PRI Press Briefing_Implications of IMF Loan Conditions on Domestic Revenue Mobilisation

Wednesday, Feb 8, 2023

Huge tasks ahead for NBR to meet IMF conditions

Bangladesh will have to collect an additional Tk 234,000 crore in the three years from the current fiscal year in order to meet the International Monetary Fund's conditions tagged with its $4.7 billion loan approved last month.

Star Business Report

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Bangladesh will have to collect an additional Tk 234,000 crore in the three years from the current fiscal year in order to meet the International Monetary Fund's conditions tagged with its $4.7 billion loan approved last month.

Attaining the target will be very challenging if the National Board of Revenue follows a "business as usual" approach, said the Policy Research Institute (PRI) of Bangladesh, a think-tank based in Dhaka, as it shared the figures yesterday.

The Washington-based multilateral lender attached conditions that Bangladesh will have to increase the tax-to-GDP ratio by 1.7 percentage points to 9.5 per cent at the end of the fiscal year of 2025-26, from 7.8 per cent currently.

The country will have to raise the tax-to-GDP ratio by 0.5 percentage points by FY24 with a subsequent hike of 0.5 percentage points in FY25 and 0.7 percentage points in FY26.

“The target will not be achieved overnight. The goal will remain unachieved with the business-as-usual approach. For this, massive action will be needed,” said Ahsan H Mansur, executive director of the PRI, at a press briefing at the office of the think-tank.

Mohammad Abdur Razzaque, director of the PRI Study Centre on Domestic Resource Mobilisation, echoed Mansur, saying: “Achieving the target will be extremely difficult.”

The NBR on average registered around 12 per cent annual growth in tax collection from FY19 to FY23. In order to achieve the target set by the IMF, the tax revenue growth needs to be around 18 per cent in FY24, he said.

The IMF projects that the NBR would collect Tk 345,600 crore during the current fiscal year, ending in June.

The tax authorities logged Tk 294,314 crore in revenue in 2021-22, according to finance ministry data.

Razzaque said the NBR has a number of tasks, including IMF’s conditions and the promises made by the government to the multilateral agency.

They include establishing compliance risk management units at the NBR customs and VAT wings by December 2023, and developing and adopting a tax compliance improvement plan by the middle of FY24.

The tax collector will also have to adopt a medium-term revenue strategy by the middle of the next fiscal year and implement the strategy between FY25 and FY26, said Razzaque.

Apart from that, the government plans to eliminate less effective tax exemptions and simplify the tax rate structure to broaden the tax base and enhance voluntary taxpayer compliance.

The government also aims to bring more taxpayers into the net by increasing the number of

registered taxpayers to one crore by 2026.

“A mere increase in the number of registered taxpayers will not help. It will be a big achievement if the NBR can bring one crore people effectively into the tax net,” said Mansur.

With a view to increasing the collection of VAT from the retail sector, the revenue authorities plan to install another 300,000 electronic fiscal devices over the next five years.

As per the plan, the NBR also wants to move toward a modern IT-based administration of the VAT and income tax systems, greater at-source taxation and strengthened compliance risk management.

The PRI said the reduction of tax exemptions, which are estimated to be 2.3 per cent of GDP, could help boost revenue collection.

Similarly, increased compliance with personal income and corporate tax will enable the tax authorities to generate more revenue. Besides, reforms in the VAT system could increase the tax-to-GDP ratio by up to 0.6 percentage points, according to the PRI analysis.

Mansur said a sectoral analysis is necessary on tax exemptions.

“And during the placement of the budget, the NBR should give a statement of tax losses against exemptions. This will bring about transparency and accountability.”

The former economist of the IMF, however, backed the continuation of duty benefits for export-oriented industries.

Razzaque said there is a gap in corporate tax collection as many registered companies don’t comply with tax rules.

“Bangladesh will have to attain the target to finance its expenses for various purposes. Otherwise, the situation will worsen.”

Even if the NBR achieves IMF’s targets on revenue, the overall tax collection to GDP will still

remain below the goal made as part of the 8th Five-Year Plan, which runs from FY21 to FY25. The government aims to elevate the tax-to-GDP ratio to 12.3 per cent by 2024-25.

“So, there is no scope to be complacent,” said Razzaque.

Bangladesh’s tax-to-GDP ratio is one of the lowest in the world and the nation’s spending for health and education is less than 1 per cent of GDP and close to 2 per cent of GDP, respectively.

“This is below the requirement,” said the economist.

“Evidence from cross-country analysis of 139 countries reveals that a country’s tax-to-GDP ratio needs to be at least 15 per cent to accelerate growth and development significantly.”

https://www.thedailystar.net/business/economy/news/inflation-falls-5th-month-january-3241071

Raising tax-GDP ratio to 9.5pc

Revenue needs to increase by Tk 2.34t in three FYs

PRI presents dos on loan package deal

FE REPORT | Published: February 07, 2023 08:57:09 | Updated: February 07, 2023 08:59:32

Policy Research Institute (PRI) Executive Director Dr Ahsan H Mansur addresses a press briefing organised by the PRI on ‘Implications of IMF Loan Conditions on Domestic Revenue

Mobilisation' at PRI office in Dhaka on Monday. Director of the PRI Study Centre on Domestic Resource Mobilisation Dr Mohammad A Razzaque also spoke at the event. — FE photo

Increasing revenue collection by Tk2.34 trillion in next three fiscals is necessary to raise Bangladesh's tax-GDP ratio to 9.5 per cent as prescribed in the International Monetary Fund (IMF) loan package.

And the National Board of Revenue (NBR) is required to earn an additional Tk 650 billion in fiscal year 2023-24 to comply with the IMF suggestions, said Policy Research Institute (PRI) on Monday.

The think-tank made the projection at a press briefing titled 'Implications of IMF Loan Conditions on Domestic Revenue Mobilization' at its office in Dhaka.

However, PRI said, the NBR would not be able to achieve IMF's key condition to increase in revenue mobilisation from current 7.8 per cent to 9.5 per cent by fiscal year 2026 if they do not carry out a drastic reform in the tax administration.

"If there is business-as-usual scenario, the target will never be achieved, rather tax-GDP ratio would decrease from existing rate," said Dr Ahsan H. Mansur, Executive Director of PRI.

He suggests a review of the existing tax exemptions and a proper study to be well aware of the decision.

He said tax exemption should be reduced significantly to achieve the target.

"We are not telling to lift all exemptions, but there must be well-studied decision rather than taking such decision on whim or on lobbying," he said.

Current exemptions are estimated to be 2.3 per cent of GDP.

Among other conditions, the IMF has recently set a condition for Bangladesh to increase additional 0.5 per cent of GDP annually in FY24 and FY25 and 0.7 per cent of GDP in FY26 for a $4.7 billion-loan package.

Speaking at the press briefing, PRI Research Director Dr M.A. Razzaque said the IMF loan condition on domestic revenue mobilisation should be considered as part of a homegrown agenda and the tax-GDP ratio needs to go much higher than what has been suggested.

The IMF also asks to put in place the NBR Compliance Risk Management Units in the customs and VAT wings by December this year for higher revenue mobilisation.

Dr Razzaque said it may be tempting to see this as an external demand from the IMF. "Rather, this should be considered as part of achieving our homegrown policy target, as set out in the 8th Five-Year Plan, of raising the tax-GDP ratio to 12.3 per cent in FY25."

He said it may be challenging for NBR to achieve the target but "not impossible".

"But for that, there need to be efforts in place and changing mindset of NBR and political leadership in the country," he told the press.

Mr Razzaque said Bangladesh's weak revenue-generation abilities have kept its poor and vulnerable population groups underserved, failing to address the growing inequality in society.

He thinks with existing capacity, the NBR will not be able to manage if all taxpayers pay taxes, let alone managing increasing the number of taxpayers.

Currently, 8.5 million people are registered to pay tax, but only 1/3 of these actually submit a tax return.

A PRI analysis shows that increasing the tax-GDP ratio by 5 percentage points (i.e., to fulfill the 8th FYP target) could increase economic growth by up to 3.3 percentage points and reduce the poverty headcount rate by up to 2.2 percentage points.

PRI sets out practical policy options how government can achieve this.

Its recommendations include reducing tax exemptions, increasing compliance with the personal income tax system, bringing in short-term VAT reforms, increasing compliance with

corporate etc.

PRI said the first is to increase the payment rate of people already registered to pay tax.

It recommends adopting measures to improve repayment that include the government's requirement to show a tax return to access services – this is a welcome initiative and should be strengthened.

The second way is to increase the number of people who are registered, data on income levels show that a significant number of people earn enough to pay taxes but are not registered," it said.

VAT reforms could significantly increase the tax-GDP ratio.

"Modelling shows that replacing the tariff-value system with market prices could increase the tax-GDP ratio by 0.6 percentage points in the short term," it said.

The think-tank analysis said the corporate tax rates — ranging from 12 per cent for RMG to 45 per cent for non-publicly traded mobile operator companies — in Bangladesh are amongst the highest in the region, yet the tax-yield has been quite low.

In 2020-21, around 29,000 companies submitted corporate tax returns.

PRI's Study Centre on Domestic Resource Mobilisation is conducting further analysis and developing policy options that can support government to achieve the tax targets set out in the 8th FYP.

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https://thefinancialexpress.com.bd/economy/bangladesh/revenue-needs-to-increase-by-tk-234t-in-three-fys-1675738628

Dhaka Tribune

Bangladesh needs an additional 65,000C in tax revenue to meet IMF conditions

Major structural reforms are needed to meet IMF conditions, economists

Meraj Mavis

February 6, 2023 7:35 PM

The International Monetary Fund (IMF) set a target of increasing Bangladesh's tax GDP ratio from 7.8% to 8.3% by the end of FY24 and to 9.5% by the end of FY26.

According to the condition of the IMF's $4.7 billion loan package, to meet this target, the Bangladeshi government needs to raise the revenue by at least an additional Tk65,000 crore by the end of FY24.

As per multilateral lender organization conditions, if the revenue can be mobilized in proportion to GDP after FY26, at least Tk234,000 crore more will be added than the revenue that will be accumulated in the state coffer at the end of FY23.

And at the end of FY25, the amount of this additional revenue collection has to generate Tk138,300 crore more than FY23, according to a calculation by Policy Research Institute (PRI) Bangladesh.

To achieve this target and fulfill IMFs conditions, economists are saying that major structural reforms are needed as early as possible.

PRI's research on Domestic Resource Mobilization was done following the recent announcement of the IMF's conditions regarding increasing the Tax-GDP Ratio on Monday.

Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh said: "To meet IMF conditions, major structural reforms are needed as early as possible. But this reform is not just because the IMF says so. This reform is necessary for us. So we would like to implement it as our homegrown agenda."

Regarding IMF's tax exemption, he said: "Although it is not possible to stop tax exemptions in all cases as per the terms of the IMF, a comprehensive study is needed on tax incentives or exemptions about the required area, its percentage and an explanation of why it's given"

"Not only that. But every year in the budget announcement, the government should also give the correct calculation of this tax exemption. It should be mentioned how much the country's revenue is being lost due to this exemption," he added.

Mohammad Abdur Razzaque, chairman of the Research and Policy Integration for Development (Rapid) and research director of the Policy Research Institute (PRI) presented the keynote paper.

In his presentation, he said: "The IMF just announced a set of conditions in connection to a $4.5 billion loan package for the Government of Bangladesh. One of the key conditions is an increase in revenue mobilization efforts of an additional 0.5% of GDP annually in FY24 and FY25 and 0.7% of GDP in FY26. That is, the IMF stipulates that Bangladesh's tax-GDP ratio should rise from the current 7.8% of GDP to 8.3% in FY24, to 8.8% in FY25 and finally to 9.5% by FY26."

When asked what the plan should be to achieve this target, he said that the IMF loan condition on domestic revenue mobilization should be considered as part of a home-grown agenda and the tax-GDP ratio needs to go much higher than what has been suggested.

According to the keynote paper, it may be tempting to see this as an external demand from the IMF. But it is a reform which matters for ordinary Bangladeshis and for the future health of our economy.

“We have one of the lowest tax-GDP ratios in the world and this has significant costs. Our current health spending of less than 1% of GDP stands poorly against the global standards of at least 3-5% of GDP. Bangladesh’s education spending of close to 2% of GDP is just half of the target stipulated in Unesco’s Education 2030 Framework for Action,” he added.

The IMF conditions of 1.7 percentage point rise in the tax-GDP ratio over the next three years is actually a soft target, and thus its materialization must not cause any complacency.

Rather, this should be considered as part of achieving our home-grown policy target, as set out in the 8th Five-Year Plan, of raising the tax-GDP ratio to 12.3% in FY25.

PRI analysis shows that increasing the tax-GDP ratio by 5 percentage points (i.e., to fulfill the 8th FYP target) could increase economic growth by up to 3.3 percentage points and reduce the poverty headcount rate by up to 2.2 percentage points.

Achieving this increase in the tax-GDP ratio is possible. PRI sets out practical policy options for how the government can achieve this. These options will affect sectors and groups within Bangladesh differently.

The choice of which to pursue is one for the government to take, balancing competing policy goals of revenue increases while ensuring fairness in the system.

1. Reduce tax exemptions, which are estimated to be 2.3% of GDP. 2. Increasing compliance with the personal income tax system can generate additional revenue to raise the tax-GDP ratio by 2.1 percentage points. 3. Reform VAT – short-term VAT reforms could increase the tax-GDP ratio by up to 0.6 percentage points. Additional reforms could increase this further in the medium to long term. 4. Increasing compliance with corporate tax could increase the tax-GDP ratio significantly.

In his concluding remark, Abdur Razzaque said: “Tax exemptions are currently provided to a

range of sectors. Its current indiscriminate use must be carefully evaluated and should immediately be brought down to a much lower level. Any tax exemptions should be allowed only for a short period of time."

https://www.dhakatribune.com/op-ed/2023/02/06/running-with-the-hounds

THE BUSINESS STANDARD

NBR faces tough task to collect Tk2.34 lakh crore more by 2026

To meet the IMF goal, the revenue board will have to collect Tk4.10 lakh crore in FY24, Tk4.84 lakh crore in FY25 and Tk5.80 lakh crore in FY26, according to

PRI projections

Photo: TBS

The revenue board will have to collect an additional Tk2.34 lakh crore to push up Bangladesh's tax-GDP ratio from 7.8% to 9.5% by June 2026, calculates the Policy Research Institute, stating that the target can only be achieved if policy reforms are carried out within the time frame agreed upon with the IMF.

"The target looks very challenging, but there is no alternative to that," PRI Executive Director Ahsan H Mansur has said, stressing the need for meeting the time-frame of pledged reforms.

Previous failures, however, have made him less optimistic.

The 2012 VAT law was not implemented as agreed, he said at a briefing on "Implications of IMF loan conditions on domestic revenue mobilisation" in Dhaka.

The pledged time-bound measures include adoption of tax revenue measures yielding an additional 0.5% of GDP in the FY2024 budget by June and risk management compliance at the NBR's customs and VAT wings by December this year.

Tax experts said raising the tax-to-GDP ratio to 9.5% in three years and other structural revenue reforms are possible.

Md Alamgir Hossain, former member of revenue board's tax policy, said the government aims to raise the tax-to-GDP ratio to 17% by 2030. In line with it, the International Monetary Fund (IMF) mentions achieving the 9.5% tax-GDP ratio by 2026.

"I think the target set by the fund will accelerate the revenue collection," he told The Business Standard.

Noting the revenue board's already completed reforms, he emphasised upcoming agenda including digitalisation and integration of revenue collection.

However, Md Farid Uddin, a former member of the national revenue board, said reforms are not possible within the stipulated time as the board is too weak to digest the changes.

“The VAT law is distorted. Tax law and customs law is not yet passed. Talks about automation ongoing for years, without significant outputs,” he added.

He said loan instalments of the fund can get stalled if the government fails to carry out major revenue reforms. “This had happened to some other countries earlier.”

The revenue board set the collection target at Tk3.70 lakh crore for FY23. The PRI said it had prepared the projection after estimating the collection at around Tk3.45 lakh crore this fiscal year.

The PRI said the tax to GDP ratio was 7.8% in FY22 as revenue collection stood at around Tk3 lakh crore.

In response to Bangladesh’s loan proposal, the IMF approved a $4.7 billion credit support in January this year. The lender has already released the first tranche of the loan package.

Referring to the IMF revenue target, the organisation said Bangladesh will have to increase the tax-to-GDP ratio by 0.5% to 8.3% in the 2023-24 fiscal year. Revenue collection in the current fiscal could be around Tk 3.45 lakh crore.

To meet the IMF goal, the revenue board will have to collect Tk4.10 lakh crore in FY24, Tk4.84 lakh crore in FY25 and Tk5.80 lakh crore in FY26, according to PRI projections.

In other words, the revenue board will have to post an average of 20% growth per year. Overall growth will have to be around 78% by June 2026 compared to revenue collection in FY22.

However, revenue collection has increased at an average 14% in the last five years, which notes that attaining the high growth target will be very challenging.

Ahsan H Mansur said, “The situation will worsen if the target is not achieved since we have

no other options.”

An observation of revenue collections in the last five years shows that the tax-to-GDP ratio is on the decline.

In response to a query by journalists, Ahsan H Mansur said Bangladesh previously had an IMF loan programme paused as the country could not implement the value-added tax (VAT) law.

“Political economic considerations have largely stalled the revenue reforms. In the absence of political directives, the VAT law could not be implemented in 2012,” he commented.

MA Razzaque, research director of the PRI, said the IMF revenue target is not challenging as the government’s 8th Five-Year Plan projects a higher tax-to-GDP ratio by 2026.

He said it is possible to increase tax contribution to the GDP by about 5% by abandoning tax exemptions, scaling up tax compliance and short-term VAT reforms.

https://www.tbsnews.net/nbr/nbr-needs-collect-tk234-lakh-crore-more-3yrs-meet-imf-set-tax-gdp-ratio-580942

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PRI Press Briefing_Implications of IMF Loan Conditions on Domestic
Revenue Mobilisation

প্রকাশ: ০৭ ফেব্রুয়ারি ২০২৩, ০৭: ১৮

রাজস্ব খাতে আন্তর্জাতিক মুদ্রা তহবিলের (আইএমএফ) শর্ত পূরণ করতে আগামী তিন অর্থবছরে বাংলাদেশকে রাজস্ব হিসেবে ২ লাখ ৩৪ হাজার কোটি টাকা আয় করতে হবে। এর মধ্যে আগামী ২০২৩-২৪ অর্থবছরেই আদায় বাড়াতে হবে ৬৫ হাজার কোটি টাকা।

বাংলাদেশ আইএমএফের কাছ থেকে ৪৭০ কোটি ডলার ঋণ পাচ্ছে। এই ঋণ বাংলাদেশ পাবে সাত কিস্তিতে তিন বছরে। এ ক্ষেত্রে সংস্থাটির শর্তই হচ্ছে কর–জিডিপির অনুপাতে প্রতিবছরই সরকারকে রাজস্ব আয় বাড়াতে হবে।

গতকাল সোমবার বেসরকারি গবেষণাপ্রতিষ্ঠান পলিসি রিসার্চ ইনস্টিটিউট (পিআরআই) এক সংবাদ সম্মেলনে এ কথা বলেছে। এ সময় রাজস্ব খাতে আইএমএফের শর্ত মেনে সরকারের যেসব সংস্কার করতে হবে, সে ব্যাপারে প্রবন্ধ উপস্থাপন করেন প্রতিষ্ঠানটি গবেষণা পরিচালক এম এ রাজ্জাক। অনুষ্ঠানে উপস্থিত ছিলেন প্রতিষ্ঠানটির নির্বাহী পরিচালক আহসান এইচ মনসুর।

আহসান এইচ মনসুর

সুনির্দিষ্টভাবে আমাদের কাছে এখনো কোনো তথ্য নেই, কোন কোন খাত থেকে কর আসতে পারে। এগুলো স্বচ্ছ করতে হবে।

আহসান এইচ মনসুর নির্বাহী পরিচালক, পিআরআই

পিআরআই বলছে, রাজস্ব আয় বাড়াতে আইএমএফের পক্ষ থেকে এখনো সুস্পষ্ট দিকনির্দেশনা না পাওয়া গেলেও বাজেটের আগে ধাপে ধাপে নির্দেশনাগুলো আসবে। তবে শুধু আইএমএফের চাপে এসব সংস্কার না করে বরং নিজেদের সক্ষমতা বাড়াতেই এই সংস্কার হওয়া প্রয়োজন বলে মনে করে প্রতিষ্ঠানটি। তা ছাড়া আইএমএফ যে শর্ত দিয়েছে, তা কঠোর কিছু নয়। সুতরাং এ লক্ষ্য অর্জন সম্ভব।

এম এ রাজ্জাক তাঁর উপস্থাপনায় বলেন, রাজস্ব খাতের ক্ষেত্রে আইএমএফের সংস্কারগুলো বাস্তবায়ন অসম্ভব নয়। এ জন্য সরকারের সদিচ্ছার পাশাপাশি রাজনৈতিক-অর্থনৈতিক দৃষ্টিভঙ্গিও বদলাতে হবে। তবে সব ছাপিয়ে কর–জিডিপির অনুপাতে রাজস্ব আয় বাড়ানোর বিষয়টি নিয়ে আলোচনা হওয়া উচিত।

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