	4.8	4.5	3.0
Implementation against Revised Budget (%)	88.9	76.0	80.6	88.2	74.9	81.2	57.1

Source: Finance Division & IMED; *Implementation up to April 2022

Spending Priorities by Sectors for FY23 - FY25

3.19 To quickly bring the economy back on the growth track after the COVID-19 pandemic and to stimulate the speed of economic growth, government spending priority has been slightly changed from its traditional focus. Health, lives and livelihood, food security, social security have emerged as important areas during the pandemic. Therefore, the priority in the medium term spending framework would be to provide fiscal incentives to improve health care services, stimulate sustainable economic growth, promote agriculture for ensuring food security, enhance the coverage of social safety net, improve infrastructure, promote rural development and generate employment. Moreover, mitigation and adaptation associated with climate related adversities will also remain in the government's priority list.

3.20 Programme expenditures of major sectors that will influence the budget allocations for FY23 to FY25 have been highlighted below. Besides, detailed programme expenditure is shown in Table-3.13.

Protect Lives and Strengthen Healthcare[1]

3.21 One of the main goals of the government is to build a healthy, strong and efficient population by providing affordable quality and health, nutrition and family welfare services. To achieve the goal, the government has continued to provide essential health services by allocating budget to the health sector on a priority basis and has been increasing the quality and scope of these services every year. Moreover, to ensure universal healthcare for all by 2030, the Ministry of Health and Family Welfare is implementing the 4th Health, Population and Nutrition programmes at a cost of around Tk. 1.15 lac crore for FY17 - FY23. The success in bringing people of all walks of life under primary healthcare services resulted in significantly improving neonatal mortality rate, under-5 mortality rate, malnutrition, underweight and maternal mortality rate.

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

3.22 Since the first COVID-19 patient was identified in the country on March 8, 2020, Bangladesh, like other countries in the world, has been facing severe health challenges in dealing with the pandemic. However, despite facing resource scarcity, Bangladesh has been able to successfully deal with all the three waves of the pandemic. To deal with the virus, Bangladesh has prepared 'National Preparedness and Response Plan', and has been implementing activities accordingly. The government has taken all necessary measures to contain the coronavirus infection rates. To that end, a total of 10 national guidelines, 43 other guidelines and public awareness materials on technical guidance on prevention and control of COVID-19 have been prepared. Screening of passengers arriving at all points of entry (such as air, land and seaport) has been continued. Officially, samples of COVID-19 are being tested in 121 laboratories (72 in Dhaka and 49 outside Dhaka) across the country. The government also made available adequate healthcare facilities to ensure proper treatment to COVID patients. The government also took steps for rapid vaccination against the virus. To protect lives from the pandemic, the National Deployment and Vaccination Plan was prepared under the Expanded Vaccination Programme (EPI). Mass vaccination began on February 7, 2021, and so far a total of 12.90 crore first dose vaccines, 11.76 crore second dose vaccines and 1.53 crore booster doses have been administered. The success in vaccination has earned accolades from the international circle, as the May 2022 edition of the *Nikkei COVID-19 Recovery Index* published by the Nikkei Media Group in Japan and the Financial Times in London, UK, placed Bangladesh on the 5th position in the World and the top position in South Asia in terms of recovery from the pandemic.

3.23 For the expansion of medical education in the country, emphasis is being given on higher investment and advanced training. Priority will be given to bringing all postgraduate degrees of medical education under one platform, modernization of examination system, continuous training for teachers and ensuring quality of private medical education. Priority will also include ensuring the quality of service in private medical colleges, medical education and training institutions and keeping the cost of education within the reach of the people and modernization of nursing education. As part of the government's plan to expand and develop medical education in the country, the government has taken steps to increase the number of medical universities, medical colleges and hospitals. In the medium term, one medical university will be established in each division of the country. Moreover, steps will be taken to establish new nursing colleges or upgrading nursing institutes to nursing colleges for a better doctor-nurse or patient-nurse ratio in the medium term.

3.24 The government has given top priority to health sector for ensuring health services for all. The objective is to create a healthy and productive population by providing quality health services and nutrition. Various actions have been taken to develop maternal and child health. These include providing training to physicians on emergency obstetrics services; providing 'Community Based Skilled Birth Attendants' training to field level staff, providing integrated medical services to pregnant mothers, expanding maternal health voucher scheme, early detection of cervical and breast cancer etc. For the proper physical and mental development of adolescents, various health related services are being provided through Adolescent Friendly Health Corner at Union Health and Family Welfare Centers. These services will be continued in the medium term.

Agriculture[2]

3.25 The importance of agriculture is immense for the prosperity of a large population in increasing productivity and income and creating employment in rural areas. The government has taken various initiatives in this sector for ensuring food security, income generation and employment opportunity to improve the living standards of the rural poor. Moreover, the government has put special attention on agriculture in addressing the adverse effects of the COVID-19 pandemic. Therefore, total spending for this sector is projected to grow on an average by 6.92 percent annually in the medium term to Tk. 427.41 billion in FY25.

3.26 To alleviate poverty and ensure food security, the government has continued its efforts to build a self-sufficient and sustainable modern agricultural system by modernizing the crop production and marketing system through innovation and transfer of appropriate technologies and crop varieties. The government is providing subsidies, incentives and rehabilitation assistance in this sector to increase agricultural production. For agricultural development, 20 percent cash incentive for export of agricultural inputs and 20 percent rebate on electricity bills for use of electric irrigators in agriculture are also being provided. Further, special agricultural loans at a subsidized rate of only 4 percent interest rate have been introduced from FY12 for the production of 24 crops including pulses, oil, spices and maize, which has been continued. To facilitate agricultural mechanization, the government has taken a project through which farmers are getting agricultural machinery at 50 percent to 70 percent subsidized rate on their actual sales price. As a result, food security has been ensured in the country by

[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

continuing agricultural production despite the impact of COVID-19. In the 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, providing agricultural equipment at a subsidized rate, etc.

3.27 The Ministry of Fisheries and Livestock has been playing an important role in ensuring supply of meat to satisfy the demand of the population. Bangladesh has already achieved self-sufficiency in fish, meat and egg production and activities are underway to achieve self-sufficiency in milk production soon. The sector is earning foreign exchange by meeting the domestic demand for meat as well as exporting fish and fish products and animal products. To meet the country’s demand for protein and nutrition, implementation of various development programmes in light with the targets set by the 8^{th} Five Year Plan and Vision 2041 is ongoing. In the medium term, priorities will be given on implementation of breed development of livestock, enhancement of productivity, improvement of fund management system, prevention of jatka, development of Blue Economy and quality control and efficient management of fisheries products.

3.28 Sustainable development and management of water resources is very important for agricultural development. As the country's population grows, so does the demand for water for household, agricultural, industrial and development activities. Moreover, dependency on groundwater is increasing due to climate change and declining flow of rivers in the country. The Ministry of Water Resources is responsible for meeting the water needs of the people and ensuring sustainable development through balanced and integrated management of water resources. The Ministry has given the highest importance on excavation and re-excavation of rivers and canals, construction and maintenance of infrastructures and the development of Haors and Baors. As part of the Bangladesh Delta Plan 2100, initiatives have been taken to reconstruct small rivers, canals and water bodies in 64 districts.

3.29 The priority of the Ministry of Environment, Forest and Climate Change includes tackling the risks arising from climate change, conservation of management of forest resources, controlling environmental pollution and conservation of bio-diversity. In the medium term, initiatives will be taken to implement projects for adaptation to, and mitigation of, climate change, reduction of environmental pollution, improvement of biodiversity and enhancement of mangrove forest in coastal areas. To protect and preserve forestry and wildlife, target has been set to create mangrove forestry in 17,000 hectors of land during FY22-FY24. Moreover, target of distributing dividends among the beneficiaries involved in social forestry has been set at Tk. 93.0 crore for FY24.

Social Security and Welfare[3]

3.30 To make economic growth inclusive, social security is the most important policy tool for the government. The government has set a target to reduce the poverty rate to 12.3 percent and the extreme poverty rate to 4.5 percent by FY24. The outbreak of the COVID-19 pandemic has created a challenge towards achieving that goal, as the sources of income and livelihood of many people have been disrupted severely by the pandemic. The government

[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.

has therefore increased the allocation as well as the coverage of social safety net benefits to tackle the adverse impacts of the pandemic on the poor. In the medium term, allocation for social safe net programme will be increased gradually to bring more people under the coverage of the safety net.

3.31 Major priority areas of the Ministry of Social Welfare will encompass the services related to providing social protection to different classes of underprivileged and distressed people, providing interest free micro credit for the poor and handicraft people, providing housing, education, training and giving essential supporting elements to disable persons with special needs. To ensure transparency in delivering various social transfers, direct cash payments are being made to the beneficiaries through government-to-person (G2P) payment system using their national ID.

3.32 Steps have been taken to incorporate women into the mainstream of development. Accordingly, the Ministry of Women and Children Affairs has set a priority to continue with the food assistance programme (VGD) for distressed mothers, allowances for pregnant mothers, allowances for lactating and working mothers and the provision of microcredit to ensure women empowerment.

3.33 The main priority of the Ministry of Liberation War Affairs is to improve the socio-economic conditions of freedom fighters. The Ministry provides honorarium, ration and medical allowances to freedom fighters and dependents of martyred freedom fighters. The Ministry has a priority to continue with these social security programmes.

3.34 The Ministry of Disaster Management and Relief emphasizes on, as one of its top priorities, reducing the risks to the poor and disadvantages people due to natural, environmental and human induced hazards. In the medium term, the Ministry will continue its existing programmes like EGPP, VGF, 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.

Employment Generation

3.35 The present government believes in pro-poor and inclusive economic development. To that end, the government gives emphasis on three things: adequate growth of employment, labour productivity enhancement (skills development) and desired increase in real wages. However, a rising share of the working population to the total population (the demographic dividend) and a rising share of female labour force participation have resulted in a significantly faster rate of labour force growth than the population growth rate. Therefore, while formulating the employment generation strategy, the government deals with four major challenges. First, the incorporation of automation in the production process is reducing the employment elasticity of GDP. Secondly, despite the increase in value addition in the manufacturing and construction sectors, there has often been a shrinkage in employment. Thirdly, the creation of decent employment is being hampered by the concentration of jobs in the informal sector. Fourthly, a massive shortage of skilled manpower capable of keeping pace with the dynamic nature of modern employment.

3.36 To tackle the situation of loss of jobs due to the COVID-19 pandemic, the government has taken multidimensional and evidence-based policies for employment generation in the medium-term with the main focus, firstly, on investment and growth to absorb the new entrants in the labor market and those who lost jobs due to the COVID-19 effect, and secondly, on securing the full benefits of the demographic dividend. The government has taken sector-wise medium term strategies to boost job creation. Some of the notable aspects of the sector-based strategy include providing incentives for labor-intensive and export-oriented manufacturing growth, diversification of agriculture, accelerating the CMMSE sector, strengthening and expanding the modern service sector, including out-of-sector services, encouraging ICT sector enterprises and expanding and consolidating overseas employment. In addition, while undertaking large public investment projects or providing policy support to industries, or facilitating trade in certain sectors or products, the issue of employment creation is being taken into active consideration. Besides, keeping in view the need for subject-based employment, the programme for establishing an obvious link between education and industry has been strengthened by modifying and reorganising the content of educational activities.

3.37 Youth employment and women empowerment are two major priority areas of the government's job creation strategy in the medium term. So, women participation in the labour force is expected to rise at a faster rate in the medium term. Therefore, on the supply side, the labour force is expected to grow at 2.2 percent per year. That is, during FY23-FY25 an additional labour force of 4.76 million will be added to the total labour force. During this period, the government has planned to create 7.19 million jobs of which 2.06 million will be overseas and the remaining 5.13 million will be created domestically.

3.38 In the medium term the government's growth led employment generation strategy focuses mainly on efficient import substitution and export promotion through trade policy reform and flexible and competitive exchange rate. To ensure equitable distribution of employment in the manufacturing sector in all parts of the country, the government is setting up 100 special economic zones which will provide employment to 1 crore people. In respect of agricultural diversification, in the medium term the government will continue to strengthen the supply of input, price policy support, water supply, farm credit and marketing support. At the same time, in the fisheries and animal husbandry sector, employment opportunities will be created by involving landless, poor, small and medium farmers in income-enhancing activities. In the medium-term the CMSMEs will play a crucial role in employment creation. So, the government's strategy is to simplify the regulatory barriers and expand institutional and financial support by enabling the SME Foundation to work as a one-stop shop for CMSMEs. The government has established a Credit Guarantee Scheme to cover for the credit risks for CMSMEs.

3.39 The government will continue to enhance ICT activities through expansion of ICT education and training and removal of all regulatory barriers. By 2025 the government plans to create 3 million additional jobs in this sector. Furthermore, in the medium term, the government will rely on the services sector to convert the low-productivity informal sector into high productivity formal services through promotion of the bank and financial sectors, healthcare, urban transport, shipping and tourism. Finally, to create rural employment and prevent seasonal unemployment, the government will continue and expand the rural job creation schemes like food for work, etc. in the medium term.

3.40 Enhancement of labour productivity will ensure the growth of the worker's real wage and improve his quality of life. For this purpose, the government is placing special emphasis on skills development. Considering the ongoing and future industrial needs, it has planned to provide training to 8,41,680 youths through the

'Skills for Employment Investment Programme (SEIP)'. Under this project about 4.81 lac youths have already been trained and 3.4 lac youths have been provided with employment. Again, after the completion of the SEIP project, the government plans to commence a result-oriented training programme named 'Skill for Industrial Competitiveness' whose preparatory activities are currently ongoing. In the medium term and beyond, the 'National Human Resource Development Fund' will play an important role to ensure funding of skills development activities. Moreover, the National Skill Development Authority (NSDA) is currently working to establish the National Skills Portal and finalize the National Skills Policy.

3.41 In the medium term the government will continue to provide policy and technical support to facilitate expansion in overseas employment. It will implement various measures to ensure the quality of training and 'recognition of skills' of overseas-bound workers. Further, the government has planned to set up technical training centres in all the upazilas of the country in a phased manner to encourage greater overseas employment, including that of the marginalised people. Other important medium term plans are

- Establishment of divisional employment and manpower offices' own buildings in 8 divisional cities;
- Creation of overseas employment opportunities for 21 lakh workers in three years;
- providing skill development training to 15 lakh people in three years with as much as five lakh per year;
- Formulation of the 'Sustainable Reintegration of Migrant Workers Policy' for reintegration of repatriated overseas workers.

- Formulation of the 'Overseas Employment Market Expansion Road Map' to explore new labour markets and expand existing labour markets; and
- 2.5 percent incentives on expatriate remittances and further simplification of the process of sending remittances will be continued.

Education, Science and Technology

3.42 The government has been giving utmost importance to this sector. It has taken initiatives for improving the overall quality of education, eliminating inequalities in education, improving quality and expanding education. In the medium term, the priority list for secondary and higher education will include improving the quality of education, expanding vocational education, developing the necessary infrastructure for digital education, increasing the financial opportunities for teachers and encouraging activities related to creative talent exploration.

3.43 One priority of the Technical and Madrasa Education Division is to produce skilled manpower to meet the challenges of the 4th Industrial Revolution. To achieve that goal, a national task force has been formed to prepare a Blended Education Master Plan. A draft plan of Blended Learning related to madrasa education has been prepared. Another priority area of the Division is to place emphasis on job-oriented technical and vocational education. A number of steps have been taken to expand technical and vocational education, ensure job-focused education and attract the general public towards technical and vocational education. Moreover, opportunities for quality technical and madrasa education are being expanded to create skilled manpower suitable for the domestic and international labor market.

3.44 The main priority of the Ministry of Primary and Mass Education is to ensure quality primary education. To achieve that goal, the Ministry has been implementing various programmes such as developing infrastructure of primary schools, nationalizing primary schools, distributing free textbooks, modernizing class rooms, improving curriculum, etc. For example, the National Curriculum and Textbook Board is in the process of revising the curriculum from pre-primary to class five. A piloting is being conducted at the school level by preparing class-one textbooks and other teaching materials on the basis of revised curriculum. To ensure regular attendance of children enrolled in primary level and alleviate hunger of students, the government has introduced school feeding activities in the poverty-stricken areas to meet the daily nutritional needs, and this will be further enhanced in future. In the medium term, the Ministry will provide quality pre-primary and primary education, basic education, ICT, English, sub-cluster training to teachers.

3.45 The Ministry of Science and Technology will promote training and education to build a science and technology-minded nation. The Ministry will promote peaceful use of nuclear energy, formulate policies and laws related to science and technology in the country. In the medium term, the main development priorities of the Ministry will be to conduct various feasibility studies for construction of nuclear power plants in southern part of Bangladesh, provide world-class specialized library services for students and researchers, discover low-cost tide and web power generation methods, develop infrastructure and human resources for marine resource research, improve the quality of industrial products and ensure the quality of food and food products.

ICT and Digital Bangladesh

3.46 The government has been giving priority to four main objectives for building a digital Bangladesh, which are - i) infrastructural development of ICT, ii) development of skilled human resources, iii) implementation of e-governance and iv) development of ICT industry. Accordingly, the government recognizes the importance of digitalization of the economy as it is needed not only for institutional efficiency and governance but also for enhancement of factor productivity. The digital economy is backed by the spread of ICT across all business sectors. Technological transformation has started playing an important part in growth acceleration, particularly, the technology track driving the Fourth Industrial Revolution (4IR) has a strong footing in ICT.

3.47 The government is implementing many activities, projects and policies to realize the vision of Digital Bangladesh. It's major plans and strategies can be grouped into five broad heads. First, **connectivity and infrastructure**: Bangladesh Computer Council is working to bring the entire country under broadband internet infrastructure. Bangladesh Hi-Tech Park Authority is establishing Hi-tech Parks where the government is providing attractive incentive packages including tax exemptions, bonded warehouse facility, exemptions of other import duties and charges and most importantly providing one stop service. Second, **E-government**: the government is implementing a Master Plan for the Digital Bangladesh Project under which it has launched various e-service delivery and digital office management systems, including, 'Digital Municipality Service System', E-TIN, E-file system, Digital Forensic Lab etc. Third, **human resources development**: to leverage ICT for growth, development and employment, the government is building skilled manpower through ICT training and education. Fourth, **ICT**

industry promotion: to promote the ICT industry, the government has taken a number of initiatives like ICT Career Camp, Innovation Design and Entrepreneurship Academy (IDEA) Project etc. Fifth, **acts, guidelines, rules and policies**: ICT Division is engaged in developing acts, guidelines, rules and policies related to ICT. Some of the projects that will either be ongoing or be initiated in the medium term are as follows:

- Increase ICT exports to US$ 5 billion and information and communication technology-based employment to 3 million in 2025;
- To ensure that 100 percent of government services are simultaneously available online;
- Establish 300 Schools of Future;
- Establishment of 1.9 lac WiFi connectivity; Village Digital Centre;
- Establishment of 25 thousand Sheikh Russel Digital Lab;
- To create a cashless society;
- Setting up of Sheikh Hasina Institute of Frontier Technology (SHIFT), establishing specialised labs in every university in the country to adapt to 4th Industrial Revolution including Robotics, AI, IoT, Big Data, Blockchain, Augmented Reality (AR) and Virtual Reality (VR) in every university;
- Establish the Digital Leadership Academy and the Centre for Fourth Industrial Revolution;
- By 2025, 1,000 Bangladeshi startups will be promoted with professional mentorship;
- 10 innovation hubs will be established in 10 top universities; and
- At least 5 unicorns of US$ 1 billion worth of startups will be developed.

Local Government and Rural Development

3.48 The priorities of the Local Government Division are to help develop rural economy, strengthen local government institutes and provide them with necessary assistance to ensure safe water supply and sanitation facilities for all. It has adopted a pragmatic plan to ensure potable water supply across the country including the capital city of Dhaka, reduce water logging in urban areas, ensure 100 percent sanitation and conserve and use groundwater instead of underground water. The government is implementing multi-faceted activities to develop the country's rural economy. The most notable among them is the 'My Village, My City' programme adopted as per the Election Manifesto of 2018. Under this, all the facilities currently enjoyed by the citizens in modern cities will be made available for people in rural areas. The civic amenities of a modern city include creation of modern transport and communication facilities, creation of modern healthcare facilities, supply of electricity and fuel, provision of computers with high-speed internet facilities, etc. In addition, 36 feasibility studies will be conducted to facilitate the implementation of the programme. Under this programme, fifteen villages have been selected for development on a pilot basis.

3.49 Development of urban and rural infrastructure, communication and transportation system is an important objective of the government. To that end, government has been implementing various projects. For example, the Local Government Division has undertaken a comprehensive programme for FY23, under which 5,000 km of new roads and 1,900 m of bridges will be constructed and 140 growth-centers and 130 cyclone centers will be set up in rural areas. To ensure strengthening the local government system, total expenditure in the rural development sector will increase by an average of 8.13 percent annually in the medium term to Tk. 537.68 billion by FY25.

Power and Energy

3.50 The government has formulated short, medium and long term plans to ensure quality and uninterrupted supply of electricity. As part of the plan, it has already achieved the target to make electricity available to all by 2021. The Power Division has been implementing various development projects to increase the capacity of generating electricity. As a result, the power generation capacity has increased from 4,942 MW in 2009 to 25,514 MW in 2022 (including captive and renewable). Again, 780 MW of electricity is being generated by renewable sources. The country has been able to increase per capita electricity consumption from 220 MW in 2009 to 560 MW in 2022. The Power Division has taken steps to generate additional power by conserving, repairing and increasing efficiency of old power plants. Under the 8th Five Year Plan, the government has set a target of generating 10 percent of total electricity from renewable energy by 2025. The private sector is being encouraged in the renewable energy policy. Considering the shortage of gas in the country, the government is putting emphasis on solar energy to generate electricity in the country. Research and development in this sector will be continued for encouraging innovation of efficient energy and power.

3.51 In line with the economic development of the country, the demand for energy is also increasing rapidly. Natural gas is an important energy resource as it supplies most of the country's total commercial energy. Therefore, onshore and offshore seismic survey activities are being conducted on a large scale for domestic gas exploration. There are currently 28 discovered gas fields in the country, of which 20 are in production. To build a sustainable energy supply system, initiatives have been taken to reduce energy consumption by 20 percent by 2030. The government has been installing pre-paid gas meters to prevent gas wastage and increase energy efficiency.

3.52 The government has been putting emphasis on cost efficiency in production and distribution of power and energy. For that purpose, research and development in this sector will be continued for encouraging innovation of efficient energy and power. In addition, construction of new transmission lines and the necessary refurbishment of existing transmission lines, installation of new distribution lines and repairing existing distribution lines, expansion of renewable energy technology and reducing system loss will be in the priority list.

Transport and Communication

3.53 A well-organized transport and communication network ensures balanced production and distribution of raw materials and final products, preserves price stability and ensures rapid industrialization. To achieve SDGs, the government will continue to sustain and expand on-going public investments in road, rail, bridge, shipping, civil aviation and telecommunication sectors to support a rapidly-growing economy. Total spending for this sector is projected to grow on average by 13.96 percent annually in the medium term to Tk. 974.99 billion in FY25.

3.54 Construction of new roads, renovation of old roads, construction of flyovers/overpasses, construction of bridges/culverts are in the priority list of the government. To modernize the road transport system, the Road Transport and Highways Division is implementing initiatives to upgrade important highways of the country to 4 or more lanes and widen other highways in the medium term. Other priorities of the government include ensuring safe roads, modernization of motor vehicle management system, introducing MRT and BRT in the Dhaka city to reduce traffic jam etc. National Road Safety Action Plan (2021-30) has been formulated to reduce road accidents. Regular refresher training is being imparted to professional drivers from BRTA to create skilled and humane drivers to reduce road accidents. A top priority of the government at this moment is to open the Padma Multipurpose Bridge for traffic by June, 2022. Other priorities include timely completion of 46.73 km long Dhaka Elevated Expressway, 24 km long Dhaka-Ashulia Elevated Expressway and Dhaka East-West Elevated Expressway, etc.

3.55 The government has adopted a 30-year master plan for the overall development of the railways at a cost of Tk. 5 lakh 53 thousand 662 crore during 2016-2045. Under this plan expansion of railways, construction and renovation of new railways, conversion of railways to dual gauge and double line, opening of new and reopening of suspended railway stations, introduction of new trains and expansion of train services, procurement of train coaches etc. will be completed on the priority basis in the medium term.

3.56 The Ministry of Shipping gives priority to maintain the navigability of the waterways, safe and uninterrupted inland waterways, seaports, land ports, important channels and necessary infrastructure development and maintenance. The government has a plan to undertake massive dredging of rivers in the medium term.

3.57 The government has been implementing various development plans to establish Bangladesh 'Regional Hub' for international passengers' transport. The main priority of the government is to improve facilities for passengers in all airports in the country. To increase the passenger handling capacity at Hazrat Shahjalal International Airport, the construction of the third terminal is underway. In the medium term, initiatives will be taken to enhance the quality and capacity of international and domestic airports.

Table-3.13: Programme Expenditure by Sector: FY20–FY25

Name of the Sector	Expenditure and Allocation (Billion Taka)					
	Actual		Revised	Budget	Projection	
	FY20	FY21	FY22	FY23	FY24	FY25
Public Services	392.92	565.81	1,109.06	1,346.70	1,535.53	1,689.83
Local Government and Rural Development	324.78	354.84	425.25	446.90	490.06	537.68
Defense Services	363.35	354.63	371.26	399.95	427.74	458.45
Public Order and Safety	234.49	244.14	291.49	311.53	331.32	354.51
Education and Technology	659.67	719.25	877.40	999.78	1,090.95	1,206.76
Health	176.53	216.47	322.74	368.63	405.50	446.06
Social Security and Welfare	241.60	269.38	356.91	373.74	391.96	430.84
Housing	54.96	64.19	68.43	68.21	73.66	79.56
Recreation, Culture and Religious Affairs	37.92	40.19	54.26	53.70	58.13	63.36
Fuel and Energy	331.32	228.40	245.19	260.66	274.62	289.38
Agriculture	219.77	257.59	349.73	421.08	390.30	427.41
Industrial and Economic Services	31.30	30.08	42.80	40.42	43.24	46.27
Transport and Communication	537.44	502.18	658.79	815.18	891.47	974.99
Total Programme Expenditure	3,606.05	3,847.15	5,173.31	5,906.48	6,404.48	7,005.10

Source: Finance Division

Chapter Four
Revenue Mobilization and Debt Strategy

Collection of sufficient domestic revenue is an essential prerequisite to attain the development goals envisaged in the national development plans. The government is redesigning the revenue collection strategy to address the existing loopholes and shortcomings and generate sufficient revenue to support the investment and expenditure plans in the medium term. In absence of sufficient revenue collection, it will not be possible to achieve desired public investment level. Additionally, as Bangladesh is scheduled to graduate from the list of LDCs in 2026, both the national tariff policies and the revenue administration are in the process of transformation to make them in line with the post-graduation phase.

4.2 This chapter focuses on steps that are currently underway to speed up revenue collection significantly. The chapter begins by taking a look at where Bangladesh stands compared to comparator countries in terms of revenue performance, historical and current revenue collection figures and reform initiatives currently underway and are planned to increase collection, moving to medium term revenue outlook (FY23-FY25) and revenue targets. It progresses with the discussion on government's key deficit financing strategies and overall debt sustainability in the medium term.

Revenue Mobilization Trends – a Country Comparison

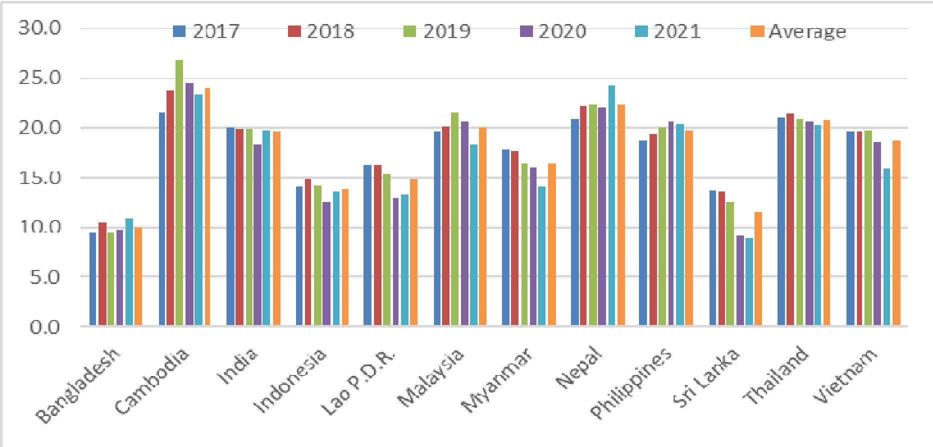
4.3 Bangladesh has historically been lagging behind comparable economies in terms of revenue collection. A comparator country analysis of revenue collection (in percent of GDP) in the last five years shows the slower performance by Bangladesh. Lao PDR and Nepal, along with Bangladesh, will graduate from the LDC category at the same time. Nepal's average revenue–GDP ratio of 22.36 percent is more than twice that of 10.01 percent in Bangladesh. Lao PDR's ratio is one and half times more at 14.84 percent. Cambodia has a revenue–GDP ratio of 23.99 percent.

Table 4.1: Comparative Scenario of Revenue Mobilization

Country	General Government Revenue (% of GDP)					
	2017	**2018**	**2019**	**2020**	**2021**	**Average**
Bangladesh	9.5	10.4	9.5	9.8	10.9	**10.01**
Cambodia	21.6	23.7	26.8	24.5	23.4	**23.99**
India	20.0	20.0	19.9	18.3	19.7	19.58
Indonesia	14.1	14.9	14.2	12.5	13.6	13.83
Lao P.D.R.	16.3	16.2	15.4	13.0	13.3	**14.84**
Malaysia	19.6	20.2	21.6	20.6	18.3	20.06
Myanmar	17.9	17.6	16.3	16.0	14.1	16.41
Nepal	20.9	22.2	22.4	22.1	24.2	**22.36**
Philippines	18.7	19.3	20.0	20.6	20.4	19.80
Sri Lanka	13.8	13.5	12.6	9.2	8.9	11.62
Thailand	21.1	21.4	21.0	20.7	20.3	20.89
Vietnam	19.6	19.5	19.6	18.5	16.0	18.65

Source: International Monetary Fund, World Economic Outlook Database, April 2022

Figure 4.1: General Government Revenue 2017 - 2021 (% of GDP)



Source: Figure drawn by using data from Table 4.1

4.4 The table below shows Bangladesh's performance in revenue collection compared to some major economic regions. When the 2021 revenue-GDP ratio in Sub-Saharan Africa is 16.91 percent and in the Euro Area 47.09 percent, Bangladesh falls much behind the league of countries in revenue collection. Significant steps and structural reforms are envisaged to augment revenue collection in Bangladesh.

Table 4.2: Government Revenue in various Regions (% of GDP)

Regions	2017	2018	2019	2020	2021
Euro area	46.14	46.37	46.24	46.32	47.09
Emerging market and developing economies	26.41	26.89	26.31	24.35	25.41
Latin America and the Caribbean	27.13	27.06	27.12	25.79	26.91
Middle East and Central Asia	24.32	26.93	25.78	21.93	22.23
Sub-Saharan Africa	16.82	17.40	16.97	15.61	16.91

Source: IMF, World Economic Outlook Database, April 2022

Trend in Revenue Earnings

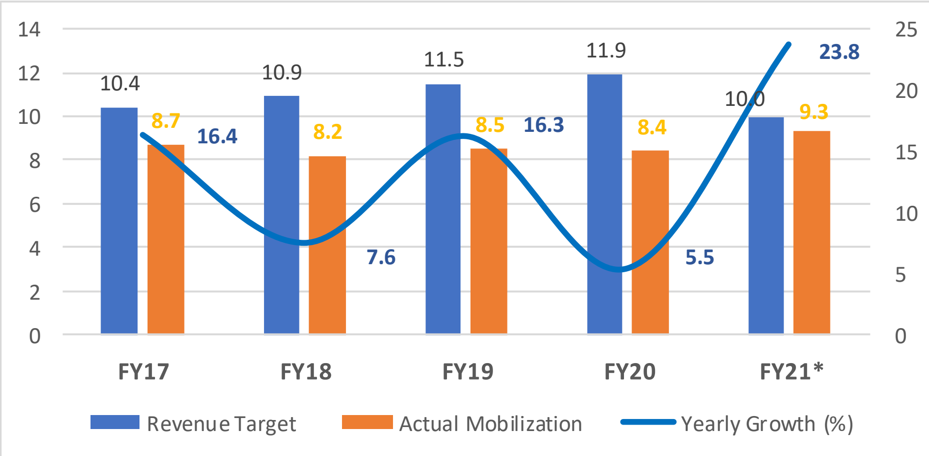
4.5 There has been a turnaround in revenue collection in FY21 with an impressive revenue growth of 23.8 percent compared to the downturn in the previous fiscal when revenue growth dropped to 5.5 percent, mostly due to the COVID-19 pandemic. The government is taking steps including automation and digitization in the revenue administration, reforms in the revenue collection processes, expanding the tax net, encouraging higher tax compliance and rationalization of tax exemptions to raise revenue collection. After the recent rebasing of GDP to 2015-16 base year, revenue-GDP ratio has gone down further. However, the revenue collection trend has remained the same as can be seen in the table below. The average growth in revenue collection in the last five years was 13.9 percent which needs to be increased significantly to meet the country's development aspirations.

Table 4.3: Revenue Collection Performance FY17-FY21 (Billion Taka)

Year	FY17	FY18	FY19	FY 20	FY 21
Revenue Target	2427.5	2879.9	3392.9	3778.1	3515.3
	(10.4)	(10.9)	(11.5)	(11.9)	(10.0)
Actual Mobilization	2012.3	2165.6	2518.8	2658	3289.8
	(8.7)	(8.2)	(8.5)	(8.4)	(9.3)
	{16.4}	{7.6}	{16.3}	{5.5}	{23.8}

Source: Finance Division; Figure in ( ) indicates % of GDP with base year 2015-16, { } indicates yearly growth (%)

Figure 4.2: Revenue Mobilization Scenario (% of GDP)



Revenue by Sources

4.6 Tax revenues collected by the National Board of Revenue (NBR) remain the main source of revenue for the government. In the last five years, NBR's average share in total revenue has been 84.0 percent. In addition, the government collects taxes from narcotics and liquor sale, vehicles, land registration and from non-judicial stamps. The share from these sources in total revenue has remained as low as 2 to 3 percent during the last five years. The government's reform initiative to consolidate the Treasury Single Account (TSA) by collecting idle money from state owned companies has resulted in a surge in non-tax revenue collection during FY20 and FY21. The share of non-tax revenue has climbed to 18 percent of total revenue in FY21 from 10.3 percent three years ago. As a consequence, the share of NBR taxes has fallen from 86.4 percent in FY18 to 80.2 percent in FY21. However, the collection of non-tax revenue has fallen in FY22. Overall, the tax–GDP ratio as per the new base year was only 7.6 percent in FY21, which needs to be significantly increased. Therefore, in the medium term, focus has been given on reform initiatives and structural changes in the revenue administration that has been elaborated later in this chapter.

Table 4.4: Main Sources of Revenue (Billion Taka)

Revenue Sources	Fiscal Year				
	FY17	FY18	FY19	FY 20	FY 21
a) Tax Revenue (a1+a2)	1779.4	1943.3	2259.6	2218.7	2697.9
	(88.4)	(89.7)	(89.7)	(83.5)	(82.0)
	{7.7}	{7.4}	{7.7}	{7.0}	{7.6}
a1) NBR Taxes	1716.4	1871	2186.2	2159.3	2637.3
	(85.3)	(86.4)	(86.8)	(81.2)	(80.2)
a2) Non-NBR Taxes	63.0	72.2	73.4	59.4	60.6
	(3.1)	(3.3)	(2.9)	(2.2)	(1.84)
b) Non-Tax Revenue (NTR)	232.9	222.3	259.2	439.3	591.9
	(11.5)	(10.3)	(10.3)	(16.5)	(18)
Total revenue (a+b)	2012.3	2165.6	2518.8	2658	3289.8

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

Decomposition of NBR Tax Revenue

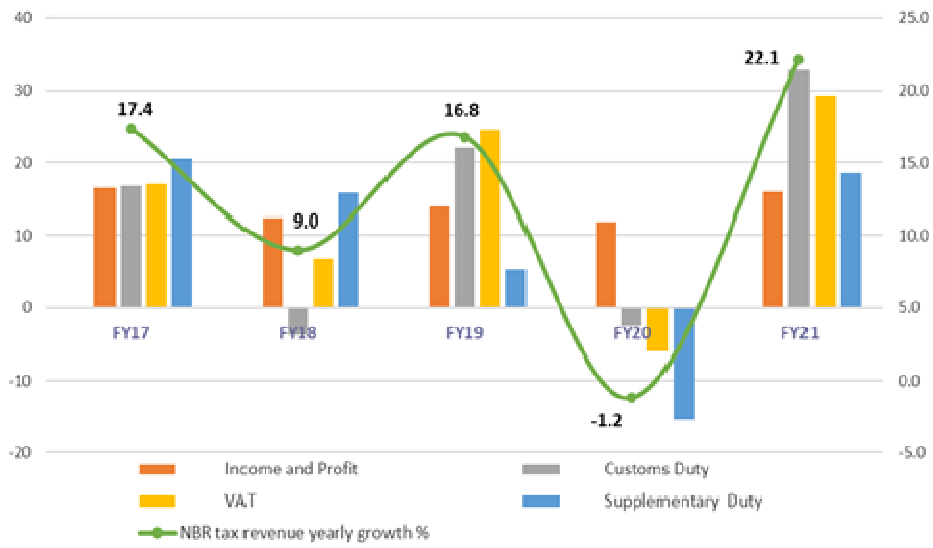
4.7 National Board of Revenue (NBR) administers Customs, Value Added Tax (VAT) and Income Tax departments. The bulk of the revenue is collected from income tax and value added tax with a combined 72.3 percent of total NBR taxes in FY21 (with VAT comprising 39.2 percent and income and profit tax comprising 33.1 percent). On the other hand, customs duty and supplementary duty covered 12 percent and 14.6 percent respectively of total NBR taxes. As shown in Table 4.5, after a drastic fall due to the pandemic in FY20, NBR tax revenue collection rebounded in FY21. On average, income and profit tax grew at 14.16 percent, customs duty at 13.04 percent, VAT at 14.34 percent and supplementary duty at 9 percent in the last five years. Income and profit tax and value added tax will continue to be the main source of NBR revenue in the coming years. Although there has been a recent growth in duty collection at the import stage, this share in total revenue is expected to decline in the medium term as duty rates are expected to be rationalized further in the coming years. After a negative growth rate of 1.2 percent in FY20, NBR has been able to raise the growth rate to 22.1 percent in FY21.

Table 4.5: Sources of NBR Tax Revenue (Billion Taka)

Source	Fiscal Year				
	FY17	FY18	FY19	FY 20	FY 21
Income and Profit	525.0	590.3	672.9	753.3	873.4
	(30.6)	(31.6)	(30.8)	(35.1)	(33.1)
	{16.5}	{12.4}	{14.0}	{11.9}	{15.9}
Customs Duty	207.6	199.9	244	237.2	315.9
	(12.1)	(10.7)	(11.2)	(11.0)	(12.0)
	{16.7}	{-3.8}	{22.1}	{-2.5}	{32.7}
VAT	638.7	682.2	850.1	799.1	1033.5
	(37.2)	(36.5)	(38.9)	(37.2)	(39.2)
	{17.0}	{6.8}	{24.6}	{-6.00}	{29.3}
Supplementary Duty	315.2	365.1	384.3	325.3	385.8
	(18.4)	(19.5)	(17.6)	(15.1)	(14.6)
	{20.6}	{15.8}	{5.3}	{-15.3}	{18.6}
Other Taxes	29.9	33.6	34.9	32.4	31.2

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

Figure 4.3: Decomposition of NBR Tax Revenue Growth (%)



Decomposition of Non-Tax Revenue (NTR)

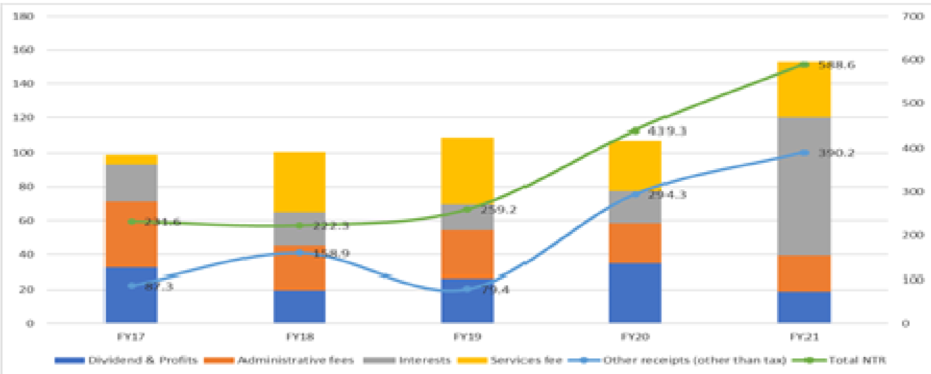
4.8 Non-Tax Revenue consists of dividend and profits, administrative fees, interests, service fee, tolls and levies, non-commercial sales, fines, penalties and forfeitures and other receipts. During FY20 and FY21 the surplus, idle fund of autonomous, state-owned entities and public non-financial corporations, shown under 'other receipts', resulted in higher NTR collection and was the main contributing source. The enactment of the 'Deposit of Surplus Funds of Autonomous, Semi-Autonomous, State-Owned and Public Non-Financial Corporations into the Government Treasury Act 2020' resulted in large deposits of idle money to the national exchequer from State Owned Enterprises (SOEs).

Table 4.6: Composition of Non-Tax Revenue (Billion Taka)

	FY17	FY18	FY19	FY 20	FY 21
Dividend & Profits	32.3	19.5	26.5	34.7	19.09
	(4.2)	(-39.8)	(36.4)	(30.8)	(-45.0)
Administrative fees	38.9	25.7	28	23.8	20.4
	(16.1)	(-33.9)	(8.8)	(-15.0)	(-14.3)
Interests	22.1	19.9	15.1	19.1	80.7
Fines, Penalties and Forfeitures	5.8	6.0	6.9	6.0	8.9
Services fee	5.8	35.5	39.6	29.7	32.7
	(-23.3)	(508.2)	(11.8)	(-25.0)	(10.0)
Tolls and levies	11	6.1	6.8	6.8	7.9
Non-commercial sales	5.5	17.4	9.0	17.4	18.7
Capital Receipts	2.5	7.0	2.6	1.8	2.5
Other Receipts (other than tax)	87.3	158.9	79.4	294.3	390.2
Total Non-Tax Revenue	231.6	222.3	259.2	439.3	588.6
	(10.1)	(-4.0)	(16.6)	(63.8)	(33.5

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

Figure 4.4: Non-Tax Revenue Collection in FY17 - FY21



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

Overall Revenue Performance in FY22 (up to February 2022)

4.9 Total revenue collection stand at Tk. 2.32 trillion (59.7 percent of the revised budget target for FY22) at the end of February in FY22. This is 20.2 percent higher than revenue collection for the same period last year. Tax revenue showed a higher yield with 32.7 percent growth. Among NBR taxes, customs duties had the highest growth at 69.4 percent followed by VAT at 36.9 percent and other taxes at 33.3 percent growth during the July-February period of FY22. Income and profit tax achieved 14.2 percent growth. Non-Tax Revenue as expected had shrunk by 36.7 percent as the sudden burst of collection from idle funds from state owned enterprises were accounted for in the last two years and has started slowing down in FY22.

Table 4.7: Revenue Performance in FY22 (Billion Taka)

	2021-22		2021-22 (Jul- Feb)		2020-21 (Jul- Feb)	Growth (Jul-Feb)
Items	Target	Rev. Target	Actual	% of Target	Actual	(%)
Total Revenue	3890	3890	2324	59.7	1934	20.2
Tax Revenue	3460	3460	2103	60.8	1585	32.7
NBR Tax	3300	3300	2063	62.5	1545	33.5
Income & profit	1049	1053	562	53.4	492	14.2
VAT & Supplementary duty	1822	1821	1154	63.4	843	36.9
Customs duties	379	380	315	82.9	186	69.4
Other Taxes	49	46	32	69.6	24	33.3
Non-NBR Tax	160	160	40	25.0	40	0.0
Non-Tax Revenue (NTR)	430	430	221	51.4	349.4	-37

Source: Finance Division

4.10 After showing a robust recovery in revenue collection in FY21, the upward trend has continued in FY22. During the July-February period of FY22, revenue collection has exhibited 20.2 percent growth compared to the same period in the previous year. However, efforts must be geared so that the actual revenue collection target of Tk. 3890 billion Tk. in FY22 is met.

Figure 4.5: Revenue Mobilization Scenario in FY22

Tax Exemptions and its Impact on Revenue Collection

4.11 In an effort to strengthen revenue collection, it is essential to analyze the impact of tax exemptions and rebates given to different sectors, projects and products across all taxes – income tax, VAT and customs. At presents, these facilities are given to assist exporters, encourage local manufacturers, assist development and investment projects and attract investments. As per the last published annual report of the National Board of Revenue (NBR) for FY20, out of total imports of Tk. 7,524 billion, imports enjoying exemptions by Statutory Regulatory Orders (SROs), special orders and zero customs duty were worth Tk. 1,617 billion (21.5 percent of all imports), 100 percent export-oriented factories using duty free bond facility imported Tk. 1,242 billion (16.5 percent of all imports), factories in EPZs imported Tk. 445 billion (6 percent) and diplomatic bonded warehouses imported items of Tk. 6 billion (0.08 percent). This reflects that duty and taxes were not collected at the import stage on almost 44 percent of all imports. The government plans to conduct similar assessments on income tax and VAT exemptions.

Reforms Initiatives in the Revenue Administration

4.12 Apart from the issue of tax exemptions, 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 tax reforms 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 for prolonged periods. The ensuing graduation from the LDC category further necessitates these reforms.

4.13 Accordingly, the government has taken 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 highlighted below:

A. Formulation of new laws and regulations

- **Implementation of VAT Law:** The VAT & Supplementary Duty Act 2012 has been implemented in July 2019. 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. After the initial hiccup and the shortfall due to the outbreak of COVID-19, revenue collection has accelerated in FY22.
- **Drafting the new Customs Law**: The National Board of Revenue has finalized the draft of the new Customs Act. The new law will replace the existing Customs Act 1969. International best practices in customs including that of the World Customs Organization (WCO) revised KYOTO Convention and the WTO Trade Facilitation Agreement have been incorporated here. The law aims to harmonize and simplify customs processes to facilitate collection of custom duties.
- **Drafting the new Income Tax Law:** The first draft of the new Direct Tax Code has been framed to make the National Board of Revenue Income Tax Ordinance, 1984 up-to-date and simple. Discussions are underway with various stakeholders on the draft. The new law is expected to create an enabling environment for taxpayers, streamline income tax assessment and collection and attract a larger volume of domestic and foreign investment.

B. Structural reform and modernization of the NBR

- **Automation of VAT systems:** To implement the new VAT law, the NBR has undertaken the 'VAT online Project (VoP)' which was in operation since 2013 and concluded in June

2021. Under the VOP, 3 important automation measures have been completed. First, the Online VAT Registration began in March 2017. Again, the central registration system has been in force since July 2019. 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.

- **E-payment of Customs, VAT and Income Tax:** The NBR has rolled out the electronic payment (e-payment) of customs duties in 2017, Income Tax in 2018 and VAT on 16 July 2020. Income tax can be paid through MFS (mobile financial services) as well. Firms and companies that have accounts with 12 commercial banks are now able to pay VAT electronically without even physically going to banks. Under the process, firms send instructions to their banks to clear VAT. Then, banks deposit money to Bangladesh Bank using RTGS (Real Time Gross Settlement). Bangladesh Bank sends transaction information to NBR's Integrated VAT Administration System (IVAS). Taxpayers get payment confirmation from IVAS.
- **Introduction of A-Challan**: To facilitate real time deposit of government money to the national exchequer, the government has launched the Automated Invoice Portal. This Automated Challan (also known as A-Challan) will act as the receipt window of the government. The payment of income tax has already been brought under the A-Challan system on a pilot basis. Rule 26A of the Income Tax Rules, 1984 has made all types of tax payments not exceeding Tk. 5 lac through A-Challan mandatory. The NBR now plans to expand its use for payment of VAT and Customs duties.

The A-Challan will ensure timely deposit of money including prevention of fake return submission and revenue evasion. Moreover, the discrepancy between the amount of revenue collected by the NBR and the accounts given by the Accounting Offices will be eliminated.

- **Online submission of Tax Returns:** Individual taxpayers can now submit their tax returns online at etaxnbr.gov.bd. More than 0.1 million people have submitted their tax returns online this year.
- **eTDS Environment:** The NBR has successfully launched eTDS Environment for easy and hassle-free processing of Income Tax at source. With the introduction of this system taxpayers' time, cost and visit have been reduced to almost zero. Tax payers can now submit fourteen reports in the eTDS environment at etds.gov.bd/login.
- **Introduction of Electronic Fiscal Device:** To stop evasion in VAT and enhance VAT collection, the government has introduced Electronic Fiscal Devices (EFD) with a sales data controller mechanism. The government has already installed 4,598 EFD/SDC (Sales Data Controller) machines. NBR has selected 24 sectors, including residential hotels, bakeries and fast foods, decorators and caterers, sweet meats etc. for the purpose. Again, 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.
- **Enabling Non-Resident Companies to pay VAT through Authorized VAT Agents:** The NBR has made provision to enable internet-based companies, such as Google, Facebook,

Microsoft etc. to pay their VAT on online sales. This allows these companies to pay their VAT through their authorized VAT agents without opening their office in Bangladesh.

- **Establishing a Central Risk Management Office:** The NBR plans to operationalize the risk management system to ensure that no more than 10 percent of the import 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.
- **Automating the Bond Management System:** 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 2023. Meanwhile, the licensing module has started operation and other modules will become operational soon.
- **Time Release Study (TRS):** Bangladesh Customs will soon be conducting Time Release Study in the major custom houses to take stock of actual time taken in release of imported consignments. The objective of the TRS will be to identify bottlenecks in customs clearance and to take measures to reduce clearance time.
- **Programmes to expand the number of taxpayers:** The NBR strives to expand the number of taxpayers and has made the return submission mandatory for all TIN-holders with a few exceptions. As of February 2022, the total no. of TIN-holders stood at 7 million. Again, as of March 2022, the total no. of tax returns has been 2.9 million, with an increase of 14.17 percent over that in the previous year. To further expand the number of taxpayers in the coming years, the NBR has undertaken surveys and arranged a substantial number of tax fairs across the country.

- **Other reforms:** Other reforms efforts by the NBR include – i) Implementation and activation of Online National Single Window, Post Clearance Audit, Advance Ruling, Authorized Economic Operator, and thereby increase dynamism in international trade; ii) Full implementation of online income tax return submission under SGMP project; iii) Implementation of "Individual Source Tax Deduction Monitoring Zone" to strengthen income tax deduction monitoring; iv) Expansion of e-Payment system in income tax; v) Activation of transfer pricing and anti-money laundering activities; and vi) Strengthening ICT infrastructure construction and automation activities.

C. Tariff rationalization in preparation for LDC graduation

- Bangladesh will lose preferential market access, i.e. duty free market access, after graduation in 2026. In the absence of unilateral duty-free facility currently enjoyed in developed and developing country markets, Bangladesh will have to consider offering reciprocal tax benefits to other countries to retain market access. In preparation to mitigate the challenges of LDC graduation a high-level Committee, with seven Sub-Committees, have been formed under the Prime Minister's Office. One of the Sub-Committees is co-led by the Finance Division and the Internal Resources Division. This committee is spearheading work on tariff rationalization to facilitate signing of trade agreements with trading partners, suggesting strategies for gradual reduction of import duties/tariff structure without compromising domestic competitiveness, and reforming revenue administration to both augment revenue collection and promote business and tax payer friendly revenue collection.

- The Sub-Committee on Domestic Resource Mobilization and Tariff Rationalization has formed three study groups to identify what steps are needed to make Bangladesh an attractive trading partner for signing trade agreements, to ensure that Bangladesh complies with international trade rules and to increase revenue earning significantly by automating and digitizing the revenue administration. Bangladesh will be losing the benefits of international support measures currently enjoyed as an LDC. Necessary preparation and strategic planning need to be made to face the upcoming challenges. A major focus of the Sub-Committee will be on bringing necessary reforms to increase revenue collection in a business and taxpayer friendly environment.

D. Reforms in NTR

- To boost overall revenue collection focus needs to be made on each of the items under the Non-Tax Revenue category as well. Consolidation of the Treasury Single Account and enactment of the Deposit of Surplus Funds of Autonomous, Semi-Autonomous, State-Owned and Public Non-Financial Corporations into the Government Treasury Act, 2020 helped to generate idle cash from autonomous, state owned and public non-financial corporations. But these are not recurring sources. Focus on optimal collection of administrative fees, service fees, fines, penalties and forfeitures, tolls and levies and better performance of state-owned enterprises will enlarge the revenue envelope.

Medium Term Revenue Outlook

4.14 The government's initiative to increase the level of automation and digitalization in revenue administration and provide an impetus for revenue growth is expected to facilitate the achievement of medium term revenue targets. The revenue target for FY22 is set at Tk. 3.9 trillion. Renewed emphasis needs to be placed on collection of income tax and value added tax to raise the revenue-GDP ratio to a respectable level. There is a need to identify areas for increasing efficiency in revenue collection and make optimal use of tax exemptions. Tax benefits are given to encourage local businesses and attract investments. However, a detailed analysis is required to ascertain the economic cost in terms of lost revenue vis-à-vis business growth.

Table 4.8: Revenue Projection in the Medium Term (Billion Taka)

Items	FY 21	FY 22	FY 22	FY 23	FY 24	FY 25
	Actual	Budget	Revised Budget	Projection		
Total Revenue	3290	3890	3890	4330	5166	5915
	(23.8)	(18.2)	(18.2)	(11.3)	(19.3)	(14.5)
Tax Revenue	2698	3460	3460	3880	4616	5298
	(21.6)	(28.2)	(28.2)	(12.1)	(19.0)	(14.8)
NBR Tax of which	2637	3300	3300	3700	4367	5018
	(22.1)	(25.1)	(25.1)	(12.1)	(18.0)	(14.9)
Income and Profit	872	1050	1050	1179	1373	1570
	(18.7)	(20.4)	(20.4)	(12.0)	(16.5)	(14.3)
Customs Duties	316	379	379	424	524	617
	(33.22)	(19.9)	(19.9)	(11.3)	(23.6)	(17.7)
VAT and Suppl. Duties	1419	1822	1822	2041	2396	2747

Items	FY 21	FY 22	FY 22	FY 23	FY 24	FY 25
	Actual	Budget	Revised Budget	Projection		
	(25)	(28.4)	(28.4)	(12.1)	(17.4)	(14.6)
Non-NBR Tax	61	160	160	180	250	280
	(2.70)	(162.3)	(162.3)	(12.5)	(38.9)	(12.0)
NTR	592	430	430	450	549	617
	(34.80)	(-27.4)	(-27.4)	(4.7)	(22.0)	(12.4)

Source: Finance Division; figures in ( ) indicates yearly growth

4.15 It is forecasted that revenue earning will reach a new level in the medium term to meet the development aspirations of 2031 and 2041. In FY22 the government estimates to collect Tk 1,053 billion from income and profit taxes, Tk. 380 billion from customs duty and Tk. 1,821 billion from VAT and supplementary duty. Achieving the FY22 revenue target will require 20.8 percent growth in revenue collection from income and profit taxes, 20.2 percent growth in customs duty and 28.3 percent growth in VAT and supplementary duty from the actual collection of the previous fiscal year.

Deficit Financing and Debt Management

4.16 The government has shown an impressive performance in keeping both the budget deficit and the debt level at a tolerable and sustainable limit during the last decade. Recently, despite economic consequences at home and abroad from the COVID-19 pandemic, Bangladesh has been able to contain budget deficit around five percent of GDP. The debt to GDP ratio also remained at a comfortable level; after showing a declining trend during the first half of the decade, it kept rising during the 2nd half to rise to 32.4 percent at the end of FY21, which is well below the internationally recognized threshold.

Table 4.9: Fiscal Deficit and Debt

(In percent of GDP)

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY 20	FY 21
Deficit to GDP (%)	4.0	3.7	4.2	3.2	2.9	4.0	4.7	4.7	3.7
Debt to GDP (%)	35.9	36.2	34.3	26.1	26.3	27.2	28.9	31.7	32.4

Source: Finance Division

Deficit Financing

4.17 To meet its financing needs, the government borrows from both domestic and external sources. During the last decade, on an average, around 26 percent of total deficit financing came from external sources which include both multilateral and bilateral loans and a very small amount of grants. On the other hand, domestic sources met around 74 percent of total financing needs of which 27 percent came from the banking sources and 47 percent from non-bank sectors. Among the non-banking sectors, national saving schemes (NSCs) played the leading role by providing 33 percent of total deficit financing needs of the government during FY12-FY21.

Table 4.10: Deficit Financing (FY15 - FY21)

(Billion Taka)

Financing Sources	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Total Financing	621.9	673.2	675.1	1054.9	1398.1	1476.9	1305.6
	(4.2)	(3.2)	(2.9)	(4.0)	(4.7)	(4.7)	(3.7)
External (Net)	111.8	159.8	131.3	264.9	329.7	434.1	480.4
	(0.8)	(0.8)	(0.6)	(1.0)	(1.1)	(1.4)	(1.4)
External Loan	157.8	204.8	188.9	331.3	447.9	522.0	577.3
Grants	24.8	21.7	14.5	8.7	16.8	25.2	23.3
Amortization	70.8	66.6	72.0	75.1	135.0	113.2	120.2
Domestic	510.3	513.4	543.5	790.0	1068.5	1042.9	825.1
	(3.5)	(2.5)	(2.3)	(3.0)	(3.6)	(3.3)	(2.3)

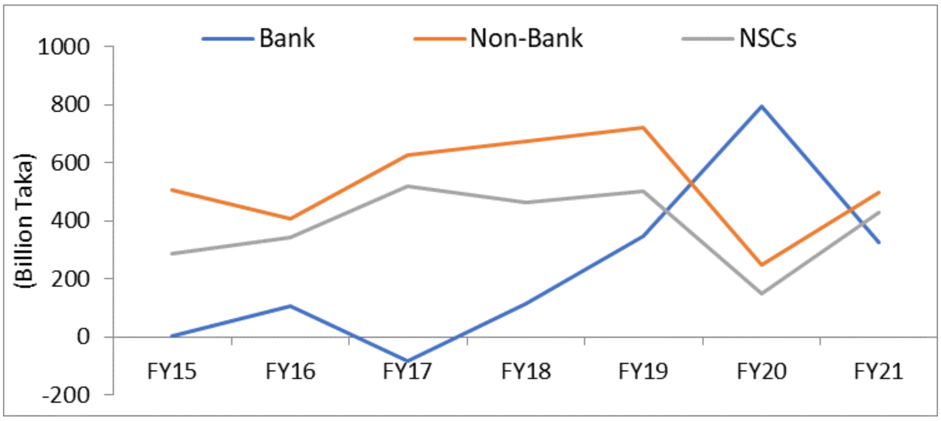
Financing Sources	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Bank	5.1	106.1	-83.8	117.3	345.9	792.7	326.7
Non-Bank	505.1	407.3	627.3	672.7	722.6	250.2	498.4
NSCs	287.1	341.5	518.1	462.9	503.6	151.4	430.4
Others	218.1	65.7	124.5	209.8	218.8	98.8	68.0

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

Domestic Financing

4.18 While borrowing from the banking sources, the government primarily uses treasury bills and bonds. Besides, the central bank uses ways and means advances and overdraft to meet the daily cash demand of the government as an instant mechanism. There are treasury bills with maturity period of 91 days, 182 days and 364 days, whereas the treasury bonds' maturity period may vary from 1 year to 20 years. The government has introduced a new financing instrument named 'Sukuk' with a maturity period of 5 years. On the contrary, in case of non-bank sources, the large portion of financing comes from non-marketable saving instruments, such as NSCs of various maturities.

Figure 4.6: Financing from Domestic Sources (FY15 - FY21)



Source: Finance Division

External Financing

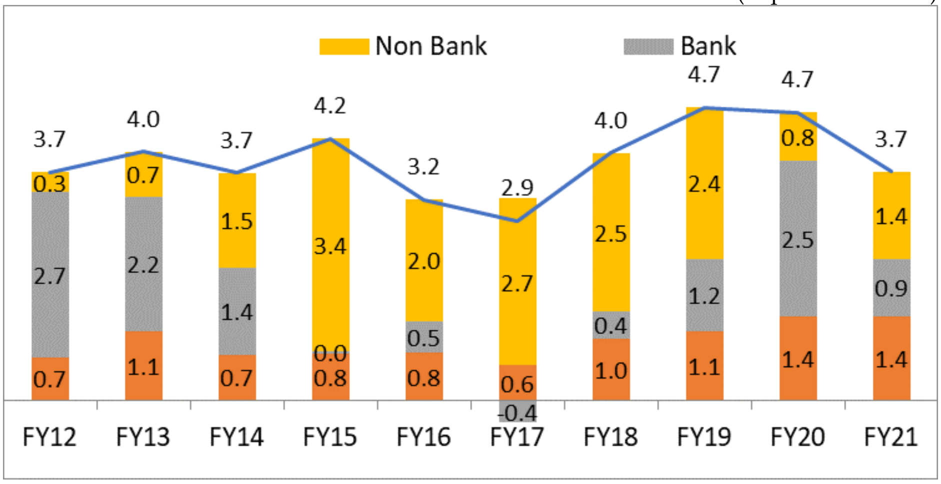
4.19 Loans and grants provided by multilateral and bilateral development partners are important sources of deficit financing. While borrowing from the external sources, preference is given to concessional loans that have low interest rate, long grace period and long repayment period. External financing is generally received against specific project or programme; thus, this financing flow is heavily dependent on the implementation progress of the project/programme activities. However, there are also borrowings in the form of budget supports and BOP supports. During the COVID-19 pandemic, Bangladesh has received a sizable volume of budget supports from the development partners, which has helped the government effectively address the negative impact of the pandemic and protect lives and livelihood of the people.

Trend in Financing

4.20 The composition of the government's financing mix has gone through some changes in the last decade. During FY14–FY19, borrowings from non-bank sources grew significantly, primarily because of increased sales of NSCs. During this period, therefore, the government did not need to borrow much from the banking sector. However, the scenario has changed from FY20; where net borrowing from NSCs experienced 70 percent decline compared to the previous year. Although FY21 has marked some rise in the sales of NSCs; nevertheless, the recent interest rate adjustment for NSCs with a rate cut ranging from 1 to 2 percent for high value investors, along with other administrative reforms, is likely to keep the costly borrowing from NSCs in check. It is also notable that, external borrowing's share in total financing has increased since FY17, largely due to the progress made in implementing various foreign aided mega projects. In FY21 the share of external financing stood at 36.8 percent of total financing.

Figure 4.7: Financing Trend (FY12- FY21)

(in percent of GDP)



Source: Finance Division

Medium Term Financing Outlook

4.21 Given the negative impact of the COVID-19 on the overall economy, the government has adopted expansionary fiscal policy to support the lives and livelihood of the people. There were needs for financing to implement mass vaccination programme and the comprehensive recovery programme with monetary and fiscal stimulus packages. These have added to the fiscal deficit; the deficit to GDP ratio is estimated to reach 5.1 percent in FY22, surpassing the long-maintained 5.0 percent ceiling. The expansionary fiscal policy will continue for the next couple of years; the deficit is projected to climb to 5.5 percent of GDP in FY23. However, it will gradually decline to 5.0 percent of GDP by FY25.

Table 4.11: Medium Term Financing Outlook

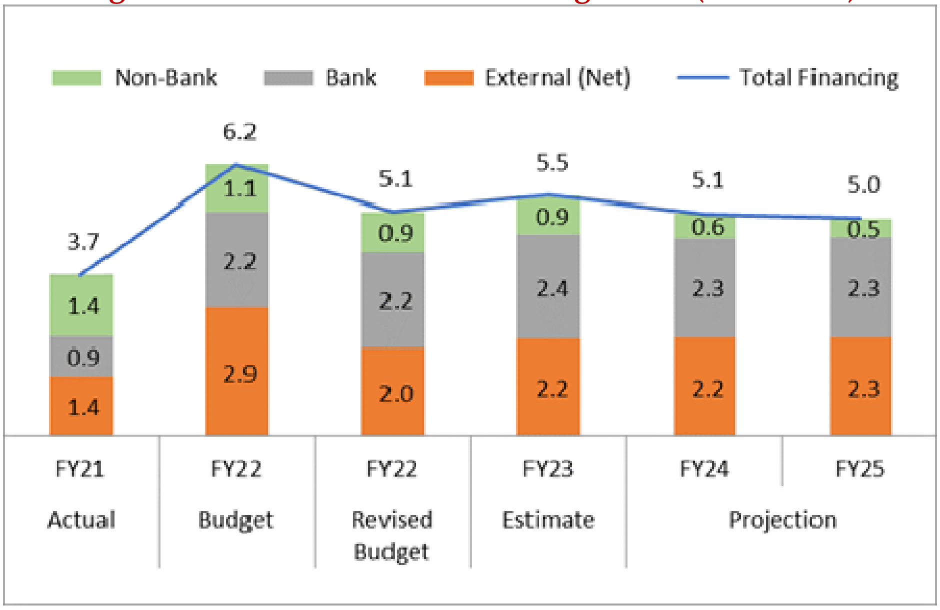
(Billion Taka)

Source of Financing	Actual	Budget	R. Budget	Estimate	Projection	
	FY 21	FY 22	FY 22	FY 23	FY 24	FY 25
Total Financing	1305.6	2146.8	2045.0	2450.6	2547.4	2803.1
	(3.7)	(6.2)	(5.1)	(5.5)	(5.1)	(5.0)
External (Net)	480.4	1012.3	802.1	987.3	1120.7	1261.4
	(1.4)	(2.9)	(2.0)	(2.2)	(2.2)	(2.3)
	{36.8}	{47.2}	{39.2}	{40.3}	{44.0}	{45.0}
External Loan	577.3	1121.9	918.1	1124.6	1257.8	1407.2
Grants	23.3	34.9	31.9	32.7	67.6	78.5
Amortization	120.2	144.5	147.9	170.0	204.6	224.3
Domestic	825.1	1134.5	1242.9	1463.4	1423.0	1542.3
	(2.3)	(3.3)	(3.1)	(3.3)	(2.9)	(2.8)
	{63.2}	{52.8}	{60.8}	{59.7}	{55.9}	{55.0}
Bank	326.7	764.5	872.9	1063.4	1148.0	1289.4
Non-Bank	498.4	370.0	370.0	400.0	275.0	252.8
NSC	430.4	320.0	320.0	350.0	274.5	252.3
Others	68.0	50.0	50.0	50.0	0.5	0.6

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

4.22 It is projected that, the share of domestic financing in the total financing mix will gradually decline in the medium term whereas the share of external financing will grow. Borrowings from non-bank sources, especially the expensive NSCs, are projected to decrease over the medium term. Hence, the borrowing from banking sources will surge during the period. Besides, the borrowings from external sources are projected to witness significant increases; in FY25, about 45 percent of total financing will come from external sources. This is expected to mitigate the risk of crowding out in the domestic financial market. The volume of grants will maintain a limited growth in the next three financial years, whereas the amortization volume will continue to rise in the coming years.

Figure 4.8: Medium Term Financing Trend (% of GDP)



Source: Finance Division

Cost of Financing

4.23 Bangladesh enjoyed the privilege of external borrowing at concessional rates for many years and finally graduated to lower-middle income country in 2015. Bangladesh now receives external borrowings in a blend of semi-concessional and market rates. This has added to the cost of external borrowing. The average implicit interest rate for external borrowing was 0.9 percent in FY17 which is projected to rise to 1.7 percent in FY25. On the other hand, cost of domestic borrowing is projected to decline in the next couple of years with the help of reduced sales of NSCs. The average implicit interest rate for domestic borrowing was 9.2 percent in FY17, which is projected to decline to 7.9 percent in FY23. The overall interest rate is projected to remain below 6 percent in the medium term.

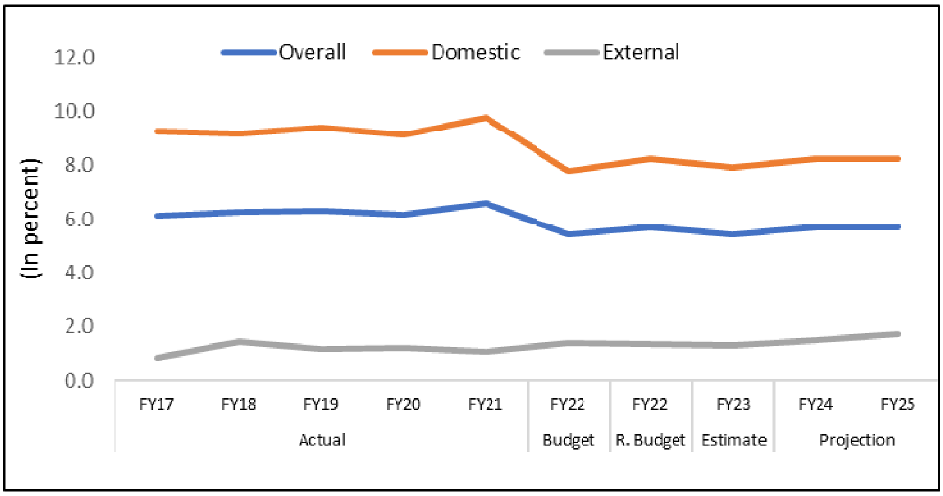
Table 4.12: Cost of Financing

(Billion Taka)

Items	Actual					Budget	Revised Budget	Estimate	Projection	
	FY17	FY18	FY19	FY20	FY21	FY22	FY22	FY23	FY24	FY25
Interest Payments	353	418	495	574	706	686	712	804	983	1144
	(13.1)	(13.0)	(12.6)	(13.9)	(15.4)	(11.4)	(12.0)	(11.9)	(12.7)	(13.1)
	{6.1}	{6.3}	{6.3}	{6.2}	{6.6}	{5.4}	{5.7}	{5.5}	{5.7}	{5.7}
Domestic	335	382	460	531	663	620	650	732	883	1009
	(12.5)	(11.8)	(11.7)	(12.8)	(14.4)	(10.3)	(11.0)	(10.8)	(11.5)	(11.6)
	{9.2}	{9.2}	{9.4}	{9.1}	{9.8}	{7.8}	{8.3}	{7.9}	{8.2}	{8.3}
External	18	36	34	43	43	66	62	72	100	135
	(0.7)	(1.1)	(0.9)	(1.0)	(0.9)	(1.1)	(1.1)	(1.1)	(1.3)	(1.5)
	{0.9}	{1.4}	{1.2}	{1.2}	{1.1}	{1.4}	{1.4}	{1.3}	{1.5}	{1.7}

Source: Finance Division; Figure in ( ) indicates % of total budget and { } indicates implicit interest rate[4] (%)

Figure 4.9: Implicit Interest Rate Movement



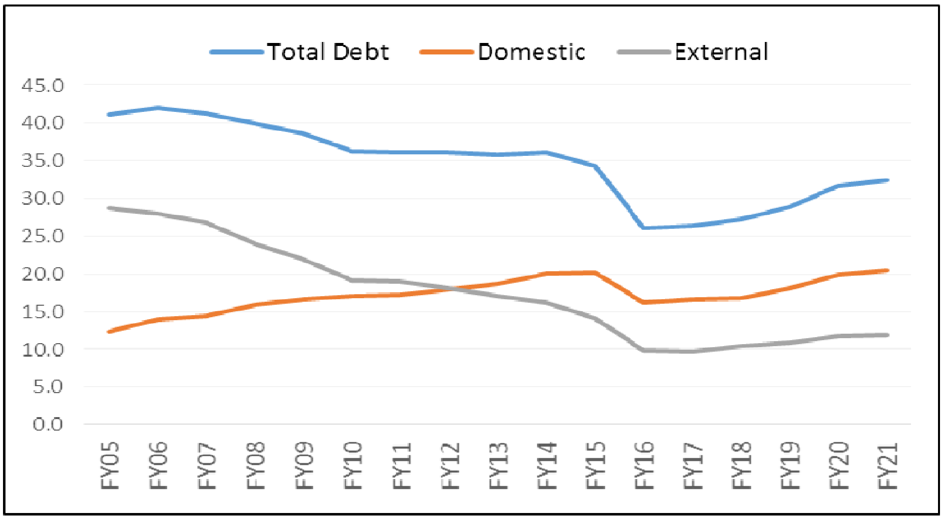
Source: Figure drawn by using data from Table 4.12

[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.

Financing Strategy

4.24 The total debt and external debt as a percentage of GDP continued to decrease until FY17, after which they started to grow again. On the contrary, the domestic debt-GDP ratio has shown a consistent growth except in FY16 (due to change in the GDP base year). The continued lackluster performance in revenue collection allows little fiscal space for the government. On the contrary, there is a need to build wide range of physical and social infrastructures throughout the country to sustain high economic growth. Faced with such a situation, the government has been pursuing a medium term deficit financing strategy by balancing between borrowings from domestic and external sources. Given the lower cost of foreign financing, the government plans to collect as much as 45 percent of total financing from the external sources and decrease the share of domestic borrowing to 55 percent by FY25.

Figure 4.10: Change in Debt Stock (as % of GDP)



Source: Finance Division

4.25 In case of domestic financing mix, the government's strategy is to balance between bank and non-bank financing sources in a way that reduces domestic debt servicing cost while also mitigates the crowding out risk in the domestic market. In FY21, non-bank financing constituted 60 percent of domestic financing. The government plans to bring this ratio down to 16.4 percent by FY25. Especially, the expensive borrowing from NSCs is projected to decline from TK. 518 billion in FY17 to TK. 252 billion in FY25. This will be likely to lessen the interest payment liability of the government in the coming days.

4.26 To bring further improvement in the domestic financing mix, the government plans to bring reforms in the treasury security market. At present, the treasury securities are mostly held by commercial banks. The non-bank financial institutions (NBFIs) have very insignificant investment in treasury bills and they hold only 15 percent of treasury bonds. The insurance sector is underdeveloped and there are no longer term investment funds such as pension fund. The government plans to initiate the universal pension system soon which, along with other reforms, is likely to make the securities market more vibrant and ultimately allow the government to make its borrowing basket from domestic market more balanced and less costly.

4.27 The government launched a Shariah-compliant investment instrument, 'Ijarah Sukuk', in December 2020. The first Sukuk (TK. 80 billion) has been issued to raise fund for the project 'Safe Water Supply to the Whole Country' and the second Sukuk (TK. 50 billion) has been issued to purchase definite assets of 'Need Based Infrastructure Development of Government Primary Schools

Project (1st Phase)'. Very recently, a third Sukuk has also been issued to collect TK. 50 billion and the government will continue to issue Sukuks. This new instrument is very likely to bring a significant number of new investors in the government securities market.

Debt Profile

4.28 Throughout the last decade, the debt level was stable, mainly due to high GDP growth, stable exchange rate and fiscal discipline maintained by the government. At the end of FY21, total debt stands at 32.4 percent of GDP, of which 20.5 percent comes from the domestic sources and 11.9 percent from the external sources. As of June 2021, the highest contribution (47.8 percent) to the domestic debt stock came from NSCs, followed by the banking sector (46.2 percent). On the other hand, the highest contribution (36 percent) to the external debt stock came from IDA, followed by ADB (23 percent) and Japan (19 percent).

Table 4.13 Debt Profile (FY12-FY21)

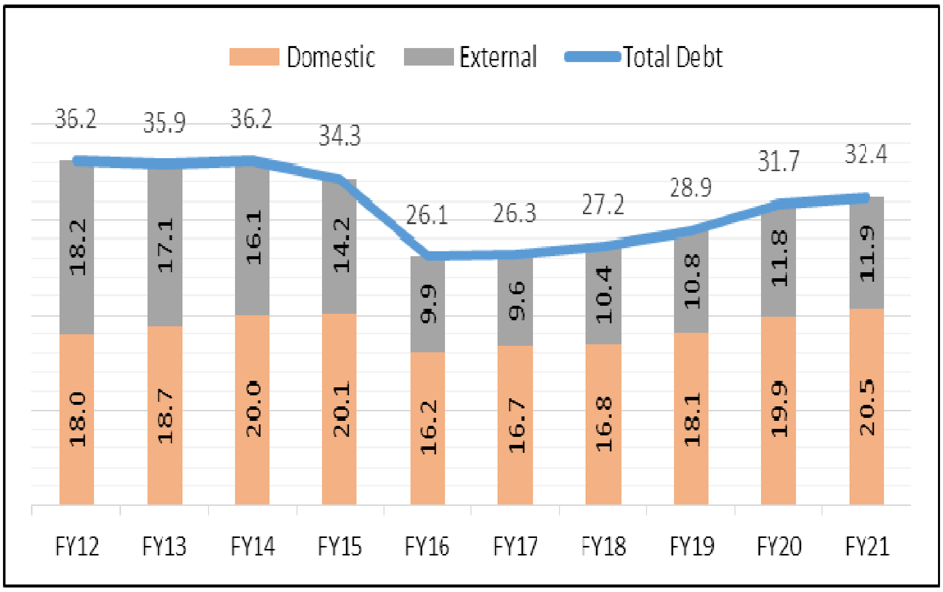
(Billion Taka)

	Fiscal Year									
Indicator	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Total Debt	3704	4167	4708	5039	5420	6123	7186	8536	10062	11443
	(36.2)	(35.9)	(36.2)	(34.3)	(26.1)	(26.3)	(27.2)	(28.9)	(31.7)	(32.4)
Domestic	1842	2176	2607	2955	3361	3881	4435	5338	6314	7239
	(18.0)	(18.7)	(20.0)	(20.1)	(16.2)	(16.7)	(16.8)	(18.1)	(19.9)	(20.5)
	{49.7}	{52.2}	{55.4}	{58.7}	{62.0}	{63.4}	{61.7}	{62.5}	{62.7}	{63.3}
External	1862	1991	2101	2083	2059	2242	2751	3198	3748	4204
	(18.2)	(17.1)	(16.1)	(14.2)	(9.9)	(9.6)	(10.4)	(10.8)	(11.8)	(11.9)
	{50.3}	{47.8}	{44.6}	{41.3}	{38.0}	{36.6}	{38.3}	{37.5}	{37.3}	{36.7}

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

Figure 4.11: Debt Profile (FY12-FY21)

(In percent of GDP)



Source: Finance Division; **Note:** In FY16, GDP base year changed from 2005-06 to 2015-16.

Medium Term Outlook of Debt Stock

4.29 Expansionary fiscal policy will continue in the medium term to ensure recovery from the negative impact of COVID-19 pandemic. This will help the debt-GDP ratio grow from 32.4 percent in FY21 to 38.1 percent in FY25. Both the domestic and external debt stock, in percentage of GDP, will continue to grow in the medium term. External debt stock will grow faster than domestic debt stock. At the end of FY25, external debt stock will reach 14.9 percent of GDP and will constitute 39.2 percent of total debt stock. Total debt was 348 percent of annual revenue outturn at the end of FY21, and is projected to reach 362 percent at the end of FY25.

Table 4.14: Medium-Term Outlook of Debt Stock

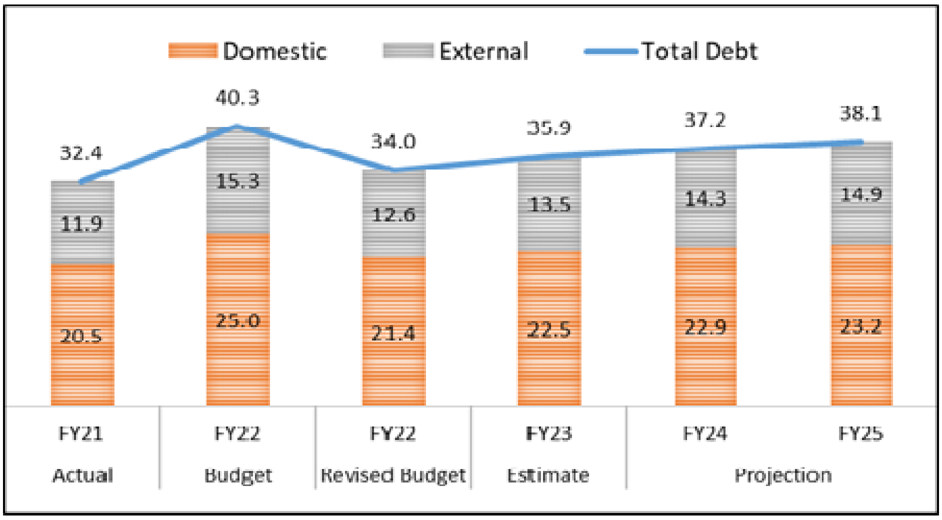
(Billion Taka)

Indicators	Actual	Budget	R. Budget	Estimate	Projection	
	FY21	FY22	FY22	FY23	FY24	FY25
Total Debt	11443	13920	13510	15984	18552	21381
	(32.4)	(40.3)	(34.0)	(35.9)	(37.2)	(38.1)
Domestic	7239	8647	8504	9991	11438	13006
	(20.5)	(25.0)	(21.4)	(22.5)	(22.9)	(23.2)
	{63.3}	{62.1}	{62.9}	{62.5}	{61.7}	{60.8}
External	4204	5273	5006	5993	7114	8375
	(11.9)	(15.3)	(12.6)	(13.5)	(14.3)	(14.9)
	{36.7}	{37.9}	{37.1}	{37.5}	{38.3}	{39.2}

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

Note: FY22 Budget figures are calculated against GDP with base year 2005-06, others against GDP with base year 2015-16.

Figure 4.12: Medium Term Outlook of Debt Stock as % of GDP

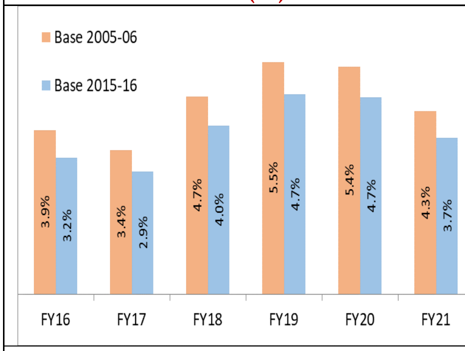


Source: Finance Division

Debt Sustainability

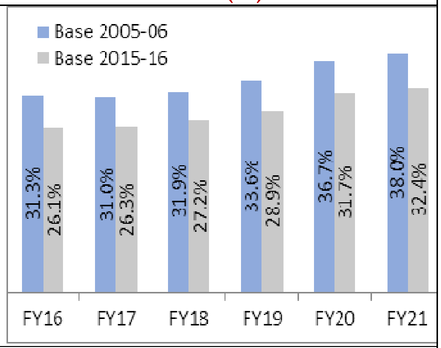
4.30 With the rapid recovery from the pandemic, the economy is projected to have even higher growth in next three years and pick up to 8.0 percent in FY25. On the contrary, the implicit interest rate is projected to remain below 6.0 percent in the medium term. The higher growth rate of GDP (compared to the interest rate) gives favorable debt dynamics. Moreover, as GDP volume has increased due to the revision of the base year from 2005-06 to 2015-16, the debt level came down to a much comfortable level.

Figure 4.13: Reflection of GDP base year change on Budget Deficit-GDP ratio (%)



Source: Finance Division

Figure 4.14: Reflection of GDP base year change on Debt-GDP ratio (%)



Source: Finance Division

4.31 Debt Sustainability Analyses (DSA) conducted by the World Bank and the IMF have consistently shown that government debt remains at a low risk of debt stress. IMF Article-IV consultation report published in March 2022 includes a detailed DSA conducted by IMF-IDA in February 2022. The report comments that, 'fiscal discipline has kept Bangladesh at a low risk of debt distress, but higher revenues are necessary to achieve developmental and social targets in a fiscally sustainable way.' However, according to the assessment, the overall debt threshold for Bangladesh has declined from 70 percent of GDP to 55 percent of GDP and the external debt threshold has decreased from 55 percent of GDP to 40 percent of GDP. Nevertheless, the external and domestic debt indicators for Bangladesh are well below these new thresholds both under the baseline and stress test scenarios until 2032. During this period, other risk indicators including the external debt to export ratio and external debt service to export ratio remain within the threshold as well.

Contingent Liabilities

4.32 The Government may incur contingent debt liabilities by giving guarantees/counter guarantees against borrowings made by various state-owned enterprises (SOEs). As of May 2022, the face value of government guarantees/counter guarantees stands at Tk. 1259.8 billion and the outstanding amount of loan against those Guarantees is Tk. 926.0 billion, which is 2.3 percent of the projected GDP and 15.6 percent of FY22 budget. The largest share of outstanding contingent liabilities of the Government goes to the Power sector (53.5 percent) followed by Bangladesh Biman (8.4 percent) and BCIC (7.4 percent). The Government has established a monitoring system, which work under risk framework and guarantee/counter guarantee guidelines, to check the quality and quantity of contingent liabilities.