Proposed Budget for FY21: Macroeconomic perspectives

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Introduction

- Formulating the budget for FY21 has certainly been an extremely difficult task given the devastating impact of the Covid-19 pandemic.
- Economic prospects are uncertain and the **capacity to generate credible data** and information – need for the budget-making exercise – is not great
- On the other hand, **expectations were high** – delivering against any huge expectation is not easy.
- Overall, **priority sectors** such as health, social protection, agriculture, economic recovery, **are rightly identified in the budget**.
- **Food availability and food security** situations deserve appreciation.

Uncertain Growth prospects

- Headline GDP growth figures: the revised FY20 growth of 5.2% and the projected FY21 growth of 8.2%
- Growth projections range from 1.6% (WB GEP) to 5.7% (IMF country assessment) to 7.5% ADB (for FY21) (ADO)
  - Model-based projections are generally weak during any crisis – e.g. 2008 global financial crisis
  - Issue of fiscal year versus calendar year
- BBS will be the only source to assess but it has not provided any rapid assessment
- 8% growth in first 8 months of FY20, and a negative growth of -8% or -9% for the remaining period yield an overall growth -2.25% – 2.5% for the entire fiscal year
- Is a “V” shaped recovery a plausible consideration?

Growth and private investment

- Growth critically depends on private sector activities (more than 70% of all investment comes from the private sector) 
- Cumulative BGD pvt sector investment during the five-year period prior to the crisis, was around $280 billion.
- In the revised budget for FY20, **private sector investment for 2019-20 is shown to be 12.7% GDP** – much less than the usual of around 23%.
- Low investment in the past year will have adverse impacts on economic activities in the coming year through its lag effects.
- A **rapid bounce-back in private investment** will be needed for the recovery.

Interactions of weak demand and supply-side constraints

Demand side

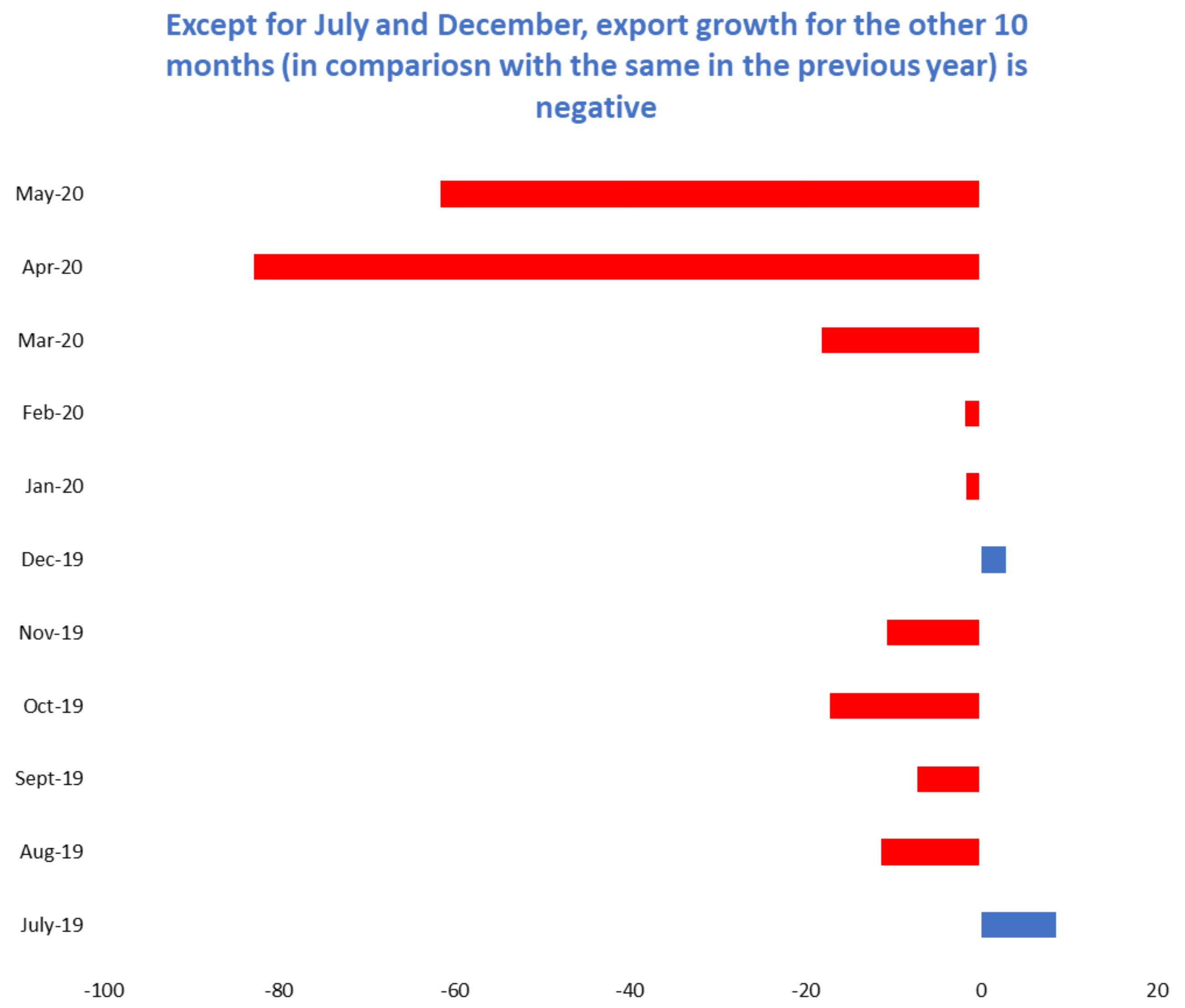
- Falling income
- Low consumer confidence
- Falling remittances
- Low export orders

Supply Side

- Low investor confidence
- Supply-side disruptions
- Lack of access to capital (by MSMEs in particular)

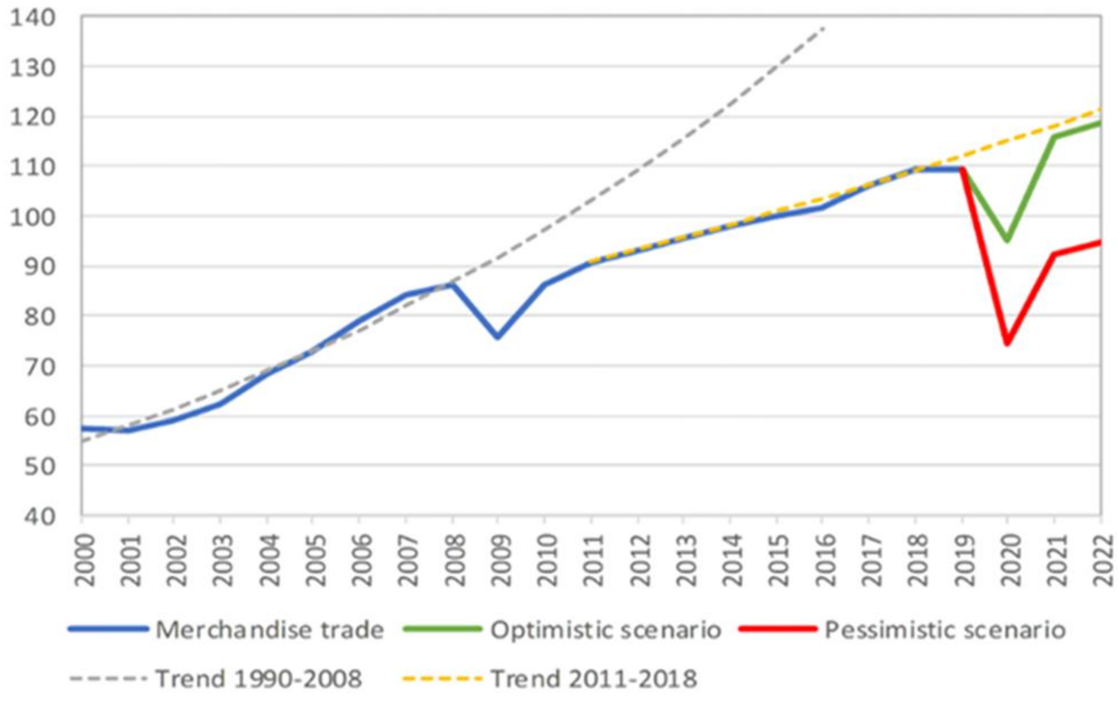
Export prospects

- 2019-20 will be recorded an unusual year.
- Exports during July 19–May 20 declined by 18% to $30.9 billion against $37.7 billion during the same time in the previous year.
- On a monthly basis for 10 months in FY20, export growth has been negative.



Short-to-medium term export prospects

- The WTO projects world trade in 2020 to fall by 13% to 32%.
- After 2008 global financial crisis, **world exports** (as the chart shows) shifted to a downward trend.
- The same can also happen again.



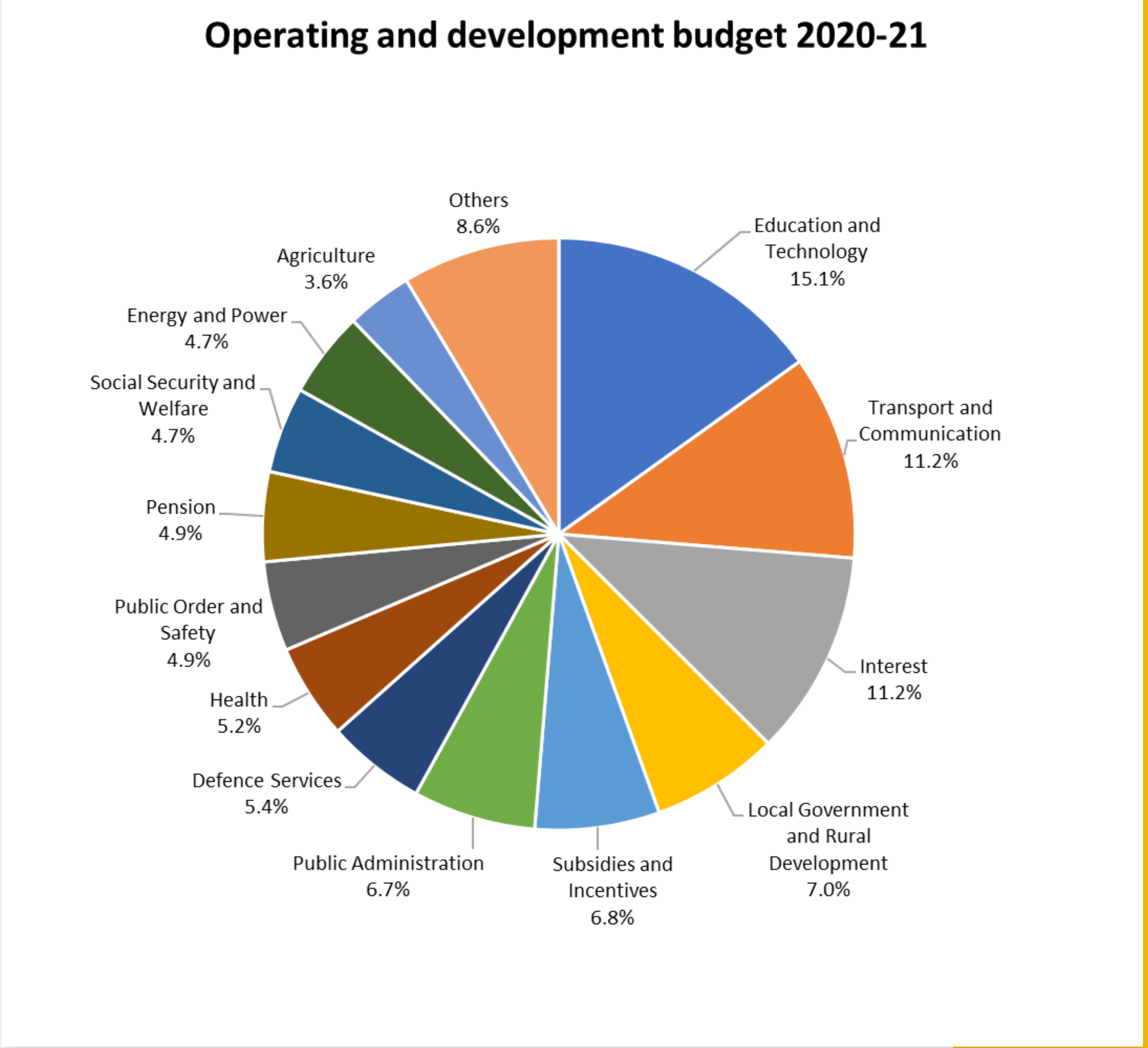
Export prospects…

- A PRI-ODI new research shows reduced income in the Western world will result in a 8% fall in Bangladesh's exports.
- 40% of European and U.S. consumers will reduce total household spending, but 65% will reduce spending on clothing and footwear.
- In our survey, 75% of the respondents predict that exports will go down by more than 10% during July-December 2020

Scenario	Growth in Bangladesh exports (July 2020-June 2021)/ (July 2019-June 2020)
Gradual recovery in 6 months	10.5%
Gradual recovery in 12 months	-2.3%
Gradual recovery in 6 months but US, Germany, Spain and Poland in 3 months	11.8%
Gradual recovery in 6 months to 70% level of demand (analysis based on own survey)	-16.7%
Gradual recovery in 6 months to 50% level of demand (based on worst case projections)	-41.5%

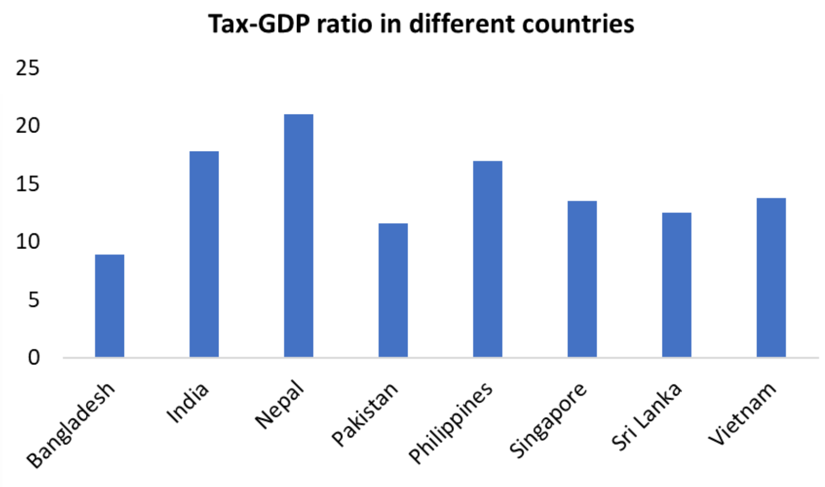
Budgetary allocations

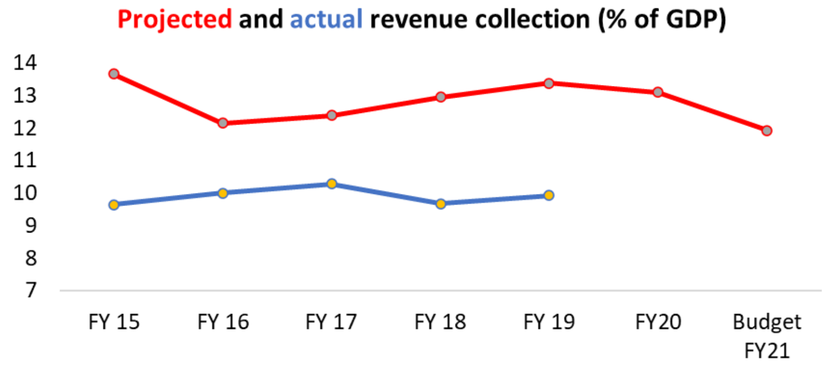
- Expenditure TK 568,000 crore
- Sectoral allocations are not dramatically different from those of the previous years.
- One critical issue is if this size of the budget can be implemented.



Revenue collection

- Our tax-GDP ratio has been one of the lowest amongst developing countries.
- In the proposed budget for FY21, **the targeted revenue-GDP has been set at a lower level** of 11.9% (from 13.9% of FY20 budget)
- Even then, the challenge would be an enormous one.

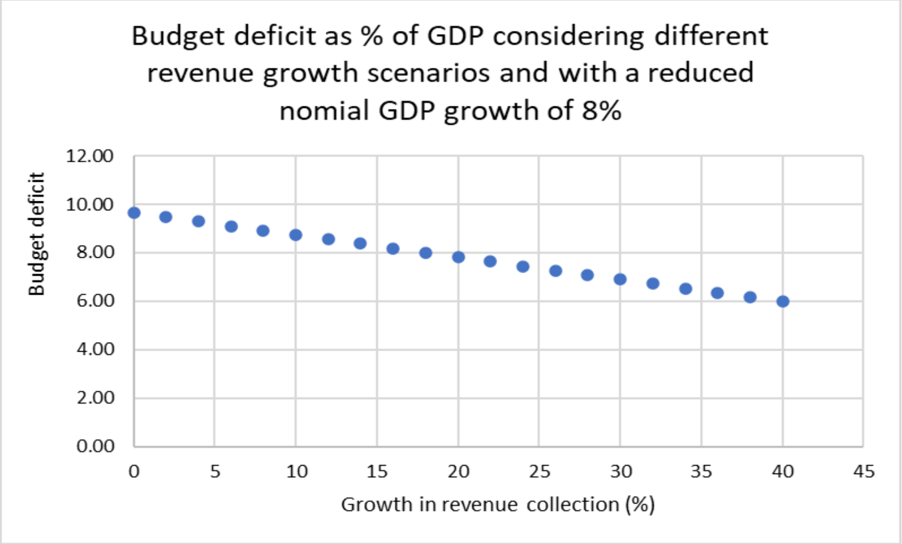




Revenue mobilization will remain a big challenge

- There has been some acknowledgement of revenue collection challenge
- Revenue growth in FY21 over revised FY20 is 8.6%
- In reality, revenue growth target will be in the range 36% – 50%.
- Simulation of growth in revenue collection associated different budget deficit levels (with a lower **nominal GDP growth** of 8%)
- 40% revenue growth will be needed to keep the budget deficit at 6% of GDP (provided that the full budgeted amount spent).
- In reality, lower revenue will result in cuts in various sectoral allocation and thus the original budget of Tk 568,000 crore would not be realised.

	Actual 2018-19	Budget 2019-20	Revised 2019-20	Budget 2020-21
Total tax revenue (Crore Tk)	251,879	377,810	348,060	**378,000**
% of GDP	9.9%	13.1%	12.4%	**11.9%**
Growth of revenue in FY21 over Revised FY20 (%)				**8.60%**
Growth of revenue with an anticipated shortfall in actual revenue in FY20 (%)				**36.5%**



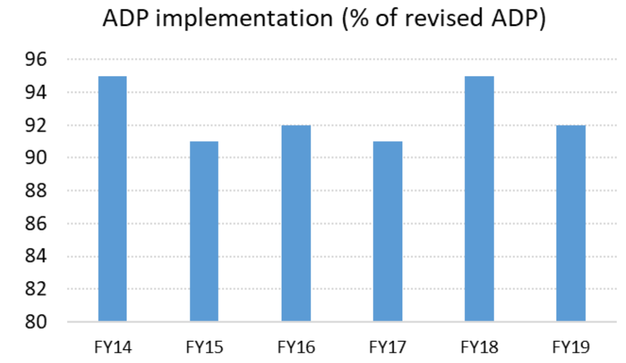
Revenue target in a pandemic-hit year would be more challenging…

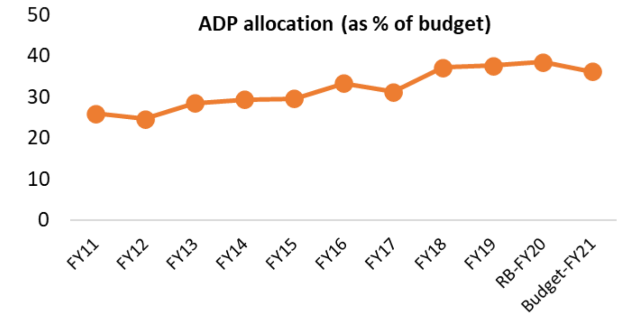
- Low VAT collection due to depressed consumption demand
- Weakness in corporate sector activities
- Increment in tax-free personal income entitlement
- Reduced demand for imported goods
- Depressed prices of imported goods

Annual Development Plan

- ADP spending is proposed at 36%.
- Usual practice of back-loaded ADP spending
- ADP implementation during July 19-Feb 20 was just 37.09%
- So, the actual implementation for the full FY20 is likely to be low.
- Given the low implementation in FY20, will we see a big rise in FY21?

	Actual 2018-19	Budget 2019-20	Revised 2019-20	Budget 2020-21
Annual Development Programme (Crore Tk)	147, 287	202,721	192,921	205,145





Borrowing from the banking system

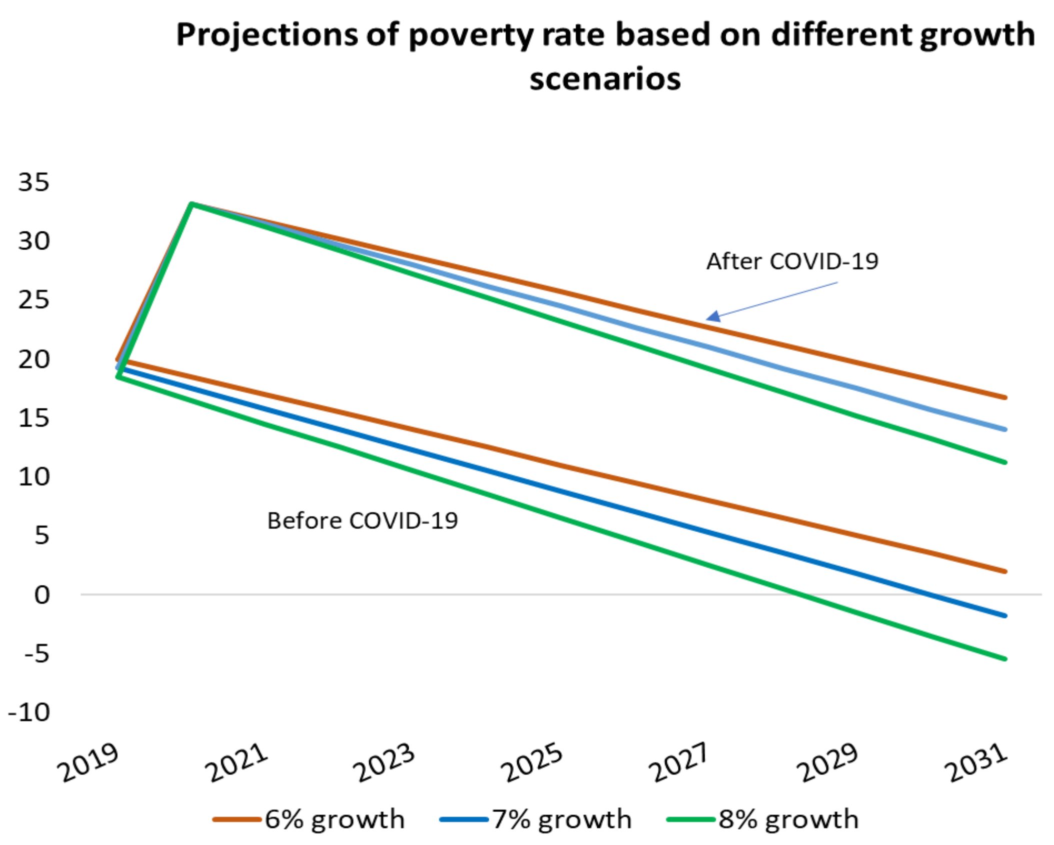
- A whopping growth of bank borrowing in FY20
- In absolute terms, more borrowing is proposed in FY21.
- Low private investment in FY20, thanks to Covid-19, somewhat contained the crowding-out impact
- In FY21, if the private sector growth is to pick up, excessive govt borrowing will be a problem.

Financing Budget

	FY17	FY18	FY19	RB FY20	B FY21
Foreign Borrowing-Net	11,603	25,621	31,289	52,709	76,004
i) Foreign Borrowing (Statement V)	18,802	33,132	44,790	63,659	88,824
iii) Foreign Debt Repayment (Statement IX)	-7,199	-7,512	-13,501	-10,950	-12,820
Domestic Borrowing (Statement VIB)	55,985	78,815	101,737	97345	109980
i) Borrowing from Banking System (Net)	-8,379	11,731	29,497	82,421	84,980
a) Long-Term Debt (Net)	-1,977	6,171	19,852	59,986	53,654
b) Short-Term Debt (Net)	-6,402	5,560	9,628	22,435	31,326
ii) Non-Bank Borrowing (Net)	64,364	67,084	72,258	14,924	25,000
a) National Savings Schemes (Net)	51,806	46,289	50,357	11,924	20,000
b) Others (Net)/8 (Statement VII)	12,558	20,796	21,900	3,000	5,000
Total	**67,588**	**104436**	**133026**	**150054**	**185984**

Responding to the crisis

- The govt has taken several measures that deserve appreciation.
- The **stimulus package, equivalent of 3.7% of GDP**, should be helpful for recovery.
- **One-off emergency cash assistance** to 5 million households. And, certain other social security programmes have been beefed up.
- However, given the sheer scale of the crisis, **more livelihood support** would be required.
- Despite our success in poverty reduction, almost 70 million were either poor or vulnerable prior to the Covid-19 pandemic. Since then many more have been added to that number.
- Of course, the ‘new poor’ is expected to be a temporary phenomenon. Even then, getting out of poverty and vulnerability could take much longer time.



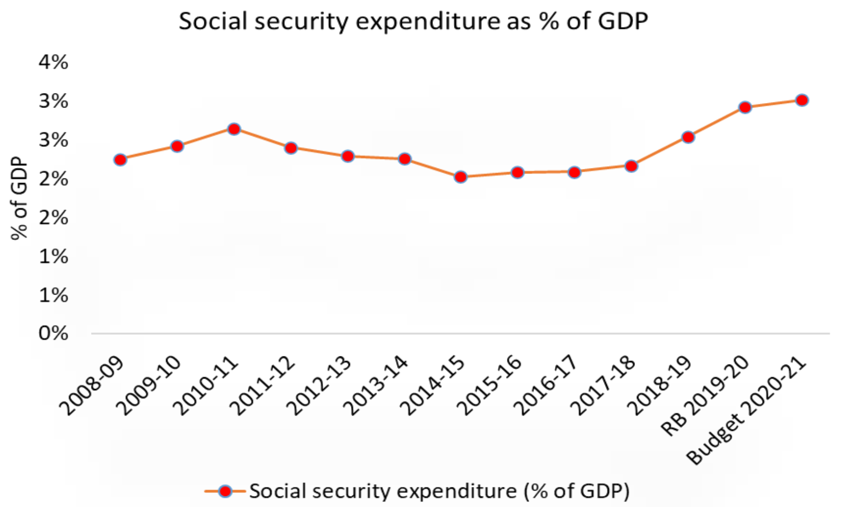
This graphical presentation is based on a study: Sen, B., Ali, Z. and Murshed, M. (2020). "Poverty in the Time of Corona: Trends, Drivers, Vulnerability and Policy Responses in Bangladesh", Background paper prepared for the 8th Five-Year Plan, for General Economics Division, Ministry of Planning.

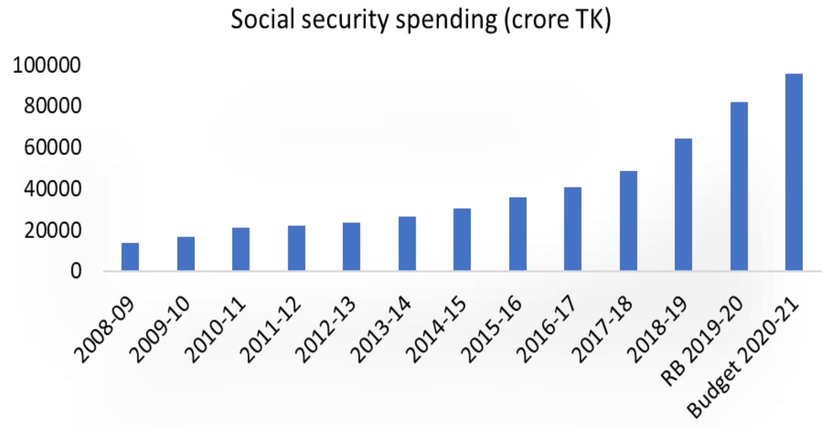
Poverty elimination will take more time…

- Poverty (absolute poverty) elimination now could take 5 to 10 years more depending on different growth rates.
- Inclusive growth in the post-pandemic period should be a high priority.

Social protection budget increases only marginally

- The social protection budget has usually around 2.5% of GDP. It has been increased to 2.9% in FY20.
- The proposed SSP budget would be 3.01% of GDP in FY21
- **Excluding pension**, SSP allocation is 2.28% of GDP
- **SSP budget in FY21 now includes interest payment on savings certificates**. Excluding this and pension payments, the social protection budget is 2.08% of GDP
- Allocation for **interest payment for savings certificate** in SSP is a massive TK 6,625 crore.
- This is equivalent to combine allocations for Old Age Allowance, Allowances for the Widow, Deserted and Destitute Women, Allowances for persons with disability, Maternity Allowance, Programme for the Poor, Allowances for Urban Low-income Lactating Mothers





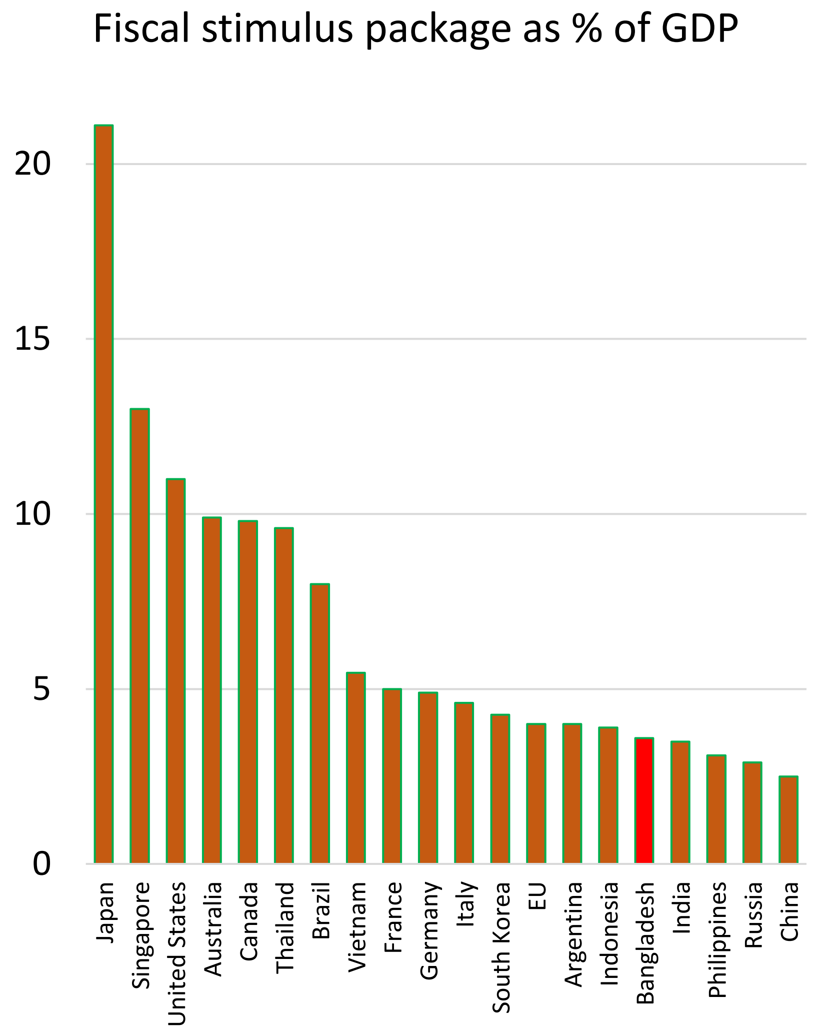
Concluding Remarks

- Uncertain prospects mean **there might be need for revising the targets and allocations in a much more profound way** than usual.
- **Revenue mobilization** will remain a challenge.
- The recovery in **private sector investments** will be a major consideration
- **Export outlook** is likely to remain weak.
- However, as the export sector is relatively small (9-10% in value-added terms), **activities in the domestic market** will be the main growth-pulling factor.
- Assessing **poverty and vulnerability** will be critical in order to launch more proactive policy initiatives.
- **Credible data** are needed to conduct informed policymaking.

Thank you.

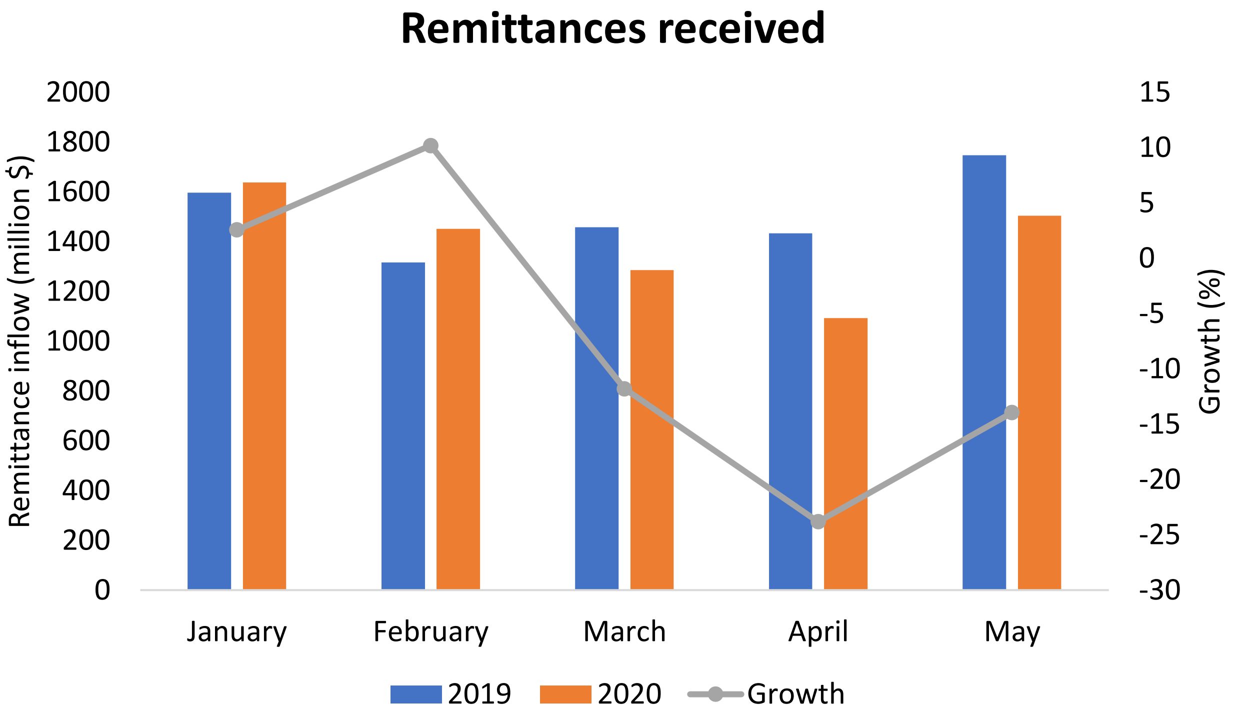
Fiscal Stimulus Package

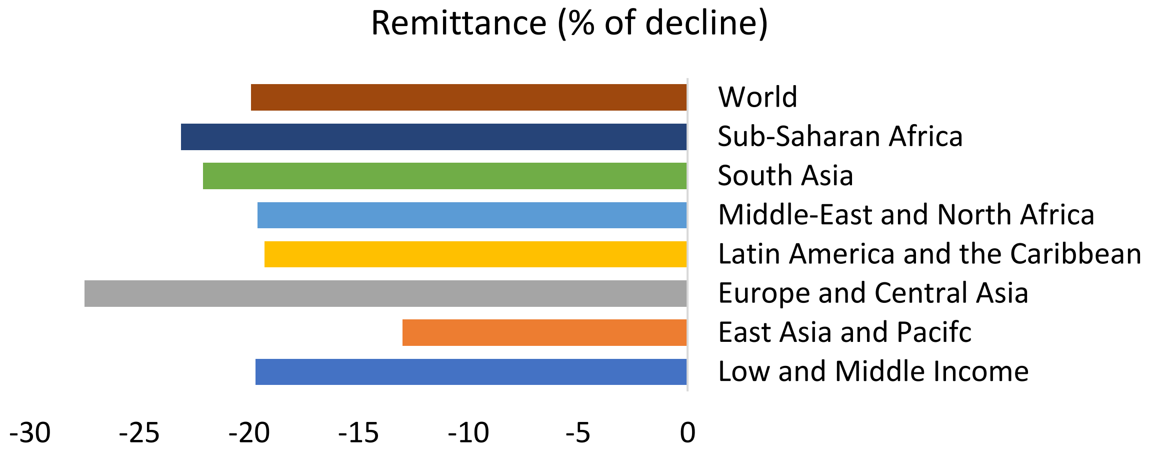
- Bangladesh has announced a TK 1,03,117 crore stimulus package – comprising 19 initiatives/programmes at 3.6% of GDP.
- Many countries focussed on scaling up social security assistance, at least in the short-run, but Bangladesh has emphasised more on firms and their workers (World Bank)
- Stimulus support for working capital and other incentives to large firms and Cottage, medium and small medium enterprises (CMSME), export promotional activities, subsidized loans to pay wage and salaries of export-oriented firms, import facilitation, and supporting agriculture sector and farms



Remittance inflow

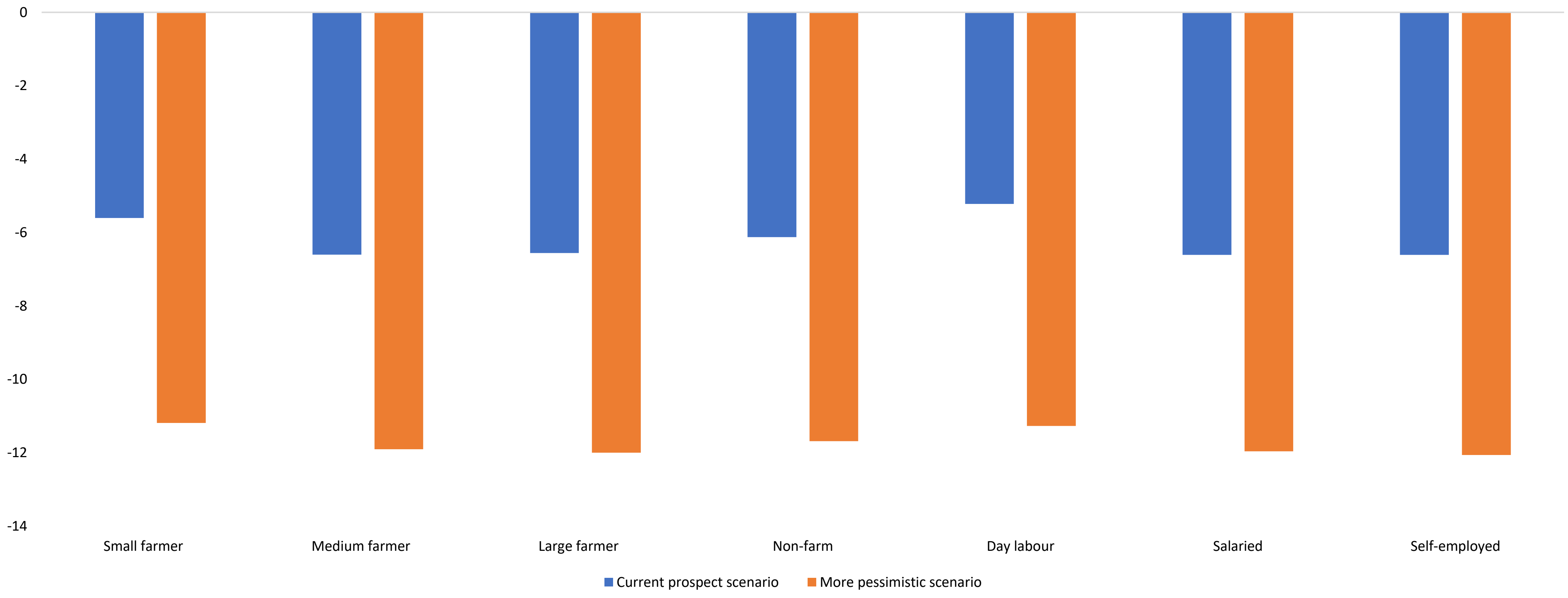
- Remittance inflow declines by 7.7% during January-May
- It would fall by 22 per cent in 2020 (World Bank)
- Globally remittance could decline by 20%





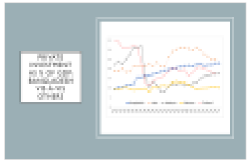
SAM Multiplier model suggests firms/households income would decline by 5.2%-12.1% due to the decline in remittance and exports

Figure 8: Impact of decline in export and remittance on households income (%)



The private sector in Bangladesh

- The private sector has played a critical role in development
- It accounts for **three-quarters** of all investment activities
- For many global economies, the share of manufacturing in their GDP is falling.
- But, the manufacturing-GDP ratio for Bangladesh has increased from 17.7% in 2007-08 to **24.08%** in 2018-19.
- In the last five years, **$286.6 billion** investments came from the pvt sector
- The share of investment from the private sector in GDP **23.54%.**



PRIVATE INVESTMENT AS % OF GDP: BANGLADESH VIS-À-VIS OTHERS