A new income tax law is going to be introduced in the country in July this year. This law, named ‘The Income Tax Law 2023’ is going to replace the ‘Income Tax Ordinance 1984’ which is currently being used to enforce income-tax measures.

Currently, one major source of the government’s revenue is import taxes. However, this will no longer be a feasible source as Bangladesh graduates from LDC in 2026 and will have to comply with World Trade Organization rules and regulations. The new income tax law will ensure a shift towards a more direct-tax regime.

The government is planning to achieve a 7.5 percent GDP growth. It also aims to keep inflation within 6 percent, which has been soaring high in the current fiscal year.

Currently, as a LDC, Bangladesh receives duty free access in the European Union market under the EBA scheme. However, as Bangladesh move forward to graduate from the LDC in 2026, this advantage is coming to an end. EU is one of the major market for Bangladesh’s apparel exports and it might take a hit without the duty free access.

One possible way out from the situation is getting the GSP plus scheme. However, EU has notified that to avail the GSP plus facility, Bangladesh will have to comply with 32 international conventions.
MONTHLY MACROECONOMIC OVERVIEW

May at a Glance

- Moody’s, the prominent international credit rating service has downgraded the Government of Bangladesh’s long-term issuer and senior unsecured rating to **B1** from **Ba3**. This has happened due to gross foreign reserves falling continuously (caused by BB’s attempt to strengthen taka artificially, i.e. $17 billion erosion of reserve since the peak in August 2021). With the current net foreign exchange capable of clearing approximately only 2.7 months of imports, EWI has become 115%. This is occurring at such a time when the government is announcing the national budget for the next fiscal year which will consist of a deficit of BDT 2.71 Trillion.

- To cope with the fourth industrial revolution, Bangladesh Bank (BB) has planned to introduce the country’s first digital bank very soon, announced by the governor of BB. Digital banks will have only head office and will provide banking services through the internet.

- In the first three months of the calendar year, bad loans have risen by BDT 109.64 Billion. As a result, the total amount of classified loans in the banking sector has reached BDT 1.32 trillion, which is around 8.80 percent of the total outstanding loans.

- In the first ten months of the fiscal year, Bangladesh Bank (BB) has sold more than $12 Billion from the foreign currency reserve it holds. This is much higher than the previous fiscal year in which BB sold $7.62 billion in the entire fiscal year.

- In the revised annual development plan of the national budget 2022-23, BDT 2.36 was allocated. However, implementation of these plans has been slow, as during the first ten months of the fiscal year, government agencies and ministries were able to implement only 50.33 percent of the allocation.

- Value of BDT has depreciated further against the US dollar. Now, banks are trading the dollar for BDT 108.00. This depreciation has been occurring continuously for the past few months. At the beginning of May, the interbank exchange rate was 106.80 taka, which rose more than one taka this month.

- Fifty-one percent of the total poor living in Dhaka are new poor. They have fallen to this state mostly due to the fall-out of the COVID-19 pandemic. This has been found by research conducted by the Bangladesh Institute of Development Studies (BIDS).

- Vietnam has surpassed Bangladesh to become the second-largest apparel exporter in the Canadian market. In the 2022 calendar year, the apparel export of Vietnam was worth USD 1.75 Billion while the export of Bangladesh was USD 1.73 Billion. Currently, Vietnam gets duty-free access to the Canadian market because of the CPTPP agreement. Bangladesh is also eligible for duty-free access as an LDC, but it is likely to face around 17 percent duty as it graduates from LDC in 2026.

* The figures on point to point inflation, private sector credit growth, remittances are of April while foreign exchange reserve is of 24 May 2023 and import is of March. All data have been collected from Statistics Department, Bangladesh Bank.

Note: Up arrow means increase in the indicators and down allow shows decrease in indicators compared to previous month.

About us: Unnayan Shamannay, which was founded in 1994, is now an acclaimed pro-people research and advocacy organization for making significant impact in social and environmental issues. The institution is dedicated to shaping public policies that benefit the poor and marginalized, and that it focuses on areas such as the environment and climate change, sustainable development, financial inclusion, and social innovation.