Present economic condition of Bangladesh

**Introduction:**Here we are going to analysis about the economic condition of Bangladesh ,especially about the current fiscal year 2017.

We are going to focus on the current economic budget ,Macroeconomic growth, GDP, Import and Export , Tax, Remittance, Foreign exchange reserve.

Present economic status at a glance:

* GDP at current price US $246.2 billion, 6.8% growth rate
* GDP Composition:
  + - Industrial Sector 28.1 percent
    - Agriculture 15.5 percent
    - Service Sector 56.3 percent
    - Exports US $34.04billion, Imports US$ 43.49 billion
* Remittance US $ 1418.58 million doller in august 2017 (increasing gradually)
* Foreign Exchange Reserve US$ 33.02 billion
* Government Revenue US$33.33 billion
* Gross Investment is 28.5% of GDP

**Macroeconomics scenario** :

GDP: According to the FY2017 the total amount of GDP in term of dollar is 246.2 billion .

Most of them comes from Agriculture sector and Industrial sector such asgarments sector, jute and jute goods ,Leather.

GDP Growth: The Government has targeted to achieve the GDP growth rate of 6.8% in FY 2017-18.Previous year it was 7.1%.

Export and Import :

In Fy2016-17 export and import payments which is estimated by Government are $32.02 billion dollar and $43.49 billion dollar.

Our main export goods are garments, knitwear, agricultural products ,frozen food ,jute and jute goods leather.

Our import goods are machineries and equipment ,chemicals ,cotton, Iron and steel, foodstuffs .

Budget deficit

According to FY2017-18 economic budget the amount of deficit is

almost 129,010 crore tk which is previously 106,680 crore tk .It is

almost 20% more then before,

There are two source of deficit financing , internal and external debt.

Tax: Tax is a source of money for Government, and this tax comes from

Public income .

Remittance:

The amount of receipt remittance during august is 1414.54 million usd which is higher then the previous month.

Foreign exchange reserve :

In FY2016-2017 the amount of total foreign exchange reserve is $33.02 billion usd. Which is the highest in the history of our country. Previous year it was $30.16 billion usd

Real sector scenario:

Agriculture :Our current GDP in agricultural sector is 28.1% which is less then before

Power : Now our current production is 15000 MW. Which is increasing

day by day by stablishing new power plant.

Industry:

Our economic can be divided into 15 different industries in a broader sense. If we check the industrial contribution to our GDP for 2017 we will see than manufacturing industry is contribution larger portion to our GDP of 17% where as agricultural and wholesale retail trade Contributing each 13% of total 26%.

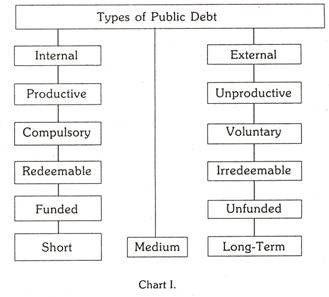
Communication and service sector contribution total of 23%. Where community and service sector contributing 12% of our total GDP and communication (transportation, telecommunication) sector adding 11% value to the GDP of Bangladesh for 2017. Other ten industries also contributing a considerable amount each and every year.

PUBLIC DEBT AND TAXATION OF BNAGLADESH

WHAT IS “PUBLIC DEBT”?

* **Public debt** refers to a part of the total borrowings by the Government which includes such items as market loans, special bearer bonds, treasury bills and special loans and securities issued by the Reserve Bank. It also includes the outstanding external **debt**.
* A central government with its own currency can pay for its spending by creating money.In this instance, a government issues securities not to raise funds, but instead to remove excess bank reserves (caused by government spending that is higher than tax receipts) and create a shortage of reserves in the market so that the system as a whole must come to the (central) Bank for liquidity.

CLASSIFICATION OF “PUBLIC DEBT”

* 1. Internal and External Debt
* 2. Productive and Unproductive Debt
* 3. Compulsory and Voluntary Debt
* 4. Redeemable and Irredeemable Debts
* 5. Short-term, Medium-term and Long-term loans
* 6. Funded and Unfunded Debt. 

PUBLIC DEBT OF BANGLADESH

* In 2016 **Bangladesh public debt** was 70,874 million dollars, has increased 5,479 million since 2015.
* This amount means that the debt in 2016 reached 33.02% of Bangladesh GDP, a 0.89 percentage point fall from 2015, when it
* The position of Bangladesh, as compared with the rest of the world, has improved in 2016 in terms of GDP percentage. Currently it is country number 39 in the list of debt to GDP and 31 in debt per capita, out of the 185 countries.

PUBLIC DEBT OF BANGLADESH:

* If we check the tables we can see the evolution of Bangladesh debt. It has risen since 2006 in global debt terms, when it was 29,972 million dollars although it has fallen as a percentage of GDP, when it amounted to 42.33%.

**CAUSES OF INCREASE IN PUBLIC DEBT**

* Bridging Gap between Revenues and Expenditure
* Financing Public Works Programme.
* Unpopularity of Taxation
* Controlling Inflation.
* Financing Economic Development.
* Financing the Public Sector.
* War Finance.

**METHODS OF DEBT REDEMPTION**

* Utilization of Surplus Revenue.
* Refunding.
* Terminable Annuities.
* Conversion.
* Sinking Fund.
* Additional Taxation.

EFFECT OF PUBLIC DEBT ON ECONOMIC GROWTH:

* **Public debt** has a crucial **impact** on **economic** growth for many countries. However, using plentiful **public debt** to financial **economic** growth will increase the government deficit ratio rapidly and thus harm long-run fiscal sustainability.
* There is a negative statistical impact of external debt on GDP growth, where an increase in the external debt will lead to decrease in GDP growth.
* There is a positive statistical impact of domestic debt on GDP growth, where an increase in the domestic debt will not lead to decrease in GDP growth. This due to the fact that the internal debt constitutes only a re –distribution of resources without causing any change in the total resources of the community, such as human and natural resources, in addition to capital formation.

There is a negative statistical impact of total public debt on GDP growth. Where an increase of total public debt will lead to decrease in GDP growth.

Taxation

**Tax** is a compulsory levy imposed by the Government. People pay taxes to the Government on the basis of what they earn, what they own and what they purchase .A tax is a compulsory payment levied on the persons or companies to meet the expenditure incurred on conferring common benefits upon the people of a country.

Two aspects of taxes follow from this definition:

* A tax is a compulsory payment and no one can refuse to pay it.
* Proceed from taxes are used for common benefits or general purposes of the country

TYPES OF TAX

In **Bangladesh**, the principal taxes are:

* Customs Duties.
* Value-Added-Tax (VAT).
* Supplementary Duty
* Personal income taxes
* Corporate income taxes.

**OBJECTIVES OF TAXATION**

1. Economic Development 2. Full Employment 3. Price Stability

4. Reduction of BOP Difficulties 5. Non-Revenue Objective

TAX SYSTEM OF BANGLADESH

* The National Board of Revenue (NBR) is the central authority for tax administration in Bangladesh. Administratively, it is under the Internal Resources Division (IRD) of the Ministry of Finance (MoF).
* The standard rate of VAT is 15% levied on transaction value of most of the imports and supplies of goods and services.
* The top income tax rate for individuals is 30% . For the 2014/15 tax year (July 1, 2014–June 30, 2015) the top corporate rate was 45%.
* However, publicly traded companies registered in Bangladesh are charged a lower rate of 27.5%.
* All other companies are taxed at the 37.5% rate. Effective 1 July 2011.
* Banks, financial institutions and insurance companies are charged the 45% rate.

EFFECTS OF TAXES:

* Tax policy can affect the overall economy in three main ways: by altering demand for goods and services; by changing incentives to work, save and invest; and by raising or lowering budget deficits.
* Tax policy directly affects the economy by shifting demand for goods and services. This effect, however, is temporary and lasts a few years at most, after which the economy will return to its underlying sustainable level.
* Tax policy can shift the economy’s sustainable output over the long run by changing incentives to work, save, and invest. Those effects depend in part on marginal tax rates, or the tax rate on an additional money of income.
* Tax policy also affects the economy through its effect on the government’s budget deficit. A reduction in tax revenues increases the deficit. A larger deficit implies increased government borrowing, which reduces the funds available for private investment and government go for purchase debt.

**Business cycle and Its effect on economy**

**Business Cycle**

* **Business cycle shows the periodic up and down movements in economic activities.**
* **Economic activities measured in terms of production, employment and income move in a cyclical manner over a period of time.**
* **Cyclical movement is characterized by alternative waves of expansion and contraction.**
* **Associated with alternate periods of prosperityand depression.**

**Phases of Business Cycle**

* **Expansion: A speedup in the pace of economic activity defined by high growth, low unemployment, and increasing prices. The period marked from trough to peak.**
* **Peak: The upper turning point of a business cycle and the point at which expansion turns into contraction.**
* **Contraction: A slowdown in the pace of economic activity defined by low or stagnant growth, high unemployment, and declining prices. It is the period from peak to trough.**
* **Trough: The lowest turning point of a business cycle in which a contraction turns into an expansion. This turning point is also called Recovery.**

**Causes of Business Cycles**

* **Climatic change such as sunspots that may cause different moods**
* **Psychological aspects of entrepreneurs and consumers, such as moods of optimism and pessimism.**
* **Monetary phenomenon like changes in money supply, rate of interest etc.**
* **Economic factors, such as over investment, under consumption & over savings.**
* **Shocks in the conditions under which producers supply goods such as technological breakthroughs.**

**CHARACTERISTIC OF BUSINESS CYCLES**

**There are some characteristic of business cycles explained below**

**1. Periodicity :**

**i› Wavelike movements in income and employment occur at intervals of 6 to 12 years.**

**ii› Gap between two cycles is not regular or predictable with certainty.**

**2. Synchronism :**

**i› Impact is all embracing , i.e large sections of the economy experience in the same phase.**

**ii› Happens because of interdependence of various sector of the economy.**

**Co-movement :**

**i› Business cycle do not take place in just a few sectors or in just a few economic variables.**

**ii› Instead, expansions or contractions take place at the same time in a number of economic activities.**

**4. Self reinforcing :**

**i› Due to interdependence in the economy, cyclical movements faced by one sector spread to the other sectors in the economy; and from one economy to the other economies.**

**ii› Thus the upward swing of the cycle is reinforced for further upward movements and vice versa.**

**Effects on economy at different phases of business cycle**

* **Expansion:**
* **The expansion phase of the business cycle represents a period of economic growth. This phase includes an increase in the number of jobs available and an increase in the cost of goods.**
* **As employers expand their ranks of employees, a corresponding increase in earned income enables working consumers to afford items produced by businesses.**
* **As demand for their products grows, businesses produce more goods during the expansion stage of the business cycle.**

**Peak:**

* **A peak occurs when the expansionary phase of the business cycle is about to end.**
* **Certain economic indicators such as a drop in the number of new jobs added to the economy and a rise in the unemployment rate can signify the peak of an expansion cycle.**
* **During an economic peak, the economy is no longer growing, retail sales are declining and economic output is decreasing. Economic output is the total value of all goods and services produced in an economy.**
* **All these factors can lead to further job loss and often signify an oncoming economic contraction.**

**Contraction:**

* **The contraction phase of the business cycle is when the economy begins to shrink.**
* **Economists also refer to this period as a recession or trough in the business cycle.**
* **During this period, economic output decreases.**
* **This results in job losses and an increase in the unemployment rate.**
* **During periods of economic contraction, there is not enough currency circulating in the economy because consumer spending is down.**
* **To encourage borrowing and increase consumer spending, the Federal Reserve Board might decrease interest rates.**

**Trough:**

* **he business cycle’s trough stage directly contrasts its peak phase.**
* **During a trough stage, an economy experiences a high unemployment rate.**
* **in the cost of goods do not occur as consumer demand and confidence levels remain low.**
* **Similar to a peak phase, a trough stage can only be recognized after it passes.**
* **A trough stage will be identified by a decrease in an economy’s GDP when compared with its level during the preceding contraction phase.**
* **If an economy’s GDP decreases or remains at a low level for an extended number of fiscal quarters, the economy’s trough stage may be a depression.**

Monetary Policy and its effect on the Economy

Objective of studies:

⌘ To give a theoretical overview of Monetary policy in general

⌘ To know about monetary policy in Bangladesh

⌘ To explore the monetary policy tools those are used in Bangladesh

What is Monetary policy?

Monetary policy is the process by which the monetary authorityof a country, like the central bankor currency board, controls the supplyof money, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency.

Importance:

⌘ To control supply of money.

⌘ To setup rate of interest.

⌘ To promote economic growth and stability.

⌘ To stabilize price and low unemployment.

⌘ To control inflation and deflation.

Objective of monetary policy in Bangladesh

⌘ To regulate currency and deserves

⌘ To manage the monetary and credit system.

⌘ To preserve the per value of domestic currency.

⌘ To promote and maintain a high level of production, employment and real income.

⌘ To faster growth and development of the countries resources in the best national interest.

Tools of Monetary policy:

⌘ Bank rate policy.

⌘ Open market policy etc.

⌘ Variation of reserve ratio

⌘ Direct action .

Recommendation:

⌘ In Bangladesh, capital markets should be expanded and organized enough to succeed the monetary policy.

⌘ The credit control mechanisms like open market operation, bank rate, etc. should be effective.

⌘ A narrow bill market should make the discount rate effective.

⌘ To run the monetary policy smoothly and effectively, it is essential to pay sufficient attentions to increase the GDP.

Impacts

⌘ Interest Rates

⌘ Borrowing

⌘ Foreign Exchange

⌘ Inflation/ Deflatio

BUDGETARY System Of Bangladesh

STRUCTURE AND OVER VIEW OF BANGLADESH BUDGET

1 . The budget of Bangladesh is effective during a financial year starting from July 1 and ending on June 30 next 30 year.

2. Budget is divided into Revenue Budget, Capital Budget and Development Budget;

3. The government budgeting is done on a cash basis. Both receipts and expenditures are shown in cash terms.

4. Foreign loans are reflected on a gross receipt basis showing total disbursement.

5. Budget is prepared on incremental basis, on the basis of upward adjustment of expenditure as against performance budgeting .

BUDGET CYCLE

1. Budget formulation, when the budget plan is put together by the executive branch of government .

2. Enactment, when the budget plan may be debated, altered, and approved by the legislative branch.

3. Execution, when the policies of the budget are carried out by the government.

4 . Auditing and assessment, when the actual expenditures of the budget are accounted for and assessed for effectiveness.

REVENUE EXPENDITURE

1.Government pays the Interest charges due on a loan from International Monetary Fund (no effect on the size of the original liability of Government)

2.Government expenditure on Food Subsidy (no effect on assets/ liabilities)

3. Government spending on salary of its employees

4. Government spending on procurement of medicines for its hospitals 5.Government spending on operation and maintenance of its assets

PRESENTATION IN PARLIAMENT.

1. Finance Minister presents the budget in the House and makes his speech.

2. General discussion on the budget as a whole or any question of principle involved therein.

3. Finance Minister gives his speech at the conclusion of the general discussion.

4. Insister introduces the Finance Bill containing the tax proposals of the Government (Rules applicable to Bills also apply to the passing of Finance Bill except that it is not referred to any Committee)

5. Discussion and voting on Demands for Grants relating to other items of expenditure

6. Speaker puts every other question necessary for disposal of all matters connected with Demands for Grants

BUDGET SECTOR OF BANGLADESH

• 1 .Reductionof poverty:(23%)

• – Creating employment and self employment opportunities for the hardcore poor through micro credit operations.

• – Ensuring food security for the hardcore poor by providing food assistance free of cost or at a nominal cost .

• – Creating capacity of hardcore poor to deal with poverty by providing them with education,training and healthcare services.

2 .Education&HumanResource Development: The govt expend about 15.5% of total budget for education and human resource.

3 .Agriculture& RuralDevelopment: -Subsidies for fertilizer, seeds, agricultural Rehabilitation, Programmes for increasing commercial production of egg, fish, meat, milk , Development of agro- based industry, irrigation and other agriculturalinputs will continue.

4. Power And Energy : To raise generation capacity to 18,162 MW of electricity by 2017 . - To establish two nuclear power plants at Ruppur with a total generation capacity of 2000 MW of electricity

5.Communications Infrastructure:Its mainly includes road ,bridge ,railway, river tunnel,sea port construction.

6. Health & Family Welfare :build in community clinic, hospital, health complex, medicine, medical college, govt need about 15%of total budget are kept.

7. Defends: Foreign training , cloth, medicine, vehicle ,salary govt kept huge amountof budget

Fiscal policy of Bangladesh

Introduction: Fiscal policy of Bangladesh basically comprises activities to ensure macroeconomic stability of the country. Fiscal Policy generally refers to the use of taxation and government expenditure to regulate the aggregate level of economic activity in a country. Fiscal policy is taken by the government of a country. Fiscal Policy

Attributes

 How to earn revenue and gather resources from various sources

 For what to spend those earnings and resources

 How much to spend and

 When to spend

Parts & Types

Inflow of money into the govt.’s pocket: earning/ revenue

Outflow of money from the govt.’s pocket: spending/expenditure

Parts

Types

Expansionary:  Increase in government purchases,  Decrease in taxes, for the purpose of increasing aggregate demand and expanding output Contractionary:  Decrease in government purchases  increase in taxes for decreasing aggregate demand and thus controlling inflation

Action & effects:

Governments can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending. This influence,

 In turn, curbs inflation,

 Increases employment

 maintains a healthy value of money.

 The effects of any fiscal policy are not the same for everyone.

 Depending on the political orientations and goals of the policymakers, a tax cut could affect only the middle class, which is typically the largest economic group. In times of economic decline and rising taxation, it is this same group that may have to pay more taxes than the wealthier upper class.

• A decision to build a new bridge, for example, will give work and more income to hundreds of construction workers. A decision to spend money on building a new space shuttle, on the other hand, benefits only a small, specialized pool of experts, which would not do much to increase aggregate employment levels

• When a government decides to adjust its spending, its policy may affect only a specific group of people.

Why Does The Government Need Revenue?

 To maintain its daily activities, i.e. to run the government

 To ensure protection for the helpless

 To provide necessary services to people that otherwise nobody would provide

(Market failure)

 To ensure development of the country

 To build buffer against risk.

Where Does The Revenue Come from?

 Tax revenue  Direct: income tax, wealth tax etc.  Indirect: VAT, tariff, excise duty etc.  Non-Tax revenue  Fees & charges: registration, sales of forms, stamps etc.  Fines: mobile court fines, police fines etc.  Printing of money.

Resources from Other Sources  Grants

 Loans from

 Domestic sources

o Treasury bills/bonds

o savings schemes

o borrowing from the banks

 Foreign sources

o Bilateral

o Multilatera

Tax Structure in the Budget

 Tax is a fiscal tool for a government to control private investment or a particular sector.

 To increase FDI (Foreign Direct Investment) , corporate tax rate for non-listed companies decreased from 37.5% to 35% and turnover tax of both companies and partnership firms from 0.50% to 0.30%.

 Existing tax holiday facilities extended from June, 2015 to June, 2019

How the Deficit is Met

 Deficit means that spending is more than earning

 Additional money is needed for filling out the gap between spending and earning

 This additional money is called “financing”

 Financing may be either from domestic or foreign sources

 From foreign sources financing may come as bilateral or multilateral loans

 Financing from domestic sources comes from borrowing from banks, issuance of savings schemes and bonds and if needed from printing money.

Role of Fiscal Policy in Developing Countries

• The main goal of fiscal policy in a newly developing economy is the promotion of the highest possible rate of capital formation.

• To accelerate the rate of capital formation, the fiscal policy has to be designed to raise the level of aggregate savings and to reduce the actual and potential consumption of the people

. • Another objective of fiscal policy, in a poor country is to divert existing resources from unproductive to productive and socially more desirable uses.

• An important aim of fiscal policy in a developing economy is to create an equitable distribution of income and wealth in the society

• The approach to fiscal policy in an economy which is developing must be aggregative as well as segmental.

Role of Fiscal Policy in Economic Development of Under-Developed Countries:

The foremost aim of fiscal policy in underdeveloped countries is to mobilize resources in the private and public sectors.

 Fiscal policy helps to accelerate the rate of economic growth by raising the rate of investment in public as well as private sectors.

 Aim of the fiscal policy should be to make investment on social and economic overheads such as transportation, communication, technical training, education, health and soil conservation.

 Fiscal policy make high doses of expenditures which are helpful to raise employment opportunities.

 Fiscal policy maintains reasonable internal and external economic stability. It must aim at the diversification of all sectors of the economy.

 Since inequality of income and wealth is vast in the underdeveloped countries, fiscal policy has an important role to play in reducing inequality

Fiscal Policy in Bangladesh

Fiscal Policy in Bangladesh basically comprises activities, which the country carries out to obtain and use resources to provide services while ensuring optimum efficiency of the economic units.

The policy influences the behavior of economic forces through public financing. Major objectives of the fiscal policy of Bangladesh are to ensure macroeconomic stability of the country, promote economic growth, and develop a mechanism for equitable distribution of income

Overview of Budget of Fiscal Year 2016-2017

With an outlay of Tk 3.41 trillion, the new budget is 15.5 percent larger than the current FY’s initial budget and 29 percent higher than the revised outlay.

The new budget is equivalent to 17.37 percent of Bangladesh’s GDP, which is Tk 19.61 trillion. The current FY budget represented 17.2 percent of the GDp

PresentFiscalFrameworkAnalysisofBangladesh

Macroeconomic Backdrop

• Income tax collection remained much lower than estimated growth rate of nominal GDP of 14.1%

• Pace of employment generation did not take a headway followed by slowdown in private investment  Between 2013 and 2015 (Jul-Sept), national employment only increased by 6 lakhs (annual average being only 3 lakhs) 13.8 lakhs jobs were created annually between 2003 and 2013.

• The nature of recent acceleration of GDP growth suggests that it is largely driven by rise in public salaries It is crucial that such acceleration in economic growth is accompanied by enhanced private investment and more quality jobs for the large young labor force of the country as well as distributed in a just way.

RecommendationforPresentFiscalPolicyofBangladesh

FiscalFramework

• Revenue mobilization should come through reforms that widen the tax base, increase tax compliance and lower tax evasion.

• Widening the tax base is a top priority. Government should address need for transparency in declaration of corporate taxes.

• Formalization of informal labor and small and medium enterprises.

• Support needed to make small businesses tax compliant.

• Transparency in government asset acquisition and all kinds of financing

• Enactment of new/amended laws, rules and act.