Bangladesh Budget Analysis and Major Economic Challenges for FY17

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I. Introduction:

The current macroeconomic issue is the historically largest national budget of Bangladesh for the fiscal year 2016-17. The budget has been proposed at the time when, there is need for acceleration in economic growth, poverty reduction, and creation of higher employment opportunities, to implement the 7th Five Year Plan; formulation of action plan to implement the Sustainable Developments Goals (SDGs) is underway and when need for formulating Least Developed Countries (LDC) graduation strategy. The main objective of the budget gives the impression to have – high revenue growth targeted for underwriting overreaching expenditure; harmonization of taxes and tariff in line with the new VAT and SD (Supplementary Duty) Act 2012; higher allocation of resources in building physical infrastructure to enhance capacities, and enhanced resource allocation for social sector. At this time, government considers to have a comfortable macroeconomic environment existing due to low inflationary pressure, declining interest rates, low global commodity prices, manageable fiscal deficit and resilient growth of export earnings, favorable Balance of Payment (BoP) and augmented forex reserve, and with robust Gross Domestic Product (GDP) growth. At the same time, the economy is facing erosion of export competitiveness due to gain in nominal exchange rate; rising non-food inflation; delayed delivery of policy support to rice output and low returns from cultivation and overdue rationalization of oil prices favoring the richer sections. So, in this situation government needs to be concerned about sluggish private investment, low rate of job creation, credibility gap due to poor fiscal planning, high domestic borrowing, unachieved tax revenue target, weak ADP implementation including project aid and persistent weakness in establishing good governance in the financial sector.

However, considering all of the above issues of the budget FY17 and present fiscal year performance, the analysis emphasizes on various macroeconomic issues to predict what will be the next fiscal year's performance.

II. Budget Highlights:

On 2nd June (2016), the Finance Minister AMA Muhith has proposed the largest national budget in the Parliament for the fiscal year 2016-17. Based on seventh five years' plan, the government aims to achieve a growth of over 7% in the fiscal year 2016-17. Among the least developed countries, Bangladesh has achieved significant progress in Millennium Development Goals (MDGs). Bangladesh has proven to be successful in most socio-economic indicators. Based on the targets of seventh five years' plan, Bangladesh has significantly contributed to reducing poverty in all its forms; achieved food security and improved nutrition; with promotion of sustainable agriculture, developing education sector, achieved gender equality and empowered women and girls; improved Water management and sanitation, energy sector, sustainable economic growth and so on.

Generally, the new big-budget proposes to achieve higher economic growth through expansionary monetary and fiscal policy.

Budget FY17 at a glance	
• *GDP growth targets 7.2%*	• *Allocation for primary education went up by over 50%*
• *Govt. sets 6% inflation target*	• *Tk.3,738 crore increased for defense*
• *Budget deficit is Tk.97,853 crore*	• *Power allocation drops (Tk15,036 crore)*
• *Revenue target proposed at Tk.242,752 crore*	• *Tk.21,322 crore allocated for local government*
• *Tax-free income ceiling unchanged at Tk.2.5 lakh*	• *Health sector allocation up by a third (Tk17,487 crore)*
• *New VAT law to come into full effect from July 2017*	• *Ministry of Water Resources gets Tk.3,759 crore*
• *Duty-free import of safety equipment for exporters*	• *28.11% increment for Women and Children Affairs*
• *Package VAT stays with rates doubled*	• *20% corporate tax for RMG*
• *Agriculture Ministry gets Tk.13,675 crore*	• *Budget for Railway gets significant increase*
• *Education Ministry gets massive boost (Tk26,847 crore)*	• *Bridges Division gets Tk.9,289 crore*
	• *Tk.100 crore allotted for Tourism*

The largest national budget in the history has proposed to be about Tk.340,605 crore, which is Tk. 760 billion over than that of the ongoing fiscal year (around 29 percent bigger than the

Table-1: Budget Overview & Growth

Description	FY'17 (Proposed)	Growth over FY'16	FY'16 (Revise)	Growth Over FY'15	FY'15 (Actual)
Budget Size	3406.05	28.74	2645.65	29.45	2043.76
Total Revenue	2427.52	36.82	1774.22	21.55	1459.65
Budget Deficit	978.53	12.29	871.43	49.19	584.11
Bank Borrowing	389.38	22.93	316.75	6062.45	5.14
Non Banking Borrowing	226.10	-25.87	305.00	-39.79	506.56
External Borrowing	363.05	45.28	249.90	243.27	72.80

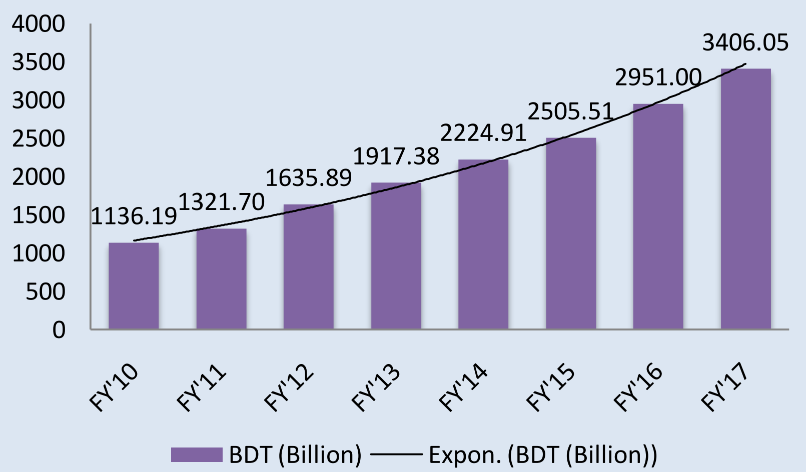
Source: Ministry of Finance

Table-2: Budget at a Glance

Description	**FY'17 (Proposed)**	**FY'16 (Revised)**	**FY'15 (Actual)**
NBR Tax Revenue	2031.52	1500.00	1239.77
Non-NBR Tax Revenue	72.50	54.00	48.21
Non-Tax Revenue	323.50	220.22	171.67
Total Revenue	**2427.52**	**1774.22**	**1459.65**
Non-Develpoment Expenditure	1889.66	1503.79	1189.92
Develpoment Expenditure	1170.27	959.08	636.76
In Which Annual Develpoment Programm	107.00	910.00	603.76
Other Expenditure	346.12	182.78	217.08
Total Expenditure	**3406.05**	**2645.65**	**2043.76**
Budget Deficit	**978.53**	**871.43**	**584.11**
Financing	978.53	871.65	584.11
External Source	363.05	249.90	72.80
Domestic Source	615.48	621.75	511.31
In Which, Banking Source	389.38	316.75	5.14
In Which, Non Banking Source	226.10	305.00	506.56
GDP	**19610.17**	**17295.67**	**15158.02**

Source: Ministry of Finance

Figure 1: Proposed Budget Size (BDT Billion)



Source: Ministry of Finance

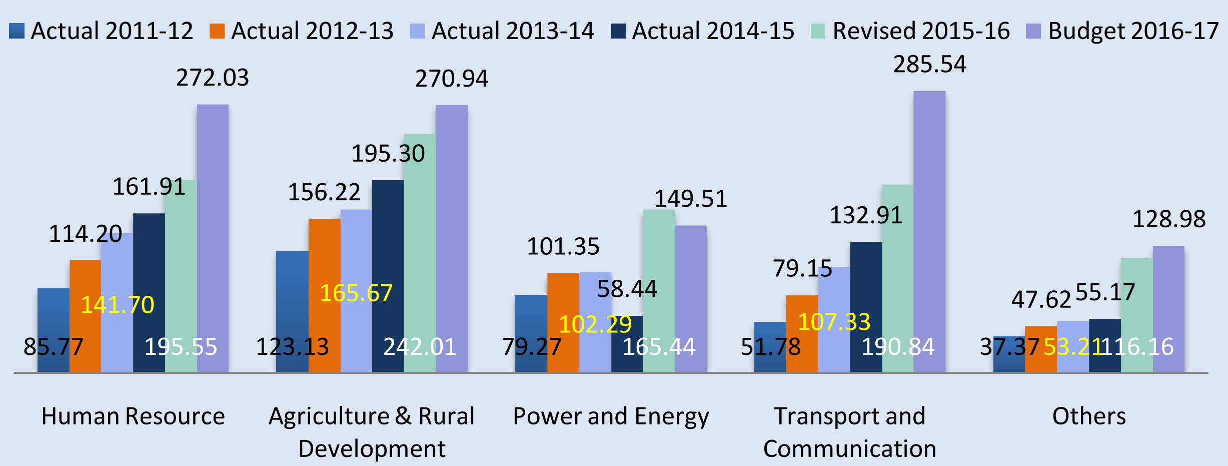
current fiscal year) and the budget would be 17.4 percent of the gross domestic product (GDP). In terms of the GDP share, the planned budget is almost same as the budget for FY16. The revenue target in the proposed budget is Tk.2,427.52 billion which is 36.82 percent higher than the current FY's revised budget. In comparison, the present fiscal year's (FY16) revised target is 21.55 percent higher than the target of FY15. However, the expected budget deficit is BDT 978.53 billion which is 5 percent of GDP and 28.73 percent of the budget. The deficit will be met through borrowing from external sources as well as domestic sources (bank and non-bank borrowing).

Over the period, proposed annual budget, expenditure, development and non-development expenditure, have been increasing significantly. In the proposed budget, allocation of non-development expenditures is Tk.1,889.66 billion which is 55.5 percent of the budget and development expenditure is

Tk.1,170.27 billion, 34.4 percent of the budget. Considering all the sectors, Education has got the highest allocation (16.1%) followed by Public Sector (14.4%) and Interest Payment (12.2%) respectively.

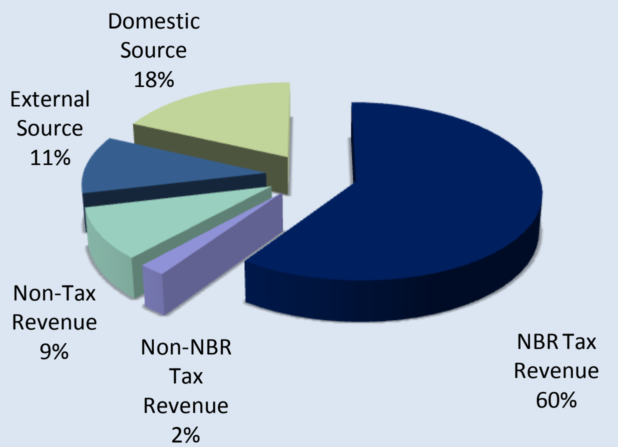
Allocation in Annual Development Programme (ADP) has been increasing every year in the national budget. In FY12, allocation of ADP in human resource sector was Tk.85.77 billion, agriculture and rural development sector was Tk.123.13 billion, with power and energy sector being Tk.79.27 billion, transport and communication sector was Tk.51.78 billion and other sectors was Tk.37.37 billion, whereas, after four years in FY16, the allocation increased to be Tk272.03 billion, Tk.270.94 billion, Tk.149.51 billion, Tk.285.58 billion and Tk.128.98 billion respectively, in national budget. In upcoming FY17, the government maintains the same train. The total proposed ADP size in the Budget is Tk.1107 billion which is 21.6% higher than that of FY16 revised budget and 94.6% of the total development expenditure.

Figure 3:Sectoral Allocation in Annual Development Programme (Billion Taka)



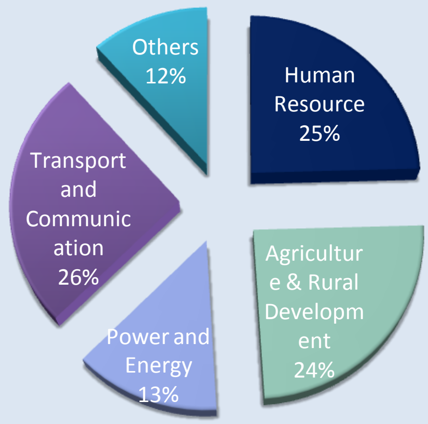
Source: Ministry of Finance

Figure 4: Financing Sources & Budget Revenue FY17



Source: Ministry of Finance

Figure 5:ADP Allocation FY'17

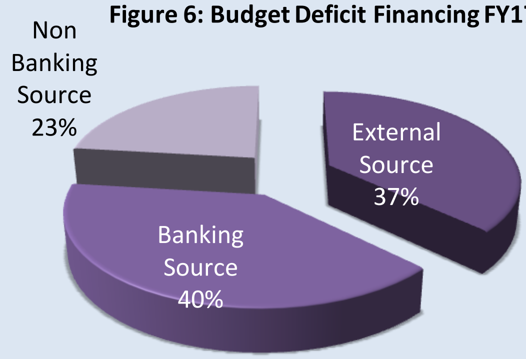


Source: Ministry of Finance

However, in FY17 ADP allocated in Human Resource sector (Education, health, and others) is 25 percent, Agriculture & Rural Development sector is 24 percent, 13 percent to the energy sector, 26 percent to Transport and communication sector and the rest 12 percent is allocated to other sectors.

The government has scaled up its revenue generation target to Tk.2,427.52 billion in FY17. Where, 60 percent revenue will be collected from NBR tax; 18 percent from domestic sources; 11 percent from external sources and 9 percent and 2 percent will be from non-tax and non-NBR tax, respectively. The targeted revenue is 12.4 percent of the GDP which is 2.1 percent greater than the previous fiscal year (10.3 percent of GDP). The Tax-GDP ratio (around 9.6 percent in the FY15 actual budget) is much lower than our peer countries (ranging from 20 percent to 32 percent).

Figure 6: Budget Deficit Financing FY17



Source: Ministry of finance

The total revised budget deficit in FY16 is TK871.43 billion and the next fiscal year it is estimated to be TK978.53 billion, which is 12.29 percent higher than FY16. This year's budget deficit is kept unchanged to that of the previous year's budget - 5 percent of the GDP. However, the budget deficit financing will occur 37 percent (Tk.363.05 billion) from the external source and 63 percent (Tk.615.48 billion) from the domestic source where 23 percent (Tk.226.10 billion) from non-banking source and 40 percent (Tk.389.38 billion) from banking source in FY17.

Table-3: Budgetary Resources (figures in Billion Taka)

Resources Come From			
Tax Base		**Non-Tax Base**	
Taxes on Income & Profit	719.40	Non-NBR Tax	72.50
VAT	727.64	Non-Tax Revenue	323.50
Import Duty	224.50	Foreign Borrowing	307.89
Supplementary Duty	300.75	Bank Borrowing	307.89
Other Tax	59.23	Non-Bank Borrowing	226.10
		Foreign Grant	55.16
Resouces Going To			
Public Services	245.95	Fuel and Energy	150.14
Defense Services	196.09	Agriculture	130.03
Local Government	232.58	Transport	359.20
Public Order	191.00	Subsidies	177.29
Education	500.17	Pension & Gratutities	169.16
Health	158.83	Interest	399.51
Social Security	177.45	Others	318.65

Source: Ministry of Finance

In FY17, the government estimated, mainly, Tax Base resources to come from income and profit tax, VAT, import duty and supplementary duty which are Tk.719.40 billion, Tk.727.64 billion, Tk.224.50 billion and Tk.300.75 billion respectively. On the other hand, Non-Tax Base resources will collect Tk.323.50 billion from non-tax revenue, Tk.307.89 billion from foreign borrowing, Tk.307.89 billion from bank borrowing and Tk.226.10 billion from non-bank borrowing.

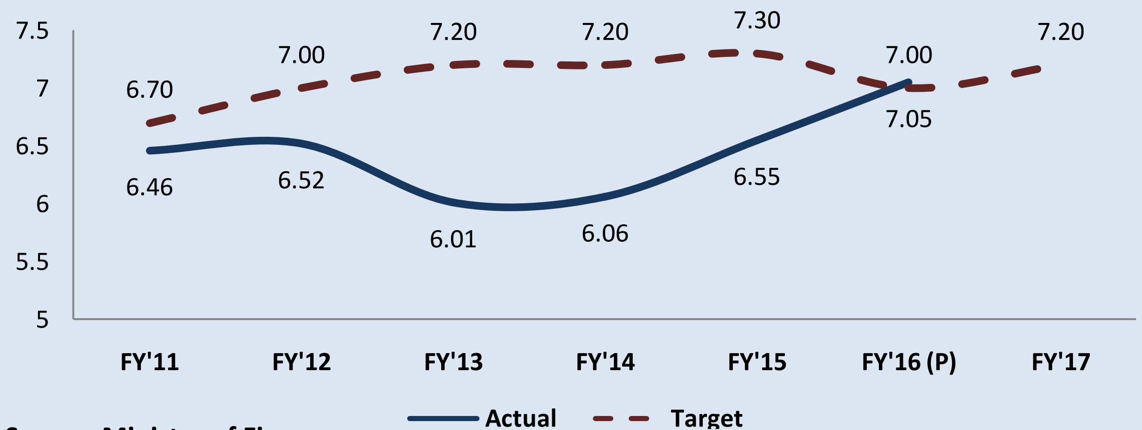
The revenue expenditure will be used mainly in education sector (Tk.500.17 billion), interest payment (Tk.399.51 billion), transport sector (Tk.359.20 billion), public service sector (Tk.245.95 billion), local government sector (Tk.232.58 billion), for defense services (Tk.196.09 billion), Fuel and Energy sector (TK.150.14 billion), agriculture sector (Tk.130.03 billion), health sector (Tk.158.83 billion) and Tk.177.29 billion will be allocated for subsidies.

III. Major Economic Challenges:

1. GDP Growth:

The government has fixed 7.20 percent GDP growth target for FY17. In FY16, target growth rate was 7 percent which is 0.2 percent less than the FY17 GDP growth target. Achieved growth in FY16 (provisional) is 7.05%, an appreciable accomplishment considering the sluggish pace of recovery in global economy. However, during this time the number of factors such as the favorable political atmosphere, private sector credit growth (stood at 15.2 percent which exceeded the target as of March 2016), garments export growth (increased significantly) and private consumption (increased due to the salary increase of government employees) will help to achieve growth target.

Figure 7: GDP Growth



Source: Ministry of Finance

In FY17, government efforts to develop infrastructure would help maintain positive private sector investment. ADP, both its size and implementation would be stepped up. Though, ADP implementation in the current fiscal year is low compared to last several years. Also, government employees will get paid in the new scale, which will help increase consumption expenditure. Expected export, particularly to the US and the EU, to rise and hope to stable the political atmosphere at home and is expected to continue in the next fiscal year as well. An upswing in foreign remittance inflows and gradual decline in inflation will boost individual consumption spending. Taking all this into consideration, the government is confident to achieve 7.2 percent GDP growth target in FY17. However, the higher growth rate will not be attainable if private investment stagnates, a shortfall in revenue collection and low implementation of ADP along with the lack of infrastructural developments.

The GDP growth rate during the last five fiscal years did not achieve their targets. In FY11 to FY15, the government targeted rates of growth were 6.70 percent, 7.00 percent, 7.20 percent, 7.20 percent and 7.30 percent respectively, but the actual growth rate became 6.46 percent, 6.52 percent, 6.01 percent, 6.06 percent and 6.55 percent respectively during this period. The GDP in Bangladesh expanded 7.05 percent year-on-year in nine months of FY16. But, noting the current state of economy and development, and the recent trend in growth in GDP, it is doubted that government's recent estimation of 7.05 percent of the growth in GDP is likely to be achieved at the end of the current fiscal year. GDP Annual Growth Rate in Bangladesh averaged 5.72 percent from 1994 until 2016, reaching an all-time high of 7.05 percent in 2016 and a record low of 4.08 percent in 1994.

Considering the current performance of the major indicators of the economy, if the government could not achieve its growth target in the current fiscal year as well as next fiscal year, then it will be difficult to achieve GDP growth target 7.20 percent.

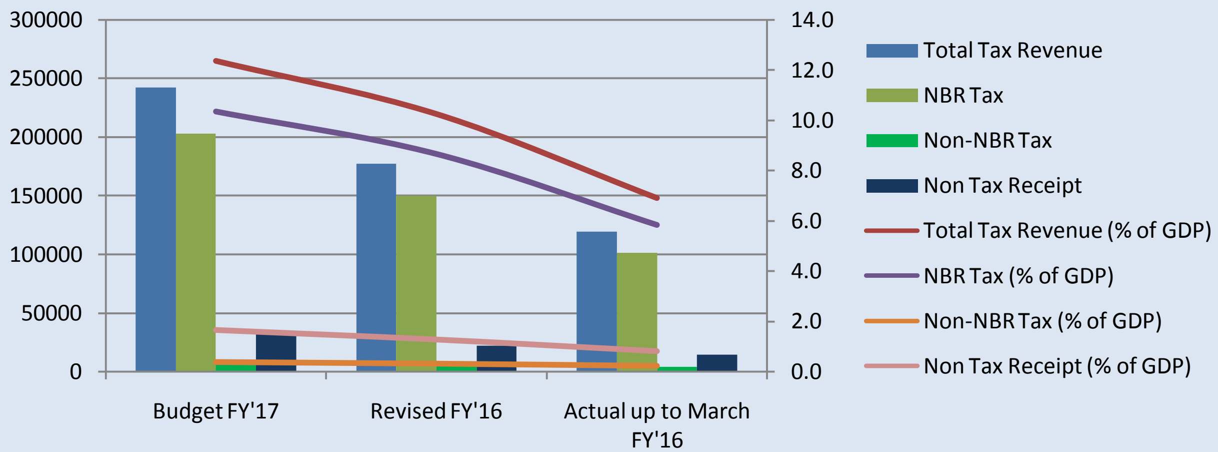
2. Revenue Collection:

The government has set the total revenue target at Tk.242,752 crore (tax and non-tax revenue) for the FY17, which is around 12.4 percent of the total GDP. Projected deficit is Tk.97, 853 crores. Historically, the government has never achieved its revenue target and the dispersion is rising in last three budgets. Only in FY12 the target revenue was achieved. The average deviation of actual revenue from target revenue for the last five fiscal years (FY12-FY16) stands at 8.9 percent.

The National Board of Revenue (NBR) was assigned to mobilize Tk.203, 152 crores for the FY17, which is 10.4 percent of the GDP, 83.6 percent of the target revenue and 35.4 percent higher from the revised target of FY16. In the revised budget of FY16, this target was Tk.1500 billion which was 84.5 percent of total revenue. For FY17, the Non-NBR tax was set at Tk.7250 crore or 3 percent of total revenue and Non-Tax Receipt was set at Tk.32,350 crore or 13.3 percent of total revenue. But in the FY16, initial budget for Non-Tax Receipt was Tk.261.99 billion or 12.6 percent of total revenue.

Government expectation of this ambitious revenue target will be achievable if there is automation in tax collection, reduction of tax exemption facilities, expansion of the tax base and if significant administrative reform is done.

Figure 8: Collection of Revenue



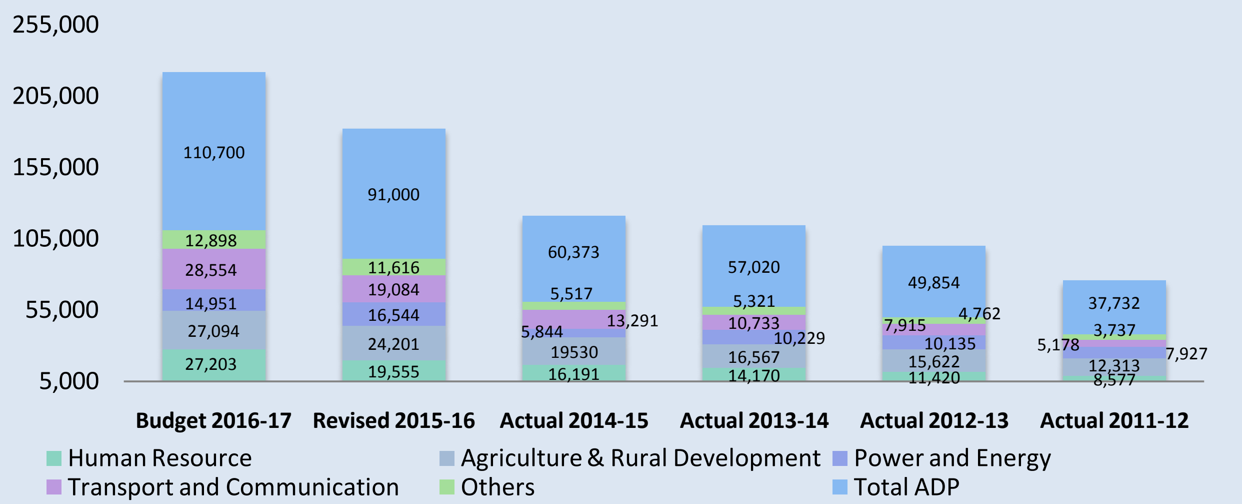
Source: Ministry of Finance

The collection of tax revenue lags far behind the target set in the budget FY16. The target collection of revenue was set at Tk.208, 443 crores, whereas the actual amount of revenue collection has stood at Tk.119, 324 crores during the first nine months of the current fiscal year; representing only 57.25 percent of the target. So, the actual collections of tax revenue (both NBR and Non-NBR) and Non-tax revenue are not satisfactory levels in comparison with the target. The targets of tax revenue and non-tax were set at Tk.182, 244 crores and Tk.26, 199 crore respectively, while the targets of NBR and Non-NBR tax revenue were Tk.176, 370 crores and Tk.58, 74 crores respectively but the actual collection of NBR appears to be Tk.101, 211 crores and Non-NBR Tk.4, 066 crores up to March FY16 which is 57.38 percent and 69.22 percent respectively. The actual collections of tax revenue and non-tax revenue during the first nine months of FY16 have been Tk.105, 277 crores and Tk.14, 047 crores representing 57.76 percent and 53.61 percent during the same period of time. However, after analyzing the situation of the present fiscal year, it will be quite impossible to achieve high ambitious revenue target in next fiscal year.

3. Government Expenditure:

Total expenditure has been estimated to be Tk.328, 624 crores in the proposed budget for FY17 which is 16.8 percent of total GDP and 27.9 percent higher than the revised budget for FY16. Among total expenditures, the government has estimated Tk.117, 027 crores for development expenditures which are around 6 percent of GDP and 22 percent higher than that of revised budget FY16. On the other hand, the size of proposed ADP allocation is Tk.110, 700 crore which is 5.6 percent of total GDP for FY17 and 14.1 percent higher than that of revised budget for FY16.

Figure 9: Sectoral Allocation in Annual Development Programme (In crore Tk.)



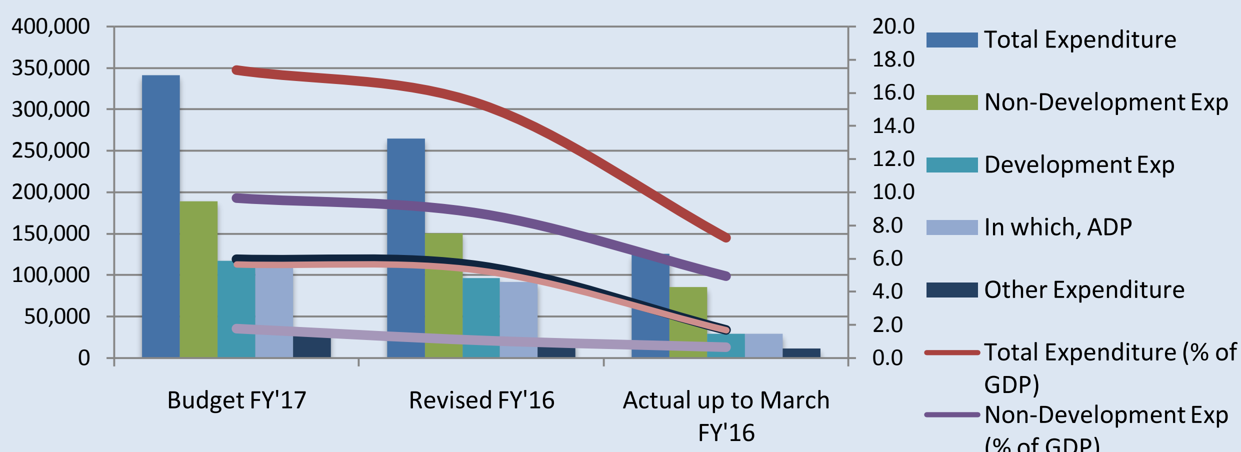
Source: Ministry of Finance

During the first six months of FY16, only 30.7 percent of the total non-development budget has been implemented whereas, only 41 percent of the total ADP has been implemented during the first nine months of the current fiscal year. However, the National Economic Council has recently revised the development budget at Tk.91, 000 crore from Tk.97, 000 crore. The actual amount of non-development expenditure was Tk.56, 629.8 crores and development expenditure was Tk.17703.8 crore during the first half of FY16 which is not more than 30.7 percent and 17.3 percent respectively. But the amount of non-development expenditure and development expenditure target has been decided to be Tk.184552.1 crore and Tk.102559 crore respectively in FY16.

The implementation of government expenditure is not satisfactory at any period. Because of the actual amount of total government expenditure was Tk.76, 798 crore in FY15 which is only 30.7

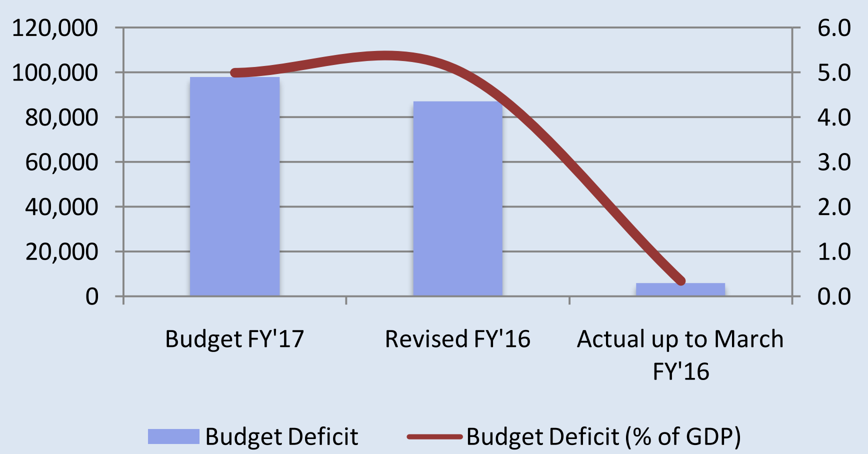
percent of target. In addition, the rate of growth in actual government expenditure for the first half of current fiscal year has become negative 0.1 percent in comparison with the government expenditure during the corresponding period of the previous fiscal year. However, during the first half of FY15, the actual amount of non-development expenditure was Tk.59, 789 crores and ADP expenditure was Tk.17, 009 crores which are representing only 35.1 percent and 21.2 percent of respective targets. So, the conclusion is, in the upcoming fiscal year, this historical behavior in government expenditure will be continuing.

Figure 10: Government expenditure



Source: Ministry of Finance

Figure 11: Budget Deficite



Source: Ministry of Finance

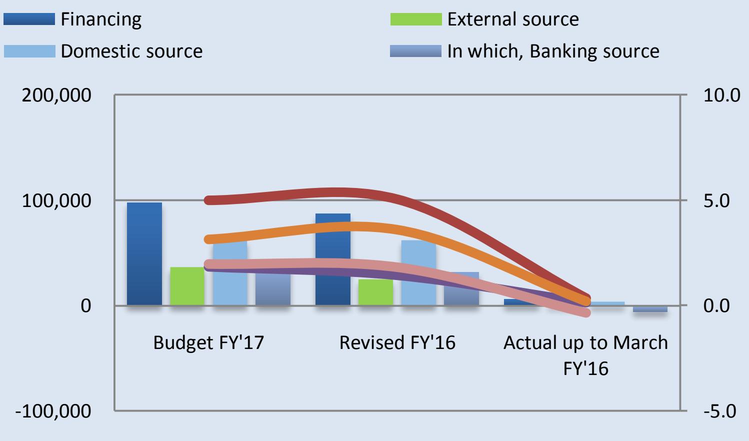
4. Budget Deficit and Financing:

The budget deficit for the FY17 will be Tk.97, 853 crores or 5.0 percent of GDP which is 12.3 percent higher than the revised budget of FY16. Government plans to meet the deficit by borrowing Tk.61, 548 crores from domestic sources, which is 3.1 percent of the GDP.

Of the amount, Tk.38, 938 crores, 2 percent of GDP, will come from the banking sector which was Tk.31, 680 crores or 36.3 percent of deficit in the FY16's revised budget and Tk.22, 610 crores, 1.1 percent of GDP, will be collected from government savings instruments and other non-banking sources which is 25.8 percent lower than the revised budget of FY16 and 23.1 percent of total deficit.

The rest of the deficit amount, Tk.36,305 crore or 1.9 percent of the GDP, will be financed from external sources which were TK. 24,990 crore or 28.66 percent in the FY16's revised the budget. The growth in targeted foreign financing is 45.27 percent as compared to FY16's revised budget.

Figure 12: Financing source

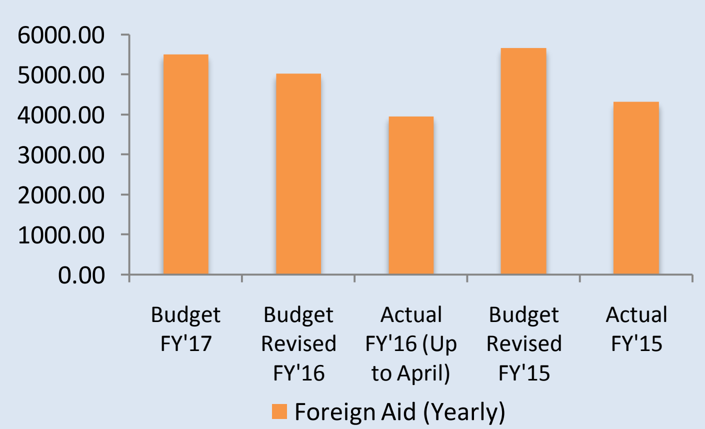


Source: Ministry of Finance

However, in FY15 the budget deficit was targeted at Tk.67, 552 crores, which was assumed to be financed by Tk.24, 275 crores from external sources, Tk.43, 277 crores from domestic sources where Tk.31, 221 crores from the banking system and Tk.12, 056 crores from non-bank sources.

The actual budget deficit has become Tk. 5,944 crore during the first nine months of the current fiscal year, which has been financed by Tk. 2,359 crores from external sources, Tk. 3,538 crore from domestic sources. It is conspicuous that because of low implementation of the budget, the budget deficit has also remained low during the nine months of FY15, the same scenario happened in FY16. So it is very likely that similar

Figure 13: Yearly Foreign Aid (in crore Tk.)



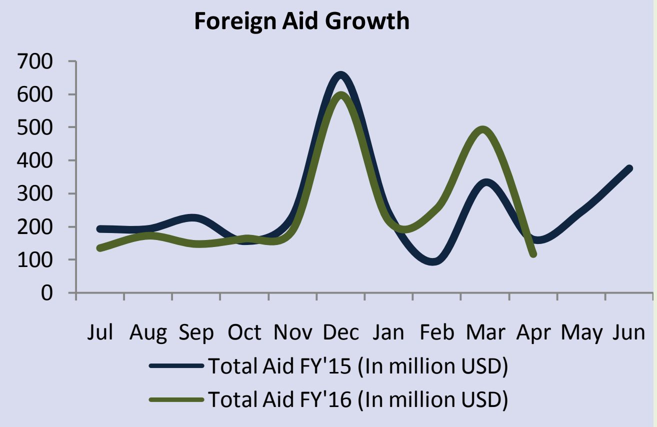
Source: Ministry of Finance

scenario will be seen in next fiscal year.

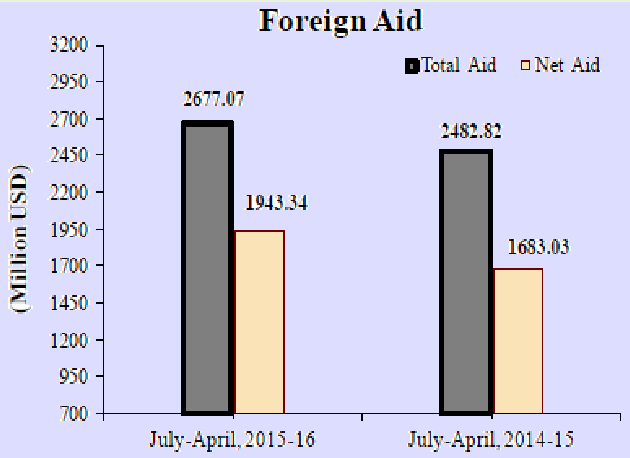
5. Foreign Grants / Aid:

The total foreign aid disbursements during July to April, FY16 increased by USD0.19 billion or 7.82 percent and stood at USD2.68 billion compared with USD2.48 billion during July to April, FY15.

Figure 14: Total Foreign Aid and Growth



Source: Bangladesh Bank

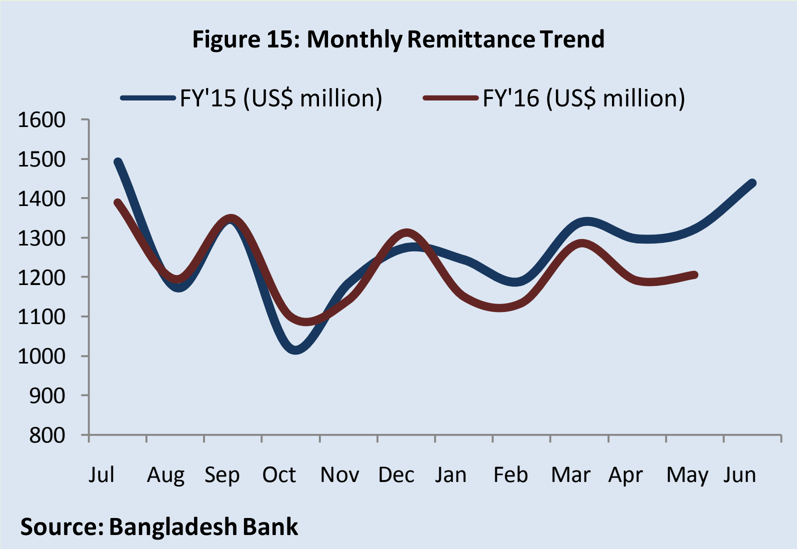


The net receipts of foreign aid were also higher and stood at USD1.94 billion during July to April, FY16 compared with the same period of the preceding year.

However, Bangladesh government has been decided TK.5, 515.53 crores in the proposed budget for FY17, which is 9.72 percent higher than the revised budget FY16. In the present fiscal year, up to April 2016, actual foreign aid was Tk.3, 968.15 crore which is a little bit lower than the FY15. But in FY15, the gap between actual and revised budget appeared to be Tk.1, 347.78 crores or 31.15 percent.

In this situation, in FY16, total investment, in terms of GDP, stands at 29.4 percent which is insufficient for picking the pace of GDP growth up to 8 percent in the medium term. The government is trying to raise public investment each year, but the execution of annual development program falls short of expectation due to lack of implementation capacity. Particularly, the utilization rate of foreign aid is fairly low. So it will be a bigger challenge for the government to properly utilize foreign aid at present and in next fiscal year. In this setting, the government is working on an implementation of structural reforms in project design and execution stages namely, formulation of policies and procedures for finalizing project preparatory work prior to project approval. The government is setting aside Tk. 100 crore in this year's budget for this purpose. Alongside, the government is working on formulating a project implementation manual and extending training programs for project employees. The government has also decided that each project will have one project director and one officer who will not be appointed as project director for more than one project. If government fail to implement all of the above issues, then it will be difficult to achieve the target of foreign aid disbursements in FY17.

6. Remittance:



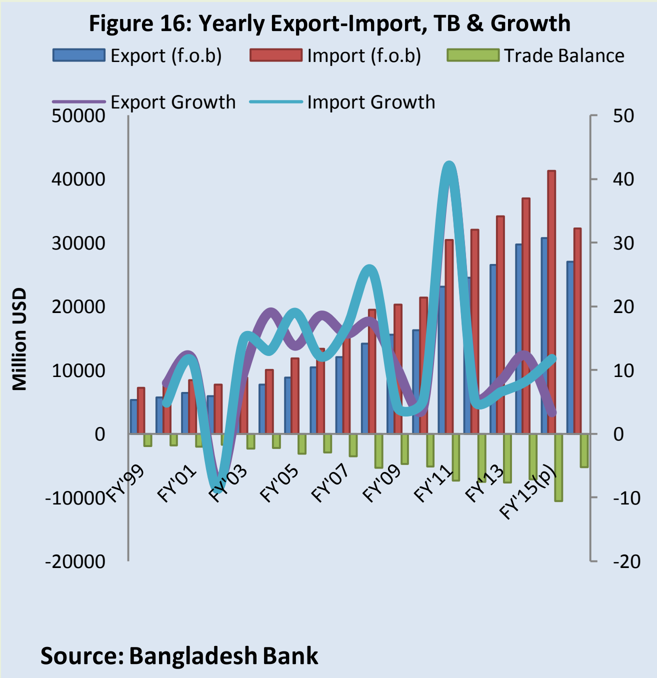
Remittance receipts decreased by 3.05 percent and stood at USD13.45 billion during July to May, FY16 compared with the same period of the previous year. Remittance receipts decreased sharply by 8.79 percent (y-o-y) and stood at USD1.21 billion in May 2016 compared to the same month of the previous year. While remittance receipts increased by 1.22 percent (m-o-m) in May 2016 compared with that of April 2016.

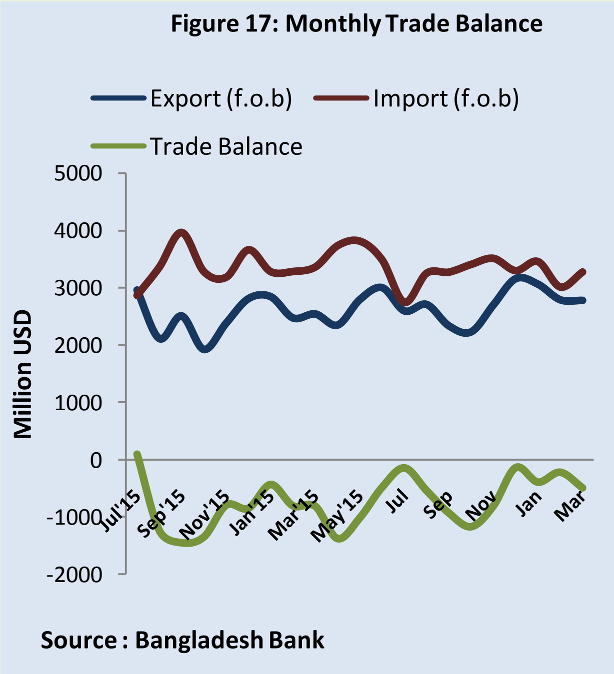
However, government assumption, overseas employment is posting a significant increase in recent months of the present fiscal year and it will be continuing next fiscal year due to our diplomatic efforts coupled with various initiatives on expanding labor markets, developing capacity, and ensuring safe immigration. So the remittance inflows will gather impetus very soon. But it will be quite difficult for Bangladesh government to send a significant amount of manpower abroad without proper infrastructure development and private sector’s contribution.

During the last few years' manpower, export fell sharply due to the growing global recession, lower price of foreign currencies, political problem in the Middle East, and fall in oil price. Middle Eastern countries, the largest manpower market for Bangladesh, are now facing a crisis due to fall in oil price and political turmoil, which has directly or indirectly affected our remittance inflow. So, it will be very difficult to achieve remittance target at present and upcoming fiscal year.

7. Export and Import:

The performance of external sector of the economy during the first ten months of the current fiscal year has been unsatisfactory due to sluggish growth in the export which led to the negative trade balance as the previous year. So, it is easy to assume from the past data that the performance might follow the same trend as now. Export earnings increased by 8.95 percent during July-May, 2015-16 compared to the same period of the preceding year and stood at USD30.67 billion. While export earnings in May 2016 rose by 6.54 percent (y-o-y) compared to that of the previous year. Export earnings of May 2016 increased by 12.86 percent compared with that of April 2016 and stood at USD3.03 billion. Export receipts exceeded the strategic target for July to May 2015-16 by 1.47 percent.



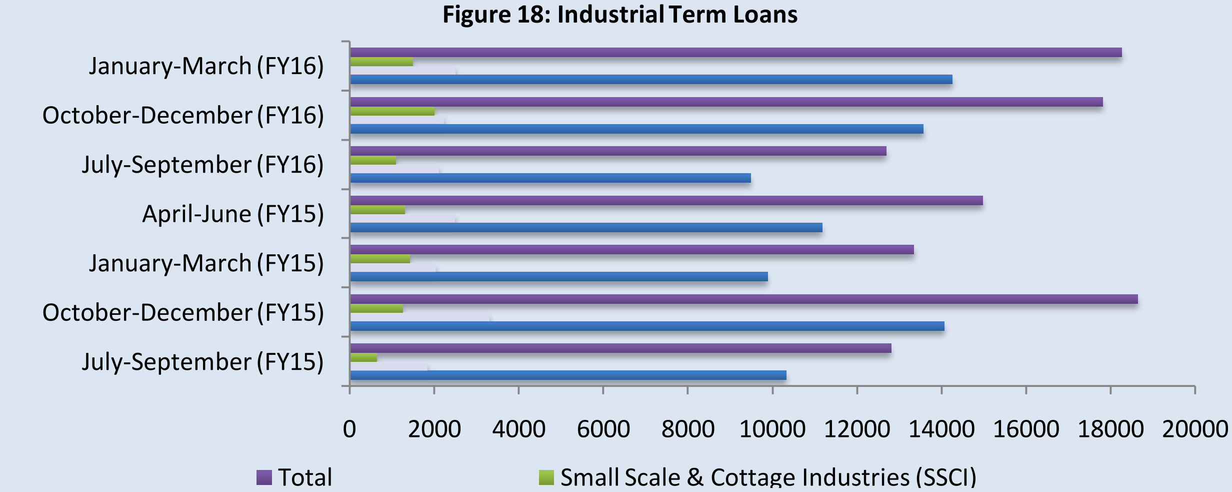


However, import payments during July to April, FY16 increased by 4.80 percent and stood at USD34.86 billion against USD33.27 billion during July to April, FY15. Settlement of import LCs during July to April, FY16 increased by 4.40 percent and stood at USD33.38 billion against USD31.97 billion during July to April 2014-15.

8. Industrial term loans:

The disbursement of total industrial term loans during January to March 2016 increased by 36.81 percent and stood at Tk.18, 264.60 crores as compared to Tk.13,350.62 crore during January to March 2015. On the other hand, the recovery of industrial term loans increased by 18.21 percent and stood at Tk.12,436.75 crore during January to March 2016 against Tk.10,520.96 crore during the same period of the previous fiscal year. The outstanding amount of industrial term loans at the end of March 2016 stood at Tk.142,145.66 crore which is higher by 23.06 percent compared to last year.

Figure 18: Industrial Term Loans



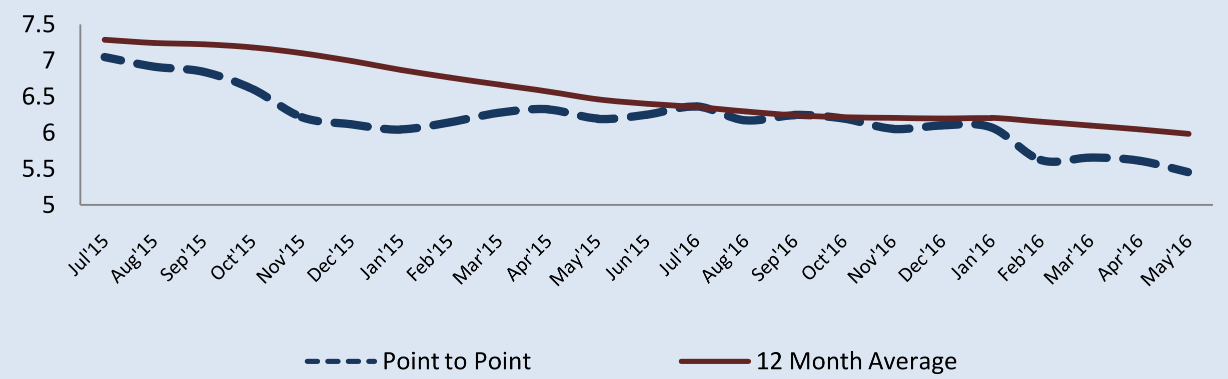
Source: Bangladesh Bank

However, in next fiscal year, the government has a plan to borrow BDT 389.38 billion or 39.8 percent of the deficit from banking sector which was BDT 316.8 billion or 36.3 percent of the deficit in the FY'16 revised budget and is 22.93 percent higher than the present fiscal year. Normally, government expansionary fiscal policy increases spending to boost the economic activity, which leads a higher interest rate. Generally higher interest rate affects private investment as the cost of funds increases leading to crowding out effect. Though at present, there's ample liquidity in the banking system, private sectors' credit demand is yet to fully pick up. So, there is less possibility of a crowding out effect due to the government's borrowing from the banking system. But at the same time, the extra amount of 22.93 percent may create crowding out effect.

9. Inflation:

The rate of inflation has been declining since the beginning of the current fiscal year. The twelve-month average general inflation moderated to 5.98 percent in May 2016 from 6.04 percent in April 2016 and 6.46 percent for the same period in FY15. The average food inflation fell to 5.07 percent in May 2016 compared with 5.27 percent in April 2016 but at the same period in FY15, it was recorded 6.81 percent or 1.74 percent higher than May 2016.

Figure 19: CPI Inflation (Base:FY 2005-06=100)



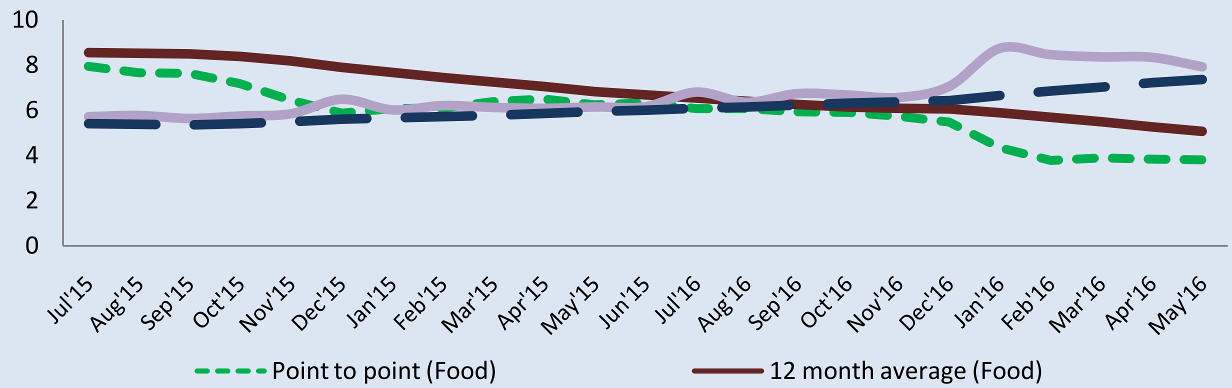
Source: Bangladesh Bank

While the average non-food inflation rose to 7.36 percent in May 2016 from 7.21 percent in April 2016 and 5.98 percent for the same period in FY15.

The point to point general inflation was marginally lower by 0.16 percentage point and stood at 5.45 percent in May FY16 from 5.61 percent in April FY16 and 6.19 percent in May FY15 due to fall in both food and non-food inflation. Food inflation marginally decreased to 3.81 percent in May FY16 from 3.84 percent of May FY16 and 6.23 percent in May FY15. On the other hand, non-food inflation fell to 7.92 percent in May FY16 from 8.34 percent in April FY16, but in May FY15 it was 6.14 percent, which is 1.78 percent lower than last year (May FY16).

However, in the next fiscal year, the government aims to keep inflation below 6 Percent. Bangladesh government strongly believes, inflation will go below 6 percent because there is a possibility of a decline in prices of commodities in the international market in next fiscal year. Moreover, continuous agricultural growth and improvement in transportation or distribution system will help to keep food inflation within a tolerable limit. On the other hand, oil price in the world market has lowered during this fiscal year and Bangladesh government has already cut oil prices which will help reduce non-food inflation.

Figure 21: CPI Inflation (Food & Non Food)



Source: Bangladesh Bank

Besides, the government would ensure continued coordination of fiscal and monetary policies. However, considering all of those things, the government has fixed a target to contain inflation at 5.8 percent during FY17.

Bangladesh government has reduced overall inflation rate significantly due to satisfactory agricultural production, reduction of commodity prices including fuel, prudent macroeconomic management and the normal flow of supply of goods with political stability. But in the upcoming fiscal year, it will be quite impossible to maintain targeted inflation rate because there are a lot of examples in the world economy that higher revenue expenditure creates more inflation. This may be natural due to higher demand for goods and services, price speculation for businessmen and traders for new pay scales. Thus, higher inflation in the domestic economy causes currency devaluation, and finally, the government would have to bear extra payments for external debt services.

IV. Conclusions:

The bigger budget is a base for carrying out Bangladesh from least development status to development status. But it will not be too easy to implement the budget. A number of familiar challenges have to be mitigated for the implementation of budget FY17. This ambitious budget will face different challenges because of the inability to mobilize targeted domestic resources, low capacity to spend the earmarked allocations, failing to use foreign aid in the pipeline and growing predominance of non-concessional foreign loans, and quality of public expenditure is still suspected to be fruitful. Structural and institutional weaknesses continue to stand between the nation and its potential achievements. The vision is not supported by proper implementation and innovation in this regard.

However, by bringing more transparency in budget formulation, implementation and assessment procedures, the government have to establish a Public Expenditure Review Commission; formulate appropriate follow-up mechanisms for monitoring government tax incentives; disclose financial accounts of state-owned enterprises including BPC and contingent liabilities in detail; establish transparency in government's asset acquisition; formulate an appropriate foreign aid policy in view of the changed global aid architecture; more sunshine on defense economy; introduce separate but integrated budget for local government and integrate NGO financing in the public expenditure structure.

Finally, to improve budget utilization performance in FY17, government must ensure greater involvement of parliamentary standing committees in formulating and overseeing implementation of the budget; develop a detailed work plan to implement the budget; provide quarterly reports on budget implementation in Parliament; establish an effective result-based-monitoring system to ensure high quality delivery; make closing fiscal framework figures of elapsing fiscal year (FY16) available at the earliest and revise budget for FY17 at an early stage.

Editorial Overview

ECRL Research *provides insights, opinions and analysis on Bangladesh and International Economies. ECRL Research conducts surveys and produces working papers and reports on Bangladesh's different socio-economic issues, industries, and capital market. It also provides training programs to professionals from financial and economic sectors on a wide array of technical issues.*

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About ECRL

Emerging Credit Rating Limited (hereinafter referred to as ECRL) began its journey in the year 2009 with the motive to deliver credible superior & quality credit rating opinion in various industry segments around Bangladesh. ECRL obtained credit rating license from Bangladesh Securities and Exchange Commission (BSEC) in June 2010 as per Credit Rating Companies Rules 1996 and also received Bangladesh Bank Recognition as an External Credit Rating Institution (ECAI) in October 2010.

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