

# **National Budget for 2021-22**

## ***What should be there for the “disadvantaged people”***

***Introductory statement***  
***at the Press Briefing convened by the Citizen’s Platform for SDGs, Bangladesh***  
***by***

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# 1. The Context

1. Raging second wave of COVID-19. . . Third Wave??
2. Faltering recovery from COVID-19: employment being restored with low skills and low income jobs, extensive under-employment
3. Consumption squeeze, higher share below poverty line, growing indebtedness, deepening inequality
4. Apparent stability of the macroeconomic situation: low inflation, stable exchange rate, moderate fiscal deficit, current account surplus
5. Budgetary targets are not realised on both resource and expenditure sides
6. Uncertain global economic prospect



## 2. Midterm Approach

1. Socio-economic impact will be **more protracted** than the immediate health emergencies
2. **Disproportionate impact** on traditionally marginalised communities (“left behind”) as well as on low income and low middle-income people (“pushed behind”)
3. **Detrimental consequences** for consumption, income, savings and investment due to fall in aggravate demand
4. Need to press **all four triggers**: (i) consumption, (ii) investment, (iii) government spending and (iv) net exports
5. Current circumstances demand special attention to **consumption protection** of the poor/low income people and **employment promotion** at MSME level



## 2. Midterm Approach *(contd...)*

### Policy Considerations

1. A minimum **two-three year time frame** to have a robust recovery strategy with core budget
2. **Integrating** recovery efforts with *structural transformation* needs
3. **Targeted discretionary support** to the “left behind” and “push behind” communities and citizens
4. Use **SDG** as a framework for poverty frame and align with **8FYP** (2021-25)



### 3. Required Fiscal Stance

**The stance has to embody counter-cyclical expansionary fiscal policy**

**Advantages** for such a stance

1. Low inflation rate
2. Manageable public debt ratio
3. High forex reserve
4. Fiscal deficit still modest

**Constraints** on such a stance

1. Stagnating (if not falling) tax-GDP ratio
2. Low absorption foreign assistance
3. Inability to deliver public expenditure programme
4. Quality of public expenditure remains highly suspect



## 4. Fiscal Framework and Budget Deficit

### Fiscal framework, budget deficit and financing - Trends

1. Fall in tax/GDP ratio in FY20
2. Fall in public expenditure ratio in FY20 – both revenue and ADP components
3. Revenue collection (till March FY21) – **50% of the target**, growth 7.3% (less than nominal growth of GDP)
4. ADP expenditure (till March FY21) – **42% of total allocation**, growth (-) 4.3%
5. Financing budget deficit –

*Low use of foreign concessional finance*

*High borrowing from the banking sector*

*High use of sale proceeds from NSC*



## 4. Fiscal Framework and Budget Deficit

### Fiscal framework, budget deficit and financing (in percentage)

Description	FY18 Actual	FY19 Actual	FY20 Actual	FY21 Budet	Up to Dec FY21
<b>as % of GDP</b>					
Revenue Collection	9.62	9.93	9.41	11.92	--
Total - Expenditure	14.31	15.45	14.86	17.91	--
ADP	5.31	5.81	5.52	6.47	--
Non-ADP	9.00	9.64	9.34	11.44	--
Overall Deficit (Excl Grants):	-4.69	-5.51	-5.45	-5.99	--
<b>Financing of Deficit (in %)</b>					
Foreign Grants	0.82	1.20	1.28	2.11	0.30
Foreign Borrowing-Net	24.29	22.37	29.65	40.00	35.82
Foreign Loan	31.41	32.03	37.51	46.74	73.82
Amortization	-7.12	-9.65	-7.86	-6.74	-38.00
Domestic Borrowing	74.89	76.43	69.06	57.88	63.86
Bank Borrowing (Net)	11.12	24.73	53.70	44.73	286.43
Non-Bank Borrowing (Net)	63.77	51.69	15.35	13.15	-222.56
National Savings Schemes (Net)	43.88	36.06	9.91	10.52	252.64
Others	19.89	15.64	5.43	2.63	-475.21
Total Financing	100	100	100	100	100

Source: Calculated from Monthly Report on Fiscal Position, MoF (various issues) and BBS data.





## 4. Fiscal Framework and Budget Deficit

### A. Revenue side

- (a) No new taxes, no increasing of rates
- (b) Increase collection by improving administrative efficiency, by increasing tax net, plugging leakages and evasion; harmonise unproductive exemptions and rebates
- (c) Enable tax and tariff structure in favour of domestic market-oriented labour-intensive industrial diversification
- (d) Stop giving counter-productive and unethical tax ammensty to black money launder
- (e) Stop harassing regular tax payers and not to use tax case for political purpose
- (f) Tax-GDP has to rise incrementally by 0.5 – 1.0 per cent of GDP annually, reaching at least 15 per cent by the end of next 5 years**



## 4. Fiscal Framework (contd...)

### B. Expenditure side

- (a) Improve implementation rate of development budget as it is falling behind revenue budget
- (b) Restrain allocation to mega projects other than for those close to completion
- (c) Increased allocation for direct cash transfer and food support 0.5 per cent of GDP
- (d) Introduce universal social security scheme in the form of pension and health insurance
- (e) Incremental allocation of 0.5 per cent of GDP annually to public expenditures **in health sector** for the ratio to be 3.5 per cent of GDP by the end of 5 year
- (f) Incremental allocation of 0.5 per cent of GDP annually to public expenditures **to education** for the ratio to 4.5 per cent of GDP by the end of 5 years



## 4. Fiscal Framework (*contd...*)

### C. Fiscal deficit

- (a) Fiscal deficit, notwithstanding low tax collection and low utilisation of foreign aid, has **remained modest by default** (about 5.5 per cent of GDP)
- (b) Fiscal deficit of 6 per cent of GDP or a bit above** can very well be sustained
- (c) Use of **concessional foreign finance** to be prioritised to improve ADP implementation as well as to keep budget deficit from increasing
- (d) Government **borrowing from the banking system** should not inhibit programmed off-take of private credit
- (e) Costly **borrowing through NSC** needs to be retrained



## 5. Strategic priorities

1. To have greater *fiscal multiplier effect*, push resources to those having
  - (a) *high marginal propensity to consume (e.g. poorer households)*
  - (b) *high marginal propensity to invest (e.g. small entrepreneurs)*
2. Domestic market-oriented manufacturing diversification
3. Post-harvest mechanisation of agriculture
4. IT-platform based high value service provision
5. Harmonising costs of doing business and making them competitive
6. Liquidity flow to MSME
7. Substantive cash transfer to disadvantaged communities/citizens
8. Launch of universal pension scheme
9. Need to create an integrated **data base** of potential recipients of government supports including social safety nets

# 5. State of COVID Stimulus Packages



## 1. COVID related government support interventions

- 25 (including two new ones)
- 19 are new interventions and 6 were extension of the existing program
- Amounting about BDT 125 thousand crores

## 2. Composition of the packages

- a. 14 fiscal support (including two food support) and this is less than **20.5%** of total allocation – ***Too little!***
  - i. 12 fiscal support Tk 22,273.5 crore (17.82% of total allocation)
  - ii. 2 food support Tk 3,270 crore (2.62% of total allocation)
- b. 11 hybrid support (subsidy to interest rate) amounting a little above **79.5%** of total allocation



## 5. State of COVID Stimulus Packages (contd...)

### Composition of the announced government support measures for FY20 and FY21

Support Type	FY20			FY21		
	Amount (in crore BDT)	Share of GDP (in %)	Share of respective FY's allocation (in %)	Amount (in crore BDT)	Share of GDP (in %)	Share of respective FY's allocation (in %)
Fiscal support	1,258	0.04	1.63	21,015.5	0.75	44.04
Food support	3,270	0.12	4.23	No food support yet		
Hybrid support	72,750	2.60	94.14	26,700	0.95	55.96
Total	77,278	2.76	100	47,715.50	1.71	100

**Source:** Collated from government announcements and other open sources.

- *Food support includes free food distribution and OMS at BDT 10 per KG*
- *Fiscal support in FY2020-21 also include extension of social safety and subsidy to agriculture sector*
- *Hybrid support in FY2020-21 includes additional Tk 10,000 crore in Working Capital loans to affected large industries and service sector*
- *Some packages was announced in one fiscal year, but intended to disburse from following fiscal year fully or partly*



## 5. State of COVID Stimulus Packages (contd...)

### Structure of Fiscal support (1)

Broad sector	Allocation (in crore BDT)	Share of total allocation (in %)	Share of GDP (in%)
Agriculture	13580	10.86	0.49
Cash support	3698.5	2.96	0.13
Food support	3270	2.62	0.12
Home construction	2130	1.7	0.08
Expansion of social safety	2015	1.61	0.07
Honoraria and insurance	850	0.68	0.03

Source: Collated from government announcements and other open sources.

*Share of food support and cash transfer was marginal (6 per cent in FY 20), **but cash transfer increased to 44 per cent in FY 21** thanks to inclusion of firm mechanisation subsidy, rice procurement cost and agricultural subsidy.*



## 5. State of COVID Stimulus Packages (contd...)

### Structure of Fiscal support (2)

Support Type	FY20			FY21		
	Amount (in crore BDT)	Share of GDP (in %)	Share of respective FY's allocation (in %)	Amount (in crore BDT)	Share of GDP (in %)	Share of respective FY's allocation (in %)
Aggregate Fiscal support	1,258	0.04	1.63	21,015.5	0.75	44.04
Net Fiscal Support	1,258	0.04	1.63	5305.5	0.19	15.54
Food support	3,270	0.12	4.23	No food support yet		
Hybrid support	72,750	2.60	94.14	26,700	0.95	55.96
<b>Total</b>	<b>77,278</b>	<b>2.76</b>	<b>100</b>	<b>47,715.50</b>	<b>1.71</b>	<b>100</b>

**Note:** Net fiscal support excludes fiscal support for agriculture sector (rice procurement, subsidy for farm mechanisation and agriculture subsidy) and construction of home (on 50<sup>th</sup> anniversary)

The table make a distinction between **aggregate fiscal support** and net **fiscal support**. The estimated net fiscal support is as low as 1.63 per cent and 15.54 per cent of total allocations in FY20 and FY21 respectively. In terms of share of GDP, they are 0.04 per cent and 0.19 per cent respectively.





## 5. State of COVID Stimulus Packages (*contd...*)

### State of disbursement

*Data and information on utilisation of all support measures are not available. A rough estimate shows the following.*

*Fiscal support*– Disbursed 63% (0.38% of GDP)

- i. Only cash disbursed - 64.85% (0.32% of GDP)
- ii. Food support disbursed 56.18% (0.07% of GDP) – one of two food support “OMS at BDT 10 per KG”, was fully delivered the other only 42.68% delivered

*Hybrid support* – Disbursed 68.5% (2.35% of GDP)

### Incomplete distribution

- i. For example – Free food distribution (Tk 2,500 crore) – less than 43% implemented
- ii. Cash transfer (Tk 2,500) for 50 lakh poor people – could be given only 35 lakhs. Going back to them again . . .

***Fiscal support - not only low in allocation, but also slower in delivery***



## 6. Concluding Remarks

- Last year (2020) we were **concerned about resource availability** (lack of fiscal space) to confront the pandemic.
- **This year (2021) we can say it is the inability to implement the public expenditure programmes has become the binding constraint**
- The **disadvantaged population of the country bear the disproportionate adverse impact** of such shortfall in public development programme
- This overwhelming constraint **cannot be addressed exclusively through strengthened administrative monitoring**. This will need wide-ranging structural and institutional reforms
- To improve the quality of the public expenditures it is required **involvement of the stakeholders** at different levels, particularly for assessing the impact of the development projects



# Thank You

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