

Policy Brief Economic Growth during COVID 19 and the Role of Budget 2021-22

Background

Over the past decade, Bangladesh has been among the fastest-growing economies in the world. But the impact of the worldwide breakout of COVID-19 has been largely disruptive in Bangladesh. In addition to the impact on health, GDP growth decelerated, and poverty increased including many other long-term economic implications. Due to frequent lockdowns, millions of people lost jobs, many people reverted under the poverty line, and numerous businesses folded up. As the pandemic is not over and predicted to linger into the next year, the national budget of this year is expected to address the economic shock of COVID-19 and must indicate the policy measure to uphold the economic normalcy and bolster growth. Additionally, a clear path needs to be sketched out to curb corruption, increase accountability and transparency in spending public money, otherwise, the allocation of funds will go in vain.



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Challenges in the Health, Education and Social Safety Net Program

- Public expenditure of Bangladesh as a percentage of GDP stands at only 16%, and this number stands below-par compared with other similar economies, such as Vietnam, Bhutan, and Nepal.
- Budget allocation towards health, education, employment, and social safety net provisions are deemed low to be pandemic responsive.
- In the social safety net program, there is no allocation for *new poor* caused by COVID-19, even they are not recognized in budget.
- Allocation to the education sector in Bangladesh is the lowest among the South Asian countries. The imposition of 15% VAT on private universities will increase the expenditure for the students and their parents – and this is in clear contradiction to attaining universality in education.
- Utilization of the budget allocated to the health sector has been a problem in recent times as evident by the fact that almost half of last year's allocated budget for this sector remained unutilized.
- Social Safety Net Programs have not received sufficient attention, as they obtained a small portion of the budget. This in turn will fail to adequately stimulate the demand side of the economy.



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Overall Implementation Challenges of the National Budget

- Proactive initiatives of public bureaucracy, often tend to suffer from 'uncertainty avoidance syndrome'. Which tends to result in low spending, misallocation, and timely utilization of allocated resources.
- The procurement process is slow due to the lack of adequate understanding and at times compliances to the procurement rules of Bangladesh.
- Overall capacity deficit of a section of public bureaucracy, as well as weak institutional monitoring, affect the quality and the pace of the ADP-based project implementation.
- The bureaucracy is under undue and constant pressure from the power elites. In many instances, the dynamics of the political economy stall the pace and process of project implementation- which results in the underutilization of the ADPs. The Political economic factors affect the process of the procurement system too.
- Some ministries tend to suffer from technical capacity to design appropriate and responsive projects in line with the strategic goals. In some cases, the planning commission turns back the Project Proposals (PP) to the ministries to revise and adequately link those with the sectoral policy and overall macro-economic targets. It is further noted that the project estimations in some cases are based on smart guesses and thereby often questioned by the Planning Commission.



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Challenges in Carrying Large Deficit and Broadening the Tax Base

- Carrying large deficit budget and government borrowings through high interest-yielding saving certificates might cause economic distortions (e.g., inflation, crowding out, etc.) which should be considered.
- There is a huge gap between the number of registered taxpayers and submitted tax returns- only around 50 percent of the registered taxpayers and 22 percent of the registered companies pay taxes. Reluctance to use technology worsens the situation even more.
- The largest proportion of tax revenues come from direct taxes or VAT, which is highly distortionary, and contribute to the existing economic inequality.



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Recommendations

- To make the budget pandemic responsive, public expenditure as a percentage of GDP needs to be increased from 16% to 25-30%.
- The planning of budget must look beyond achieving a 7.2% GDP growth rate and make sure economic prosperity is as inclusive as possible.
- More allocation to the safety net programs is essential to stimulate aggregate demand which, in turn, will increase production and create a positive feedback loop.
- To increase the aggregate demand, the government needs to put money in the hands of the old and new poor population either through cash transfer or employment generation.
- The decision to impose 15% VAT on private universities must be revisited as it would eventually raise the fees paid by the students. As by definition, these are non-profit entities, this tax defeats the purpose of ensuring quality education for all.
- Sufficient allocation is there for the health sector, but the government's core attention should be on the proper utilization of the allocated budget. Priority should be given to bring vaccines as soon as possible and get at least 50% of the citizens vaccinated. Otherwise, targets in other sectors might be hampered due to poor healthcare scenarios.
- Besides proposed tax relief for businessmen, attention should be given to the reformation of the business environment. The government should try measures that promote ease of doing business and competition.
- Initiatives must be taken to report the budget allocation for education and for technology separately and create stimulus packages to bring 4 crore students back to classrooms.
- The budget needs to have a clearer allocation for new entrepreneurs who are seeking funds and to do that the government can run its 'Startup Bangladesh' initiative on a larger scale.



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Recommendations

- Involvement of non-state actors in the implementation and monitoring of the national budget is needed.
- Political willingness is much needed to address the existing lack of proactive initiative in the bureaucracy.
- More resource allocation is needed for National Board of Revenue (NBR) to increase its capacity in generating more revenue from direct taxes. An increase in direct taxes would be more effective in the redistribution of wealth and addressing the problem of inequality worsened by the pandemic.
- Through the use of technology, recruitment of qualified tax collectors, and better database management by NBR, the tax base can be broadened.
- Annual Performance Agreement (APA) should adequately capture the budget implementation rate as one of the core indicators to measure the performances of the ministries.

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