B A N G L A D E S H

National Budget 2012-13

15 July, 2012

Vision high aptitude low, audacious but not ergonomic

Budget Highlights

• Budget size	Tk1917.38b	↑ 17.18%
• Budget deficit	Tk520.68b	↑ 15.18%
• Revenue expenditure	Tk1116.75b	↑ 8.52%
• Revenue collection target	Tk1396.7b	↑ 17.98%
• Annual Development Program	Tk550b	↑ 19.57%
• Projected GDP growth	7.2%	↑ 0.2% points
• Projected Inflation	7.5%	-

Tumid budget lacking bite

The National Budget for the fiscal year 2012-2013 was placed in the parliament on June 07, 2012 with the total expenditure targeted at Tk1917.38b which is 18.4% of the Gross Domestic Product (GDP). It was passed later on June 30, 2012 along with the Tk2835.99b Appropriation Bill-2012 (22% more than the outgoing fiscal year). Although consistent with previous year's budget in terms of policy focus, noticeable about this budget is the overconfident target for revenue collection and the larger size of development budget as the government eyes the next national polls. In the proposed budget the GDP growth rate is projected at 7.2%, seemingly a substantial rise by 0.9% points with inflationary pressure expected to remain unchanged at 7.5 % and further down to 5% in the medium term. Despite its bloated size, credibility of the budget lies in successful implementation which was rarely achieved in the past.

FY2011-12 turned out to be the toughest year so far for the Awami League-led government since taking power in 2009 against the backdrop of the self-inflicted macroeconomic mismanagement and the adverse global economic developments. Throughout the outgoing fiscal year the economy was marred by ballooning government borrowing, ruthless inflationary pressure, wavering foreign aid utilization, persistent volatility in the capital market, sustained liquidity dearth, faltering foreign direct investment (FDI) and clouded private investment. As the economy continues to struggle with multiple adverse issues in both national and global fronts the GDP growth rate for FY2011-12, estimated to be 6.32%, fell far short of the targeted 7% backed by the industry sector as the agriculture sector slipped downward. Persistently high double-digit inflation also hindered growth of the economy although point-to-point inflation rate according to government data was recorded at 8.56% in June 2012.

The budget deficit has been projected at Tk520.68b of which only 35.69% will be financed from external sources while 64.31% will be financed from domestic sources. Discomfortingly, the estimate includes Tk230b in borrowing from the banking system and Tk104.84b from the non-banking sector. Estimation for foreign source contribution is Tk125.4b.

A voluminous Annual Development Program (ADP) has been targeted at Tk550b in the proposed budget, hopefully for this time the amount would not have to be slashed. The original ADP for the FY2011-12 was worth Tk460b, later downsized to Tk410.8b because of poor rate of implementation. It is unlikely that the revised target would also be implemented fully. Evidence from past years suggests that in the context of resources and implementation capacity, the new budget is once again highly ambitious. However, swift implementation of various reforms introduced in the budget speech can yet yield some positive results.

NATIONAL BUDGET AT A GLANCE: FY2012-13

Taka in Billion

	Budget 2012-13	Revised 2011-12	Budget 2011-12
Revenue:			
NBR Tax Revenue	1122.59	923.70	918.70
Non-NBR Revenue	45.65	39.15	39.15
Non-Tax Revenue	228.46	186.00	226.00
Foreign Grants	60.44	44.60	49.38
Total Revenue	**1,457.14**	**1,193.45**	**1,233.23**
Expenditures:			
Non Dev. Rev. Exp.	994.96	918.20	878.51
Non-Dev. Capital Exp.	121.79	91.63	150.52
ADP	550.00	411.00	460.00
Net Outlay for Food Operations.	3.58	3.84	6.31
Structural Adjustments	0.00	0.00	0.00
Non-ADP FFW	14.39	12.84	12.76
Dev. Projects Financed From Rev.	12.25	11.44	13.31
Net Loans & Advances	195.68	141.93	94.13
Non-ADP Project	24.73	21.42	20.35
Total Expenditures	**1,917.38**	**1,612.13**	**1,635.89**
Net Deficit	**-460.24**	**-418.68**	**-402.66**
Deficit as a % of GDP	*-5.00*	*-5.10*	*-5.00*
Financing:			
Net Foreign Borrowing	125.40	73.99	130.58
Foreign Grants	*203.98*	*140.36*	*186.85*
Domestic Borrowing	334.84	344.69	272.08
Total Financing	**460.24**	**418.68**	**402.66**

Financing budget deficit which is 5% of total GDP may turn out to be the biggest stumbling block in achieving desired 7.2% GDP growth. Recent insufficient foreign funding suggests securing 1.8% of total GDP in foreign funds will be a steep task. Increase in rates on all existing savings tools, is barely comfortable to draw in enough investment to mobilize Tk74b. Failing to accumulate fund from foreign and non-banking domestic sources may force reverting to banking system which will hamper private investment activities, deemed crucial to boost economic growth. Tight money market along with crowding out effect may also limit the upside potential of the capital market by discouraging long term investment. Slump in investment might squeeze the scope for employment generation opportunity without which there will be stagnancy in poverty alleviation efforts.

Any immediate respite from the rising inflation seems unlikely as non-food inflation, which has been the driving force in recent times, is expected to remain high as the government is in a process to readjust prices of electricity and fuel to sustain the sanction of International Monetary Fund's (IMF) credit line. Spiraling inflation continues to hurt general citizens as they struggle to meet living expenditure with limited budget.

As the five year tenure of the present government is closer to an end, meeting public expectations and addressing the present crucial issues amid tricky economic situations is going to determine the government's fate in the next election.

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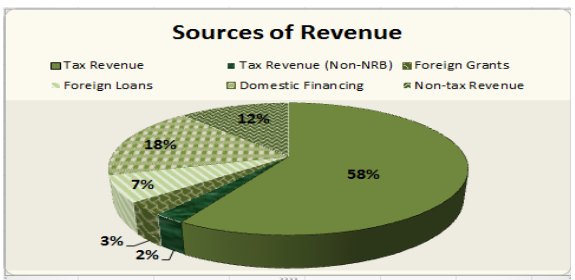
Exigent revenue collection goals

Higher internal resource mobilization is the most preferred way to meet the projected lofty expenditures of Tk1919.8b for which a 17.98% higher revenue target (than the original target of FY2011-12) is set also to reduce dependency on borrowing from banks. The revenue generation target for the next fiscal year has been fixed at Tk1396.70b, with an increasing share of GDP at 13.4%. The revised target of this year was Tk1148.85b. Of the total amount, Tk1122.59b will be generated form National Board of Revenue (NBR) tax (10.8% of GDP) and Tk45.65b (0.4% of GDP) from non-NBR tax while the target for non-tax revenue for the next fiscal year has been fixed at Tk228.46b (2.2% of GDP). The share of NBR tax has been raised by 21.53%, non-NBR by 16.60% while non-tax revenue by 22.83% from that of the revised target of FY2011-12. Of the NBR portion Tk353b will come from income tax, which rose by Tk77.39b from earlier fiscal year. Earnings from Value-Added Tax (VAT) will be Tk404.66b, up by Tk60.96b and Tk356b from import duty, up by Tk229.66b from that of the last fiscal year.



Owing to a gradual decline in foreign loans and grants the government has taken an attempt to increase revenue from domestic sources. A large amount is projected to come from the freshly increased tax at source on export earnings. NBR is estimated to earn Tk4b from tax on mobile phone bills as the budget proposed to impose a new tax at source at 2% on bills of mobile phone users. But the two proposed measures faced widespread criticism and experts believed that it would be a major obstacle to the respective industry expansion. So ultimately both the proposals were altered in the Finance Act. For these alterations the revenue collection will drop off but the government did not reveal any plan to counter this new revenue deficit in projection.

Revenue earnings, expenditure allocation and its implementation have a correlation to overall growth of the economy. Utilization of tax revenue in the development expenditure and focus on appropriate policy supports to help raise the level of investment will contribute to the overall development of the economy. But most of the time difficult tax laws and complicated submission process demotivate people, which should be simplified and made taxpayer-friendly. Recently introduced online tax payment system might assist the mass with an easier means. In the first month some 300 taxpayers have paid income tax and VAT online. To accelerate revenue growth different proposals about various reforms specially is case of VAT and income tax was made in a hope that such measures will boost revenue earnings. Expansion of tax net to at least 85 upazilas and growth centers to tap more tax income and plugging of loopholes in the VAT and customs duty are expected to generate more revenue. Moreover to increase earnings from the non-tax revenue it has been proposed to amend the existing "Stamp Act" to raise the different fees by 50% to 100%. The decompartmentalization of the targeted expenditure for the next fiscal year is a bit tricky, where achieving revenue target holds a very important stake. The track record of NBR and the groundwork it has done keeps the hope alive to achieve the challenging revenue target.

Higher growth target on slippery grounds

The Gross Domestic Product (GDP) growth for the next fiscal year has been set at 7.2%, up from this year's target of 7% and World Bank's (WB) projection of 6.4%. Considering the downside risks from both macroeconomic and political front the target seems very much challenging. The possibility of attaining the target of agriculture might be tough without bumper paddy harvest. At the given scenario the industrial sector's performance is already hampered by the infrastructural and utility setbacks. The slow down of the readymade garments industry owing to weaker export demand in the European Union and USA might weaken the performance more. Reviving the investment situation, especially of the private sector's, is important to attain the targeted GDP growth rate. According to a Planning Commission report, participation of the private-sector investments to GDP was higher than the government since FY2004-05. But in the recent fiscal year in face of various difficulties the private sector diverged from its track record.

Contribution of Investment to GDP (%)			
Fiscal Year	Total Investment	Public Investment	Private Investment
2004-05	24.53	6.21	18.32
2005-06	24.65	6	18.65
2006-07	24.46	5.46	19.02
2007-08	24.21	4.95	19.25
2008-09	24.18	4.7	19.67
2009-10	24.41	4.7	17.74
2010-11	24.73	5.28	19.46
2011-12	25.4	6.3	19.1

The proposed budget embraces not much visible endeavors for reverting investment or providing support to the agriculture or industrial sectors. On the other hand, extensive government borrowing and fuelling inflation dims the growth prospect further.

Bangladesh Bureau of Statistics (BBS) has made a provisional estimate by taking statistics of Jul-Mar period that the growth rate of the FY2011-12 will be 6.32%. Bangladesh Economic Survey (BES) reports the contribution of two sectors - agriculture and service declined during the fiscal year. The contribution of agriculture sector to the GDP declined to 19.29% in FY2011-12 from last fiscal year's 20.01%. This sector's contribution may scale down further in coming year as the proposed cut in agricultural sector's subsidy to Tk60b from revised allocation of Tk65b in FY2011-12 takes hold. Moreover, the industrial sector's contribution rose to 31.26% from 30.38%. The service sector's participation to the GDP has been estimated at 49.45% in the FY2011-12 that was 49.60% in FY2010-11.The provisional GDP estimate is also close to the multilateral lenders like Asian Development Bank and WB's projection between 6%-6.6%, but higher than International Monetary Fund's projection at 5.5%. However, the growth rate may be scaled down further as public investment, construction, manufacturing and export earnings - the main components of GDP have posted negative growth. BBS has also made estimation that the size of real GDP at the end of FY2011-12 will be Tk4093.77b and at the current market prices it will be Tk9147.84. Per capita GDP of Bangladesh at the end of FY2011-12 would be $772.

Lofty ADP: Implementation a major challenge

Proposed Annual Development Program (ADP) for fiscal year 2012-13 (with a large number of politically influenced projects) is Tk550b, which is 5.3% of GDP; 34.1% higher than revised and 19.6% higher than original ADP of the FY2011-12. Of the total amount the government is aiming to arrange Tk240b from external sources and remaining Tk310b will be funded from local sources. The top 5 sectors- power, transport, education and religious affairs, rural development and institutions, physical planning, water supply and housing has received 63.5% of the total allocation. Out of 1,037 projects in the ADP only 35 projects are new and the remaining 1,002 are ongoing projects.

Prioritized sectors	FY13 (Tk in Bil)	FY12 (Tk in Bil)	% of total allocation
Power sector	79.11	71.72	14.57
Communication sector	77.63	77.49	14.30
Education and religious sectors	63.35	61.24	11.67
Rural development and rural institutions	61.53	44.02	11.33
Physical infrastructure, water supply and housing sectors	53.35	56.51	9.83
Health sector	46.35	39.42	8.54

Making the ADP size bigger for FY2011-12 did not proved to be a successful decision while the record of efficiency in implementation remained very poor. It was a major challenge for the government to execute the ADP properly as in the first 11 months of the FY2011-12 only 70% of the revised ADP (Tk410b) was implemented due to inefficiency and administrative failure of the implementing agencies. Slow aid disbursement and donors' hesitations in cooperation over the corruption issue deteriorated the situation further. So ultimately the government agencies were forced to complete the projects in the eleventh hour that might have opened avenues to corruption and misuse that will result to low quality of development works. The size of ADP is unreasonable from the development perspective. But under the present circumstances, the possibility of realizing the current year's as well as the proposed ADP target seems difficult.

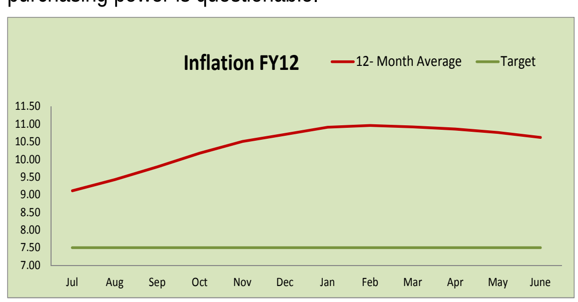
Mounting subsidy conundrum

In recent times ballooning subsidy allocation has been the Achilles heel for the government. FY2011-12 witnessed unprecedented rise in subsidy allocation inflated primarily by soaring petroleum prices in the international market as the government opted for untenable rental power plants. The total revised subsidy in FY2011-12 stood at Tk301.5b which turned out to be 47.2% higher than the proposed subsidy of Tk204.77b. This trend is expected to continue in the new fiscal year as subsidy allocation is once again poised to lead the government expenditure at approximately 18% of the total outlay, including transfer of Tk10b from last year to the new fiscal year which the finance minister apparently evaded in the budget speech. This means that in real terms subsidy allocation for FY2012-13 has diminished while the aggregate allocation continued to swell. The total amount is estimated to rise by 14.5% from the previous year's revised sum. The rising trend of subsidy costs will stretch a gloomy shadow over the money strapped economy further as government deficit is supposed to spiral inexorably. Mounting pressure from International Monetary Fund (IMF) to curb subsidy costs coerced the government to cut back on the vital agriculture subsidy for channeling more funds to energy and power sector. Realizing the fact that enhanced power sector subsidy may not be sufficient, the budget speech ominously has indicated imminent further hike in energy prices. Meanwhile, reduction in agriculture subsidy by 7.7% from the revised budget of FY2011-12 may adversely affect the agriculture sector that contributes 19.3% to the overall economy.

7.5% inflation – shot over the head

There remains gross policy debate in government's budget manifesto to keep the inflation level within 7.5% in the next fiscal year. The budget proposed big-sized borrowing from the banking system along with adjustment of power sector subsidy in the new fiscal year. Both of these actions have obvious sway on inflation. The aspiration of trimming down the inflation level by 3.12 percentage points from FY2011-12's 12-month average of 10.62% is backed by the assumptions of bumper food production of the outgoing year and falling commodity prices in the global market. The government also promised steady supply of foreign exchange to keep the exchange rate stable. The impact of these moves might be neutralized by the upshots exports and remittance earnings are going to face as a result of continued global meltdown. Alongside, a restrained monetary policy alone might not be strong enough to rein the cost-driven surge of inflation, especially its non-food component. Fuel, lighting, transport and communication that cumulatively holds 0.8 percentage point stake in the non-food inflation is certainly going to spur after the increase in energy prices. Food inflation – that is still a major area of concern might not remain tender due to the probable rise in the transport cost. Also the allocation in agriculture sector does not seem very promising to promote the bumper harvest of paddy.

The inflation target of FY2011-12 is 7.5% that was revised upward by 1 percentage points later. Since late 2010 the government took a number of policy initiatives to curb inflation, most of them were ineffective as inflation kept trekking upward, initially driven by the food prices and later for the rising non-food expenses. According to the Bangladesh Bureau of Statistics (BBS) Point-to-Point (P-to-P) inflation hit 15 year high at 11.59% in January 2012. Later, the general and food inflation slide down decently, mainly for seasonal factors and partly for government's move to switch its borrowing source from Bangladesh Bank (BB) to commercial banks and continuation of Open Market Sales (OMS). But the headline inflation remained stubborn due to upward revision of administered prices and falling value of Taka. Non-food inflation that is highly volatile and non-elastic keeps little room for policy intervention. However, BBS claimed the wage rate rose at a higher rate than the inflation thus indicating better purchasing power but sustainability of this improved purchasing power is questionable.



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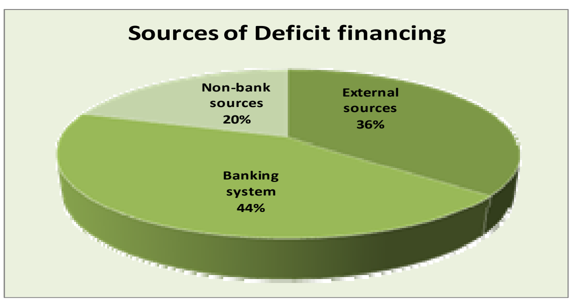
2011-12	General Inflation	Food Inflation	Non-food Inflation
Jul	10.96	13.40	6.46
Aug	11.29	12.70	8.76
Sep	11.97	13.75	8.77
Oct	11.42	12.82	9.05
Nov	11.58	12.47	10.19
Dec	10.63	10.40	11.38
Jan	11.59	10.90	13.16
Feb	10.43	8.92	13.57
Mar	10.10	8.28	13.96
Apr	9.93	8.12	13.77
May	9.15	7.46	12.72
June	8.56	7.08	11.72

There is no generic panacea to rein inflation, but for this moment it is important to acknowledge the sources of inflation and take timely measures to deal with it. The traditional approaches this time could boomerang on economic harmony. Managing inflation with supply-side interventions and continuation of the OMS could lock the inflation at a tolerable level but suppressing inflation within the target limit might be more challenging than it was in FY2011-12.

Tricky deficit financing

Maintaining the government's tradition of keeping overall budget deficit target equivalent to 5% of the GDP, the budget for FY2012-13 has projected Tk520.68b debit balance. The deficit size is 15.18% bigger than the outgoing fiscal year's target of Tk452.04b, though ultimately the deficit stood at 5.1% of the GDP. With bigger outlays government had put high hopes on all the sources of financing. Just like FY2011-12 it has aimed to procure the larger portion of the deficit of Tk230b (44% of total) from relatively expensive and apparently risky source of public financing – the banking channel. The bank borrowing target is 21% higher than the original target of FY2011-12.



Throughout FY2011-12 the economy remained dismal as an upshot of the hefty government bank borrowing initially for financing day-to-day expenses, funding subsidy bills and later for financing the extremely large budget deficit. Reckless public borrowing crowded out the private sector; import of capital machinery and industrial raw materials slumped as did investments. Liquidity strain in the banking system started putting further pressure on interest rates that ultimately increased the cost of production and cost of doing business. The disbursement of industrial loans declined alarmingly by about 21% from Q2 to Q3 of FY2011-12. Even credit flows towards the priority sectors like agriculture were hampered. The Primary Dealers (PDs) fell in acute liquidity shortage, as some Tk225.51b of their funds were stuck up in treasury bills and bonds to grease government borrowings. At the same time, the conspicuous by-product of excessive government borrowing – inflation kept swelling. Pressure on Balance of Payment (BoP), foreign exchange reserve and liquidity intensified further. All these ultimately ended up with slower economic growth.

The pressure on banking system could have been eased substantially if the borrowing though sovereign savings instrument could have provided some support. The popularity of the public saving certificates started fading following some of the inane measures taken by the government like downsizing interest rates, reducing the investment ceiling and imposing tax on interest on savings. Even though, the tax rate was reduced to 5% later but non-competitive interest rates compared to bank deposits in the backdrop of acute inflationary pressure (thus lower savings) depressed investment in such tools. Net sales until February of the fiscal year were negative at Tk1.08b, as many investors went for divestment. In March, government made an upward revision of interest rates on all savings instruments by 1.38%-1.81%. As a result net sales could move in the positive zone at Tk5.77b by May, but fell far below than the Tk35b revised target (original target was Tk60b). Net sales of the same period of the previous fiscal year were Tk24.43b. In order to make the saving instruments attractive the new budget has proposed harmonized interest rates with other existing rates, repackaging and re-branding the conventional diaspora bonds and adaptation of appropriate market-promotion policies. Alongside 5% increase in tax on interest earnings on bank deposit without Tax Identification Number (TIN) might divert investors' interest towards the saving instruments. But no matter how strong the promotional initiatives are, achieving 74.73% growth against last year's original target to pool Tk104.84b (the budget target) seems too ambitious.

The ambitious Tk185.84b (1.8% of GDP) foreign assistance target for deficit financing could be reason for further woes if the government agencies fail to timely implement the aid funded development programs. Eventually government may choose to issue the much-hyped $500m dollar-denominated sovereign bond in the international markets with five-year tenure and around 5% yield, to get the required finance. However, once the bond is floated the external debt burden of the country will increase by 0.4%-0.6% of GDP. Higher debt burden might be induced due to exchange rate risk.

Observing periodical instances of FY2011-12, inflow from other sources seems quite cynical to attain, so in due course banking system might have to prop up. The level of distress the economy has borne in the outgoing fiscal year is evidence of the short-term side-effects of government's domestic borrowing, the ultimate long-lasting shortfall on macroeconomic harmony is yet to show fangs. Bangladesh economy is too delicate to tackle the aftermaths of the single year's debt obligations; so extended burden of the upcoming year will be heavier. Furthermore, the cost of these debts is eating up major share of the budget. Interest burden of the last fiscal year was Tk179b, 12.3% of the budgetary allocation. The proposed budget earmarked Tk233.02b for interest payment on government debts, 92.7% (Tk216b) of which is for domestic borrowings. The projected interest payment size is 12.2% of the total expenditure, even bigger than the collective allocations for fuel and energy, social security and welfare sectors. This is curtailing scope for spending on productive purposes and ability to respond to sudden economic or environmental shocks. Better realization of aid in the pipe line, exploring new revenue sources and developing a vibrant market for treasury securities could be included in the priority list to ensure uninterrupted financing.

Ensuing sound deficit financing is critical as comparing the figures it seems no development program can be embarked in FY2012-13 without borrowing. Another problem that can arise is the risk of violation of the stringent loan conditions of the International Monetary Fund that will jeopardize availing the remaining loan tranches.

MPS gets the charge

In the milieu of the wooly fiscal planning and intensifying severe challenges, a straight forward monetary policy with firm direction will be very helpful. According to the International Monetary Fund (IMF) loan condition Bangladesh Bank (BB) is entailed to follow a contractionary monetary policy and so was hinted in the budget speech. But if the evidence of last two Monetary Policy Statements (MPSs) are taken into account a plain contractionary MPS might not be effective enough in tackling inflation. Furthermore there is a trade off between the mechanisms of curbing inflation and promoting private investment, although these two are the core focus of the fiscal policy. So before embarking on any policy it is important to establish an appropriate mechanism to attain the goal and to have safeguards to handle the spin-offs of that measure.

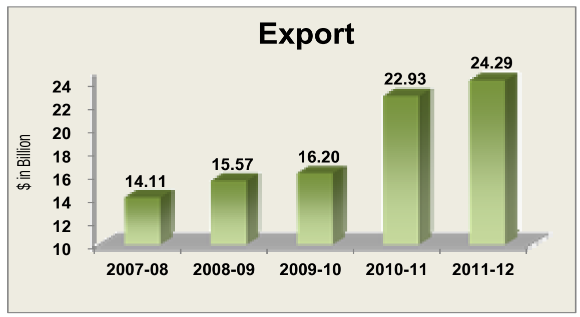
The latest two MPSs were rather hesitant with conflicting policy accommodation, as BB had to pursue for monetization of the fiscal ambition along with addressing the prevailing red flags. Curtailing inflation was one of the major priorities, for which BB kept incrementing policy rates and tried to repress the private sector credit flow to the so called unproductive sectors. But for having less control over cost-pushed inflationary factors the moves remained dormant. On the other hand, the central bank's preoccupation of the period was to feed government funding requirements, initially which was done through increasing money supply. That fostered the inflation further. However, during the last quarter of FY2011-12 by implying number of policy actions (increasing repo-rate and LC margin) and shifting the financing source of the government to the scheduled banks coupled with backing by the seasonal factors BB somehow managed to curtail the inflation level to a single digit. Though, sustainability at that level is a bit doubtful.

Imprudent policy measures and lofty public borrowing created aridity in the money market. The upward sloping yield curves (translates the decreasing liquidity and higher demand) caused valuation losses particularly for the Primary Dealers (PDs). BB altered the Statutory Liquidity Ratio (SLR) break-up and also decided to devolve a certain portion of funds under each treasury auction and has taken 38% of the total fund of both treasury bills and bond auctions on its own account. None of the measures could reduce the anguish of the PDs rather amid this uproar inter-bank repo rate went beyond call money rate. Unhealthy competition among the banks made the interest rates volatile as well. Because of the loan condition of IMF, BB directly could not referee the rates but tried to arbitrate through the Association of Bankers Bangladesh (ABB). But severe lapses within the industry, amid lose supervising by BB meant that the rates remained volatile. The higher rate of interest increased the cost of doing business as well as the liquidity dearth of the banking system hampered fund flow to the private sector and thus investments. Therefore apart from living out the tough challenges placed form the fiscal front, some other exigent task for the MPS will be to restore discipline within the banking system, money and foreign exchange market, as well as work on the liquidity problem of the economy.

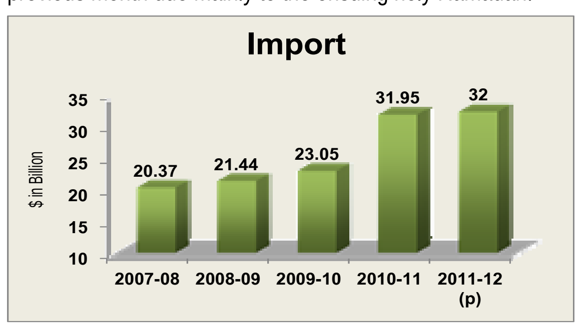
Distressed external balance-sheet

The pressure on the external balance sheet as well as the foreign exchange (forex) reserve kept intensifying throughout FY2011-12. As an upshot of which, exchange rate became highly volatile and Taka value depreciated by more than Tk10 during the year. The government was coerced to take the $1b loan from International Monetary Fund (IMF) under Extended Credit Facility (ECF) that tags a bunch of strict conditions. Basically, wider trade deficit owing to high fuel import for the costly rental power plants as well as the lower than expected remittance and aid flow caused the balance-sheet disparity. As of end May 2012 BoP stood at $11m while the current account balance stood at only $754m.

Exports fetched $24.28b in the last fiscal year by posting a mere 5.93% growth that represents 8.35% shortfall from the years' target of $26.50b. The actual earnings after adjusting the currency depreciation are even lower. Following the Eurozone crisis and US economic meltdown export earnings as well as orders from the traditional sources has already started to decline. Though, earnings from non-traditional markets were quite impressive, but are inadequate to sustain overall export growth. Moreover, slowdown in private investment and the ongoing unrest in the readymade garments sector may also adversely affect export-oriented industries in the coming months. The export target of the new fiscal year is $28b that represents 11% growth.



Overall import payment did not see a significant reduction as import of food grains and petroleum marked a sharp rise in the first 10 months of the current fiscal year. According to the BB data released on Letters of Credit (LC), opening petroleum import increased by 56.94% from 41.48% of Jul-Apr period of FY2010-11. The stock of international reserve kept plummeting and remained beneath the psychological $10b-mark for making the routine payments against imports. In the later half of the fiscal year following some actions by Bangladesh Bank, growth of overall import came down to a tolerable level, against 41.48% import growth in FY2010-11 in Jul-May period of FY2011-12 the rate stood at 10.93%. However, imports rose to $2.84b in May from $2.69b of the previous month due mainly to the ensuing holy Ramadan.



Foreign aid disbursement for the fiscal year has been estimated at over $25b, but up to May this year only $1.72b was disbursed. Economic mismanagement, donors' foot-dragging, complexities on the Padma bridge project and poor handling of diplomatic relations have stifled progress on major loan commitments.

The lone external balance sheet factor that endowed favorable performance was remittance. Remittance inflow in the last financial year has increased by 10.26% on a year-to-year basis to $12.85b. One major reason for the satisfactory remittance growth is the economic uncertainty in the developed countries for which expatriate workers are feeling insecure to save their money abroad. So once the conditions of those economies will start performing better remittance might shrink. However considering the scope of manpower export has been created in Malaysia, it can be expected that the remittance earning would remain at a sustainable level in the coming year.

The proposed budget of 2012-13 has introduced a surge in trade tariffs providing greater protection to domestic industries; however the primary objective was to leverage trade policy tools to generate higher government revenue. Duties on imported food items and clothing have been increased to benefit local businesses as well as discourage unproductive imports. On the other hand inclusion of uniform tax rate of 0.8% to be deducted at source on export will obviously affect the crisis surrounded export sector. Except the commitment of ensuring forex support in the money market there were no specific provision or roadmap in the budget for softening the strain on BoP.

Agriculture taking toll of shift

The agriculture sector failed to maintain its impressive growth rate of 5.13% achieved in the previous fiscal year as it shrunk by 2.6 percentage points in the current fiscal year. The agriculture sector's share to the GDP in the outgoing FY2011-12 has plummeted by 0.72% to 19.29%. The total rice production for current fiscal year is expected to be 33.83m tonnes, much lower than the targeted 34.7m tonnes, as only boro harvest is likely to reach the target of 18.7m tonnes while both aman and aus fell short. However this does not come as major surprise given the recent reducing trend in agriculture sector allocation to total budget size. In FY2010-11 the percentage allocation of agriculture sector to total expenditure stood at 5.66% which was reduced to 4.87% in FY2011-12 revised budget, which in turn plunged further to 4.41% in FY 2012-13 annual national budget. The shift in priority is further evident with additional reduction in subsidy for agriculture sector. According to the FY2012-13 budget, Tk60b in subsidies for the farm sector have been proposed which was Tk65b in the preceding revised budget, recording a decrease of 7.7%. Sanction of $987m loan from IMF may have also swayed the subsidy allocation. Evidence suggests the government often opts for ambitious initial ADP allocation but later is forced to curb provisions while the reverse has been observed for agriculture subsidy. A repetition of such trend can occur as the amount of subsidy may very well turn out to be inadequate given the rise in diesel and urea price by 40% and 66%, respectively. The minimized subsidy amount could well have been compensated by injection of enhanced farm credit in the rural economy. However that did not quite materialize as the government opted for a trivial 3% rise of Tk3.3b in farm credit from Tk138b in FY2011-12 to Tk141.3b in FY2012-13. Based on the current scenario one might find it perplexing that the government still pins its hope on agriculture sector to play a significant role in overall GDP growth. Moreover, the objective of attaining food self-sufficiency still remains elusive as the finance minister proposes to delay it for another year just like preceding two budget sessions, while no visible progress has been attained in policy and research fronts.

Less space for investments

The proposed budget comprises a bunch of typical commitments to boost private investment. Together with the classical infrastructural setbacks and political tensions some new stumbling blocks like lack of credit flow and higher interest rates, upturned both local and external investment. The overall investment rose merely by 0.3 percentage point and reached 25.45% of GDP in the last fiscal year against 25.15% of the earlier year. According to the Economic Survey, total local investment of 2011-12 declined by Tk1.62b from the earlier fiscal year and stood at Tk391.67b. On the other hand, foreign investment has halved down to $436.52m in 2011 against $913.32b of 2010. Around 79% of the total investment in Bangladesh is of private sector. The sector's contribution to GDP is also increasing over time in comparison to that of the public sector. As articulated by the Centre for Policy Dialogue (CPD) total investment will need to increase by 4.2 percentage points to attain 7.2% GDP growth in FY2011-12. Due to inattention of the government and the lack of logistical support average increase of the sector in the last 10 years as share of GDP was only 0.2 percentage points. Reversal of the investment situation with a view to attaining the targeted GDP growth rate is very much critical for which creating adequate space for the private sector's access to credit to meet the revealed investment demand is also important. The fiscal stances like procuring higher fund from local channel and imposing 0.8% tax on export are disconcerting for the investment scenario. However, if the tax evaders become encouraged to insert a portion of the undisclosed money to the productive sector, that will be beneficial. On the other hand the tax moves for the ceramic and pharmaceutical sector were sensible. Lower investment has hindered employment generation; in the current fiscal year employment generation through industrialization was 0.34m.

PPP mirror mirage

Public-Private Partnership (PPP) has been included in Budget 2012-13 once more and if history provides any guidance it would possibly fire blanks yet again. For a fourth consecutive time PPP has been included in the annual national budget, with an allocation of Tk30b for the third consecutive period. The finance minister have touted PPP to be the savior of infrastructure crisis since its inception in the Budget 2009-10 but each time it has failed to bear fruit due to lack of adequate framework and policy guidelines. In the outgoing fiscal year, the finance ministry allocated Tk30b for 23 PPP projects mostly in the areas of energy and power but a lack of integrated policy restricted expected progress. So far seven power plants with 178 MegaWatt (MW) capacity have been constructed under PPP according to the Finance minister while he ensured bidding process is underway for another six power plants with a total capacity of 410 MW. Furthermore, Bangladesh Infrastructure Finance Fund Limited (BIFFL) created during FY2011-12 budget proposal failed to woo overseas investors as the institutional setting for PPP was far from completion. In the current budget proposal, 8 projects have been identified for implementation under 5 ministries and divisions. Out of the allocated fund, the finance ministry has put aside Tk1b for technical support while Tk4b has been set aside for Viability Gap Fund (VGF) - projects that are not commercially profitable but deemed crucial for economic development and public services. Establishment of eight land ports and a satellite town on the outskirts of Dhaka have also been included in this year's budget. However, three consecutive year of less than expected outcome no doubt mounts pressure on the government as many struggle to rationalize allocation of such significant amount.

Powerful pain Power & Energy

The government has allocated Tk95.44b for the power & energy sector for the coming fiscal year 2012-13. The figure went up by 19.94% from that of the previous fiscal year. The allocation came in line with governments' aspiration to develop the ever crucial power & energy sector. The budget speech comprises the second version of "Power & Energy Sector Roadmap'' where it outlined the government's initiatives regarding power and energy sector of the country. It has revised the plan to add 8294MW instead of 6600MW held previous year to the national grid by 2013 considering the incremental per capita power consumption. Such ambitious revision of plan was initiated when the government had failed to properly manage the existing power plants to run them at full capacity. However, the Finance Minister claimed the population coverage of electricity has gone up from 47% to 53% this year. In addition, he also claimed enriched electricity coverage to the village areas, development of 523km additional national transmission line, 22857km of new distribution line and setup of 10 new sub-stations. The process of installing 30 new power plants and Balancing, Modernization, Renovation and Expansion (BMRE) of the old gas-fired plants to be completed by 2016 are ongoing. In spite of all these superficial proclamations, many of the industries and households are still suffering from interrupted supply of power and gas. To meet the industrial demand the government has offered uninterrupted electricity supply to the industries at a very high rate, highest Tk14.45 per unit. Quick rental power plants – those are yet to make significant contribution to the national grid, kept creating severe complexities in fiscal stability. To meet the loan commitment of the IMF of containing fuel subsidies, the government has planned to adjust the charges with international prices by December 2012. In line with the plan of installing coal-based power plants, the draft coal policy has already been framed. In addition to power, the government has stressed on its continuous effort to manage the extraction and exploration of oil and gas in a better manner. The budget asserted government's formation and approval of the draft "Sustainable Energy Authority Act, 2011" to develop efficient energy management which is expected to align the national energy policy to ensure a better and sustainable energy situation in the country. Additionally, the budget has also promised to proper-implement the "Gas Development Fund" to bring in more improvements in the gas sector. Nevertheless, considering the roadmaps of the subsidy diminution, the proposed budget has allocated Tk64b and Tk62b in subsidy to the power and gas sectors respectively. However if the costs of the rental plants and financing of the medium and large power plants remains unchecked, there might be little change in subsidy scenario of the coming year. This might create a possibility of allocating more subsidy for energy and power sector by cutting in other sectors, including agriculture and safety-net.

Infrastructure development in limp

The proposed budget has kept allocation of Tk5.4b for roads and bridges division for the coming fiscal 2012-13 which went up by 10% from the earlier year. The maximum allocation has been put to road division amounting Tk42.5b and the rest Tk1.15b to the bridges division. The government has set aside Tk2.15b for building and repairing roads since it was highly criticized for poor maintenance of roads, highways and poor road accident control policy in the outgoing fiscal year. The Accident Research Center of Bangladesh and World Bank have labeled the Roads & Highways of Bangladesh as lethal because of the number of deaths and injuries occurring from road accident each year. Effective development of policy framework for the respective sector was highly required. However, it did not happen, though the finance minister has claimed to have framed "Integrated Multimodal Transport Policy (IMTP) 2012" and approved "Transport Coordination Authority Act, 2012" both of which will play a strong role in the development of the communication sector. Yet another promise came to near completion; the work of much awaited flyover from Jatrabari to Gulistan and 'Kuril Flyover' in the capital by the end of 2012 though considering the slow progress and the extent of completion, it appears to be rather impractical to expect the completions within the fiscal year. Building Padma Bridge was one of the election pledges of the current government but it remained uncertain in the outgoing fiscal year. After finding suspicious graft stance which the government failed to disprove, the World Bank had already taken back their helping hand from the project pushing it in uncertainty. Nevertheless, several other promises were made after the incident including building the bridge under PPP initiative; building a second Padma bridge and so on though none of them have actually taken place and the budget has hardly pronounced any updates on "Padma Bridge" besides simply announcing the tentative commencement period of September, 2012-13.

Gradually truncating SSNP

The total proposed allocation for social safety net program (SSNP) in FY2012-13 is Tk227.51b which is 11.87% of total budget. For the FY2011-12, the amount allocated under SSNP was Tk225.56b which was later trimmed down to Tk219.75b. The proportion of allocation has declined, 2.51% of GDP of FY2011-12 which is now only 2.18%. At a time when there is a need for increasing the outreach of safety net to ensure social protection, a cut in allocation in terms of total budget and GDP for the current fiscal year is not plausible. However despite trimming expenditure in different programs the number of beneficiaries has increased by 2.76m to 79.88m in FY2012-13 from the revised budget of FY2011-12.

Major programs under SSNP include employment generation project for the hardcore poor, vulnerable group development (VGD), vulnerable group feeding (VGF), old age allowance, rural maintenance program, freedom fighters' allowance, open market sale (OMS), test relief, food for work, allowance for the financially insolvent disabled etc. The government has increased allocation by Tk2b to Tk12b in the proposed budget in an attempt to reduce the number of people living below the poverty line. To generate and export skilled manpower Tk500m for Finance Division and Tk1.4b for Ministry of Expatriate Welfare and Overseas Employment have also been allocated. But to create more employment opportunities the above measures need to be revised upward. However, allocation in micro-credit program has gone up than the previous year while fund for Women Self- empowerment, founding for Micro-credit through Palli Karma-Sahayak Foundation (PKSF) and Non-governmental organization (NGO) foundation were curtailed.

Major Programmes with curtailed allocation	Coverage person (In mill)		Budget (Tk In mill)	
	Revised (2011-12)	Budget (2012-13)	Revised (2011-12)	Budget (2012-13)
Fund for Micro-Credit through PKSF	7.92	7.50	1,885.70	1,754.10
Micro-credit for Women Self-employment	0.04	0.04	50.00	40.00
Stipend for Dropout Students	0.38	0.25	691.60	457.80
Fundamental Education for Urban Working Children	0.08	0.06	300.00	220.00
Poverty Eradication and Ensuring Livelihood for the People Living in Economically Backward Areas.	0.02	0.01	300.00	100.00
Fund for Climate Change	1.70	0.90	7,000.00	4,000.00

In an attempt to eradicate illiteracy, eliminate disparity, prevent drop-out and enhance the quality of education, the government has undertaken several programs under SSNP and increased allocation for such programs for successful implementation. In the proposed budget Tk214.08b is allocated for overall education sector in which TK9.49b is allotted for Stipend for Primary Students, Tk5.22b for School Feeding Programs and Tk0.3b for Female Stipend for Degree (Pass) and Equivalent Level Project. A commendable achievement has been attained in the primary and secondary levels of education in the rural area with the initiative of ongoing 40% female stipend and up to 100% coverage in areas like beels and haors and other inaccessible part of the country. However due to poor implementation status, inadequate monitoring and diffusing corruption the education sector could not pave the path for achieving the targets as earlier instances. Moreover "Education Policy 2010" should be implemented at earliest to ensure unified education system assimilating the essence of the charter for change, "Vision 2021".

SOEs panting mounting losses

The losses recorded by the State owned Enterprises (SoEs) was almost double in the FY2011-12 compared to the previous year. After enduring continuous losses since FY2001-02, the SoEs realized profits of Tk32.82b and Tk27.76b in the FY2008-09 and FY2009-10 respectively. For the fiscal year 2011-12, SoEs incurred a total loss amounting to Tk168.8b which was Tk86.6b in the FY2010-11. The gigantic size of losses of 16 SoEs has outweighed the profit made by the other 30 SoEs. Of the loss-making SoEs, the Bangladesh Petroleum Corporation (BPC) and the Bangladesh Power Development Board (BPDB) topped the list and incurred losses of Tk160.8b and Tk84.3b respectively.

The reasons behind the losses made by these two public entities can be attributed to fuel price hike in the international market and purchasing of power from quick rental power plants at higher rates and selling the same at lower rates. Nevertheless Bangladesh Chemical Industries Corporation (BCIC) improved its performance by reducing its losses significantly by Tk2.76b while Bangladesh Telecommunication Regulatory Commission (BTRC) enhanced its profit by Tk28.3b in FY2011-12 compared to previous fiscal year. In the proposed budget the government has shifted its concentration of subsidy in favor of BPDB and BPC to agriculture, export and food sector. However there is no indication of any progression of the SoEs on divesting their stakes to revamp the languishing stock market.

Crisis persists in Real Estate

Now-a-days, steep price hike of land, unavailability of utility connections, mounting interest rates and inaccessibility of bank credit are taking a heavy toll on the growth and development of real estate sector in Bangladesh. Sharply declining sales of new housing projects along with increasing raw material costs has inflated the crisis in recent times. Also, there is a possibility that high-concentration on the Dhaka city might push the sector under threat. Some povisions presribed in the budget would swell the cost of doing business by the real estate companies. Due to imposition of higher duty on cement clinker imported by VAT-registered manufacturers of cement to Tk500 from Tk300 per tonne cement price will increase. Furthermore, the proceeds of the land developers by selling land will be subject to 3% or 5% source tax considering the location of the land during the time of the sale. The proposed budget allocated for the sector was only 0.76% of the total.

Over the last two decades the local realtors who have developed the industry, made huge investment to develop manpower and logistics. Recently Bangladesh government has created an alliance with India's large conglomerate - Sahara India Pariwar for developing "*Satellite Township*" in the vicinity of the capital. There is an understanding that the government has agreed to provide 0.1m acres of land to a foreign company at government rates, which is much lower than that offered to the local developers. At a time when the real estate industry is going trough a meltdown offering such previlage to a foreign company that is for granted getting ready facilities is unjust from the local realtors' point of view. Most importantly, this can create an unfair competition within the industry.

No More Surprises in Tax

a)	**Individual Income Tax Rate:**	
	Income Slab	Applicable Tax Rate
	The First Tk200,000	0%
	On Next Tk300,000	10%
	On Next Tk400,000	15%
	On Next Tk300,000	20%
	On the balance	25%
b)	**Corporate Tax Rate:**	
	Mobile Company:	
	Publicly Traded	35%
	Other Than Publicly Traded	45%
	Cugerette Company:	
	Publicly Traded	35%
	Other Than Publicly Traded	42.50%
	Banks, Insurance & NBFIs	42.50%
	Merchant Banks	37.50%
	Private Limited Company	37.50%
	Companies Registered with Stock Exchange	27.50%

** Tax-free income limit for the senior citizens and individual women tax-payers has been revised to Tk225,000, while the limit for physically challenged individuals was increased to Tk275,000

- A Company transferring 20% of its paid-up capital to capital market through Initial Public offering (IPO) shall enjoy 10% tax rebate on the relevant year
- Dividend Income of Tk5000 has been made Tax-free
- Tax at source on all kinds of export has been increased to 0.8% for the new fiscal year from the existing 0.6% and 0.7%
- To encourage the domestic ceramic industry the prevailing 15% supplementary duty has been withdrawn
- Tax at source of 1% on the total amount received by an International Gateway (IGW) Service provider and 5% on the amount paid to other operators in regard to international telephone calls has been introduced
- Interest earnings received by depositors holding no Tax Identification Number (TIN) and having deposit of more than Tk0.1m has been made subject to 15% source tax instead of existing 10%
- To support the growth of Small and Medium Industry (SME) -
    - Full exemption of turnover tax on annual turnover up to Tk0.7m

- Imposition of 2% tax on annual turnover from Tk0.7m to Tk2.4m
    - Continuation of 3% tax on annual turnover of Tk3.4m to Tk7m
- The small and cottage industries having an annual turnover of Tk4m will enjoy exemption from payment of VAT
- Continuation of Tax holiday for industries to be established in both public and private Export Processing Zones.
- Facilitation of Tax holiday for the Film industry for five to seven years
- Land sale by any land developer will be subject to 3% or 5% source tax considering the location of the land during the time of the sale

There were strong suggestions for raising the minimum threshold for taxable income considering mounting inflationary pressure. However, in the budget proposal the government preferred to consider "*the GDP growth and the increase in per capita income*" to keep the threshold limit unchanged. In face of strong plea for revising the limit the government altered the limit upward in the finance bill. But it kept the budget proposal of increasing the minimum tax payment level from Tk2,000 to Tk3,000 unchanged. Revising upwards the minimum tax payable limit will magnify the tax burden of the low-income group who are more prone to inflation than the high-income group whose tax saddle remained unchanged. This move is contradictory with the government's aspiration to promote equality.

Not many changes were made in the corporate income tax section; the two alterations that were made were to fuss over the capital market. The 10% tax rebate facility for companies offering 20% of their paid-up capital to the capital market is appreciating. Conversely, implication and implementation of the 5 percentage point tax reduction for the merchant banks to 37.5% created perplexity. As until FY2010-11 the merchant banks were under the 37.5% tax bracket. In the recent fiscal year the revenue board moved to put them in the 42.5% tax bracket with the other financial institutions. Since discussion in the bureaucratic level is going on regarding the issue, the effectiveness of 42.5% rate for FY2011-12 is still ambiguous; unless this issue is solved significance of the new tax rates for the merchant banks is unsure.

Corresponding with the concerns on gradual adjustment of source tax on exports, for the second consecutive year the proposed budget made the source tax on all categories of export subject to 1.2% source tax against 0.6% and 0.7% of the existing fiscal year. In the middle of the persisting global crisis this move is viewed as a hindrance by the export sector. However, after receiving severe criticism from the related quarters and the economic experts the government has downsized the tax rate to 0.8%. Another widely criticized tax move was to impose a 2% source tax on the payment of mobile phone bill and pre-paid account recharges adversely affecting the low income group. This proposal was also withdrawn in the Finance Bill. However, the Bill kept the package Value-added Tax (VAT) system in operation for fiscal year 2012-13 with an increase in the amount of minimum package VAT. Businesses having annual turnover up to Tk7m million can enjoy the package VAT system. The Finance Bill has also withdrawn the proposed 10% tax at source for premiums in case of life insurance and introduced slab in the interest income of non-TIN holding depositors.

The proposed budget has also withdrawn the VAT and tax from imported motor cycles and refrigerators which could prove to be a massive blow to the local manufacturers of these two booming industries.

However there were some commendable tax measures as well, which included tax-free institutional and individual donation if maximum Tk80m and Tk10m respectively in the fund created under the Prime Minister's Education Assistance Trust Fund Act, 2011 and permission to enjoy Tax Holiday of 5-7 years to industries producing cholesterol-free rice ban oil from husk of paddy. Another commendable move was to bring in the IGW Service providers within the tax bracket. According the market insiders, Bangladesh used to lose Tk300m revenue each day for illegal telephony. By providing license to the service providers and bringing them to the tax net the country would be able to tap a considerable amount of revenue. However, since most of the newly licensed operators are yet to initiate their operations so the input of this move might be minimal for the next fiscal year. Moreover, all transactions (apart from purchasing raw materials) worth above Tk50,000 should be mandatorily executed through banking channel, according to the tax enclosure. It is another good move to bring in transparency in to transactions.

Black money whitening black cats

The incumbent government once again finds itself in the middle of controversy and widespread criticism following its disputed decision to allow whitening of undeclared income in all sectors through voluntary disclosure. According to the 2012-13 budget proposal a tax evader will be charged normal tax rates on undisclosed money in accordance with respective slabs from 10% to maximum 25% with additional penal tax of 10% for each year on the basis of the holding period of undisclosed money. Moreover the option of investment of undisclosed income at a uniform rate of 10% in stock market and treasury and infrastructure bonds remains unchanged since its inclusion in fiscal year 2011-12 budget. The Finance Act-2012 incorporated two conditions to allow only legally earned money for the purpose and to check the entry of money that was earned through criminal activities to the formal economic activities. According to the finance ministry report headed "*The Size of Underground Economy of Bangladesh – an Econometrics Analysis"*', the size of the underground economy is estimated to be in the region of 42% to 82% of the country's GDP which the government is keen to tap in. The blatant act of endorsing amnesty to tax dodgers has been conveniently cited as a measure of preventing money laundering and boosting investment by channeling out stacked up funds in the underground economy. Undeclared income has enjoyed preferential treatment since 1975 mocking honest tax payers; however such ploys have seldom benefitted the country's economy. According to National Board of Revenue (NBR) records since 1975, only Tk129.96b has been whitened and Tk13.7b has been collected in taxes. In FY2009-10, some 1,923 taxpayers declared Tk9.22b undeclared money and paid Tk1.21b in tax. Critics believe this pro-dodger stance is to assist the initiators of recently approved nine new banks who are mostly ruling elites. These sponsors are required to put up about Tk36b in capital tax-paid income.

Defused bombshell for stock market

	FY11	FY12				
	30-Jun	28-Jun	∆%	High	Low	Biggest Plunge
DGEN	6117.23	4572.88	-25.25%	6710.53	3616.24	-308.13
				24-Jul-11	6-Feb-12	27-Nov-11
Trade Volume (Tk in Bil)	9.55	3.00	-68.58%	19.58	1.19	-5.26
				24-Jul-11	21-Jun-12	17-Jul-11
Daily Avg. Turnover (Tk in Bil)	13.58	4.93	-63.71%			
Market Cap (Tk in Bil)	2,853.89	2,491.61	-12.69%	3,135.13	2,039.14	-121.12
				24-Jul-11	6-Feb-12	27-Nov-11

The budget did not offer any new reprieve for the capital market other than limited tax exemption on dividend income. There was no accounting or guidance regarding the implementation of the stock market stimulus package in the original budget. Later in the last week of the fiscal year, the securities regulator approved 20% initial public offering quota facility between July 2012 to June 2014 along with 50% waiver on interest on margin loans to compensate around 0.93m small investors who were affected in the stock market debacle. However, the 10% tax rebate measure offering 20% of the paid-up the companies in primary market was a smart move to enhance the market depth. But there could have been some policy directions on offloading shares of state-owned enterprises as well.

The offer to reduce the income tax for merchant banks by 5 percentage points to 37.5% triggered confusion. Merchant bankers used to belong to the 37.5% tax net until FY2011-12. Very recently National Board of Revenue (NBR) has put these institutions in the 42.5% tax bracket along with the other Non-Bank Financial Institutions (NBFIs) and Bangladesh Bank has also specified them as NBFIs. In absence of any direction the merchant bankers has accounted the additional tax expense in the deferred tax account. So unless the ambiguity regarding this issue is elucidated significance of the tax move is undecided. On the other hand a number of merchant banks could not book profit during the fiscal year. For them the change in tax rate provides no incentive. However, the related quarters has also drawn government's attention on double taxation of the merchant banks which are subsidiaries of big parent companies.

The reform measures of demutualization, formation of a clearing and settlement company, financial reporting act, committed in the previous budget were reiterated. Due to foot-dragging of the respective authorities in enacting the "Financial Reporting Act", it is now due for the next parliament session. Initiation monitoring and surveillance system of the Securities and Exchange Commission has expired deadline in April 2012. Also its' cost has increased, and the new deadline of the project is FY2012-13. The much required submission of Tax Identification Numbers for all beneficiary owner accounts should be made mandatory. In short no firm measures were taken to improve market competence. But, conversely the excess of undisclosed income is legal for one more year, despite knowing this creates opportunity for speculative trading within the market. Furthermore, the fund that might be diverted to the stock market due to imposition of 15% source tax (was 10% earlier) on income of non TIN-holder depositors might not be big enough to counterbalance the fresh pinch of adverse affect on liquidity for the high public borrowing. The fresh fiscal stances and the previous facilities (which have been made unchanged); do not seem bold enough to craft noteworthy impact on the market.

Items to get costlier

- Cigarettes and cigarettes paper, because of enhanced value slab and supplementary duty hike
- Imported air conditioner, refrigerators, pedestal & ceiling fans, due to increased tax burden.
- All imported vehicles sees rise in supplementary duty
- Crude palm oil to be costlier, VAT increased 15% from 10%, customs duty 12% from 0%.
- Imported fish, vegetables, fresh, juices, fruits, ice cream, edible rice, mineral water to be costlier.
- Construction materials; specific duty on three major construction items including cement clinker has been increased.
- Imported tiles & crockery, as supplementary duty hiked 45% to 60%
- All types of imported glasses, ceramic tableware, ceramic flags, tubes, pipes, paper board, melamine and resins to undergo increased custom duty
- Railway sleepers slapped with enhanced import duty, 5% to 12%
- Surgical gloves, mittens and mitts, paperboard for mechanical and chemical process, artificial filament tow, artificial flowers, and foliage to face increased supplementary duty
- Wheeled toys, dolls and playing cards; increased supplementary duty to be charged

Items to get cheaper

- Sunflower oil total tax burden reduced to 16% from 38%
- Import duty for capital machineries of shipbuilding industry reduced from 12% to 5% and VAT fully waived.
- Import duty waiver to be enjoyed by the locally produced refrigerators and motor cycles
- A raft of tax benefits can help ease the prices of 46 essential items and machineries of pharmaceutical industries
- Customs duty on LED tube light reduced from 25% to 12%
- Specific duty waiver on imported equipments of ICT sector including multimedia projector, flash drive, flash card, SD card, server rack
- Import duty on safety glass, brake shoe / brake pad of public transport and Import duty on dry mixed ingredients of food preparation and soya protein-based food reduced from existing 25% to 12%
- Customs duty on fly ash, selenium, red lead oxide, copper sodium silicon fluoride, scaling and other waste from the manufacture of iron or steel reduced from 12% to 5%
- Import duty on capital machinery slashed from 12% and 25% to 3%
- Duty waived from 1% to 0% on Effluent Treatment Plant (ETP) for export oriented industries
- Custom duty on particle board for export oriented industries reduced from 25% to 12% whereas supplementary duty fully waived
- Customs duty on flat-rolled products of iron or non-alloy steel of a width of 600mm or more reduced f to 12%

Vague vision with high ambition

The proposed national budget appears to be less creative and highly ambitious citing the targets of GDP growth, revenue, inflation, foreign aid and ADP. Moreover, it's indiscreet deficit financing target challenges the economic discipline. Unfortunately, despite right diagnosis of the downside issues none of them were appropriately accommodated in the budget. Neither there were any safeguard for the emerging challenges nor any specific plan to stabilize the financial sector. Silence on some crucial issues like utilization of the IMF loan, cost-benefit of providing India transit through Bangladesh, licensing new banks were frustrating at the least. Implementation of the budget, that seems over optimistic at instances, would have to straggle and therefore undergo adjustments for sure. The budget was more focused towards fulfilling the commitments to IMF and revenue generation, while avoided attention to contemporary and social issues. Meanwhile, the triumph of black money continues for yet another year by surrendering the ethical grounds.

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