B A N G L A D E S H

National Budget 2011-12

30 June 2011

Budget Highlights

- Budget size Tk1635.89b ⬆ 23.77%
- Budget deficit Tk452.04b ⬆ 14.96%
- Revenue expenditure Tk1029.03b ⬆ 26.28%
- Revenue collection target Tk1183.85b ⬆ 27.51%
- Annual Development Program Tk460b ⬆ 19.48%
- Projected GDP growth 7% ⬆ 0.4% points
- Projected Inflation 7.5% ⬆ 0.5% points

Bloated budget with implementation flip fears

The National Budget for the fiscal year 2011-2012 that was presented in the parliament on June 09, 2011 has been passed without any major alterations. It tends to set sight well beyond the next fiscal year, primarily to achieve the Millennium Development Goals of poverty reduction by one-half within the year 2015 and high-growth trajectory of 7% in fiscal 2011-12 and the rate rising further to 8% by fiscal 2014-15, with inflationary pressure contained at 7.5% in the next fiscal year and further down to 5% in the medium term. The vision of 'Digital Bangladesh' also has not been forgotten. Those are, however, lofty wishes; implementation of the same would take quite a bit of investment and time.

Agriculture production and exports have posted a more than fair performance in the outgoing fiscal year but depression in the financial sector, including the money & capital markets, and continuing high inflation rates stand as hindrance in a sustainable economic growth. Decelerated growths in human resources & manpower export and remittance earning as well as decline in Foreign Direct Investment (FDI) and foreign aid inflow have created pressure on the Balance of Payment (BoP) situation. According to government data, point-to-point inflation rate was recorded at 10.67% in April 2011, with food inflation standing at 14.36%. Other agencies, however, suspect inflation is to be at a higher level than being officially acknowledged. In the developed world, budget do normally bring some relief to the people in general, while in the developing nations like Bangladesh, it does hardly bring any good news in reality.

The budget deficit has been projected at Tk452.04b of which only 29% will be financed from external sources while 60.19% will be financed from domestic sources. It includes an estimation of Tk189.57b borrowing form the banking system and Tk82.51b from the non-banking system; while estimation for foreign source contribution is Tk130b.

As the Annual Development Program (ADP) has been targeted at Tk460b, it seems, the government has deliberately decided not to take lessons from the past and followed the usual path of presenting an ADP greater in size than that of the previous year. The original ADP for the last fiscal year was worth Tk385b. But because of poor rate of implementation, it had to be downsized to Tk351.30b. It is most unlikely that the revised target would also not be implemented fully.

The budget, in sum, is overtly ambitious, both in the context of resources and implementation capacity. It aims at mopping up substantial amount of resources and implementing quite an ambitious ADP. However, if the administration is honestly & truly committed to what has been said in the budget, some positive results can be expected.

BUDGET AT A GLANCE : FY 2011-2012

Taka in billion

	Budget 2011-12	Revised 2010-11	Budget 2010-11
Revenue			
NBR Tax Revenue	918.70	756	725.9
Non-NBR Tax Revenue	39.15	34.52	34.52
Non-Tax Revenue	226	161.35	168.05
Total Revenue	1233.23	994.11	976.56
Expenditure			
Non Dev. Rev. Exp.	878.51	771.03	752.30
Non-Dev. Capital Exp.	150.52	60.74	105.56
ADP	460	358.8	385
Net Outlay for Food Operation	6.31	3.51	2.41
Structural adjustment	0.00	1.50	1.50
Non-ADP FFW	12.76	12.94	11.94
Dev. Projects Financed from Rev.	13.31	10.11	14.98
Net Loans & Advances	94.13	67.18	32.23
Non-ADP Project	20.35	14.3	15.78
Total Expenditure	1635.89	1300.11	1321.7
Net Deficit	-452.04	-348.24	-393.23
Deficit as a % of GDP	-5.00	-4.40	-5.00
Financing			
Net Foreign Borrowing	130.58	57.83	108.34
Foreign Grants	186.85	109.2	159.68
Domestic Borrowing	272.08	278.17	236.8

Considering a rising trend consumers are unlikely to see any immediate respite from the rising inflation mainly due to soaring global inflation and increased import costs. Spiraling fuel and energy prices and fallout from higher government spending are also likely to push inflation higher. The major concern of the citizens at large at this moment is how to meet the living expenditure with limited budget as because the recent price spiral went beyond any plausible apprehension. The budget proposes reduction of tariff on some essential items. However, past experience indicate lack of control over the market does not ensure reduction of prices on those items in most instances.

With half of its tenure now behind, it is about time to take stock how so far the government fulfilled its scores of electoral promises and addressed the pressing economic issues in one of the most difficult economic situations and analyze how it would like to take the country forward in the remainder of its tenure. After quite a long respite pressure is now increasingly mounting on the reserves and balance of payments, giving rise to concerns for further tensions in the economy. Emphasis on social spending and financial inclusion is also of paramount importance. Reviving investor confidence and stock market sentiment, badly hurt by the weak regulations and policy issues, is also high on the expectations list.

Ambitious ADP on poor implementation record

Even though the ADP for the outgoing fiscal year had to be slashed, apparently for sluggish implementation, the next years' ADP has been targeted at Tk460b, accounting for 31% of total public expenditure. The government plans to finance Tk273.15b or 59% of the next ADP funds from local sources and the remaining Tk186.85b or 41% will come from external sources.

The newly approved ADP has provided highest allocation to the agriculture, water resources and rural development sectors as it received Tk85.12b or 18.50% of the funds of the total outlay. The second largest allocation has been made to the power, oil and natural resources sector as it has got Tk82.86b or 18% of the total fund. The impoverished transport sector is in the third position with Tk77.50b in fund or 16.87% of the total ADP. Besides, the education and spiritual sector has taken the fourth slot with 13.31% of the allocations while the infrastructure planning, water supply and housing sector received 12.60% and the health, nutrition, population and family welfare sector got 8.57% of total outlay.

Of the 1,039 projects included in the new development program, only 77 are new and the rest ongoing. Meanwhile, some projects envisioned under the past two year's ADP, including the much vaunted Public-Private Partnership (PPP) schemes bearing zero initiation, seem to have not falling from grace as the government has nevertheless chosen to persist with those. An outlay of Tk30b has been earmarked for possible projects under PPP in the coming fiscal. In the past, lack of interest and synchronization in project implementation has undermined progress in some such sectors.

Allocation and implementation of ADP has always been a challenge for all governments. There is a need to not only control the volume of revenue expenditure but also to ensure the quality of the expenditures. Therefore, selection of demand driven projects and their effective implementation are the basic requirements for better management of the public expenditure programs.

Audacious target, hostile environment

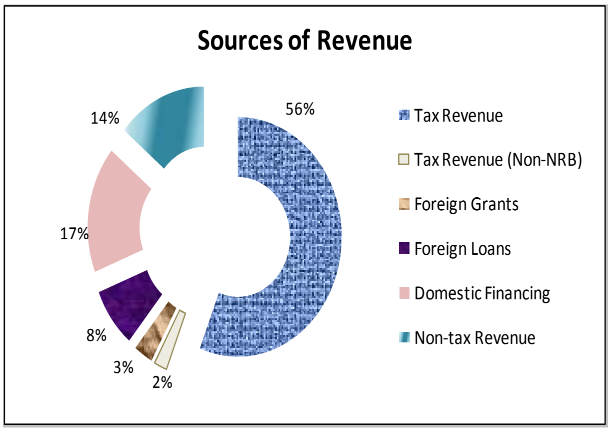
In the FY2009-10 Gross Domestic Product (GDP) grew by 6.1% and the provisional growth estimate (6.7%) made by the Bangladesh Bureau of Statistics (BBS) for the outgoing fiscal year (FY2010-11) might have encouraged the government to hope for more in the next fiscal year as it projected a GDP growth of 7% on the budget for the upcoming fiscal year. The target of achieving GDP growth at 7% in the next fiscal year will require the capacity to manage internal as well as absorb external shocks. In fiscal 2009 and 2010, the economy grew by 5.7% and 5.8% respectively and between 2006 and 2008, the country clocked over 6% growth, according to Bangladesh Economic Review. Meanwhile, multilateral lenders like the World Bank and Asian Development Bank say the size of Bangladesh economy will grow by 6.2-6.3% in the passing year, widening the scope for increased job opportunities, income and purchasing capacity.

There is however no distinct directions on the proposed budget documents as to how to attain the targeted GDP growth. The private sector has a major contribution to the GDP growth, but there is no direction in the budget that may encourage them to invest in the quantum required to achieve such a hefty growth target, given the ongoing power & energy crisis aggravated by recent credit crunch in the banking system. GDP growth rate can be augmented by increased revenue collection and quality public expenditure, facilitating private sector investment and increasing supply of credit to the private sector. The government has to increase its historically low revenue-GDP ratio through an active revenue collection drive. In doing so the challenge is not only to increase the number of tax payers, but also to take a number of encouraging and augmenting initiatives.

However, economy faces some challenges - inflation, liquidity dearth in banks and fear of a negative impact of low remittances amid ongoing crisis in the Middle East and North African countries. As a whole the external balance sheet e.g. the Balance of Payment (BoP) is under stress. Rising inflation, led by food prices, has already put increased strains on the household budgets, eroding the gains in people's purchasing capacity. The prospects of a rapid boost in investment and economic activities are plagued by the ongoing power and energy crunch, weak roads and port performances.

Lofty revenue goals from thinning pockets

The revenue target for the next fiscal year has been set at Tk1183.85b, which would constitute 13.2% of GDP. Of this amount, the National Board of Revenue (NBR) has been targeted at Tk918.70 (10.2% of GDP) and non-tax and non-NBR receipts have been estimated at Tk226b (2.5% of GDP) and Tk39.15b (0.4% of GDP) respectively. Historically the NBR hasn't live up to the target on every occasion previously but has recently been successful in augmenting taxes other than direct taxes including income tax at desired levels. It is to be seen how the NBR performs in a crunch time. Much of the success in attaining the projected growth rate would hinge on the performance of the revenue collector.



The revenue projection in case of income tax for the next fiscal is Tk275.61b, up by Tk65.56b from that of the original budget for the outgoing fiscal year. The earning from VAT has been projected at Tk343.04b, up by Tk72.12b that from the original budget for the current fiscal and Tk126.34b against import duty. Most of the tax revenue will be collected from VAT (37.3%) and income tax (30%). But the concern is that only as low as less than 1 percentage of the 160 million or so population falls in the category of taxpayers. Moreover, in a bid to provide relief to the individual taxpayers, the minimum tax thresholds and slabs have been revised upward from Tk165,000 to Tk180,000 from next year, though with the withdrawal of investment allowance exemptions, in fact individual tax payers would in all likelihood be paying more in taxes than before.

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No quick let-up in heating inflation

One of the major economic challenges in the FY2011-12 will be controlling the high inflationary trend in the back-drop of high prices of essential commodities including food grains at the local as well as international markets. The government will have to undertake special measures to increase the production of crops through ensuring availability of quality inputs (seed, fertilizer) and subsidies to the farmers. Reduction of various duties and tariffs on some commodities may be necessary to ensure affordable supplies. Another major challenge for the government is to control market system (and syndication) through effective monitoring and supervision.

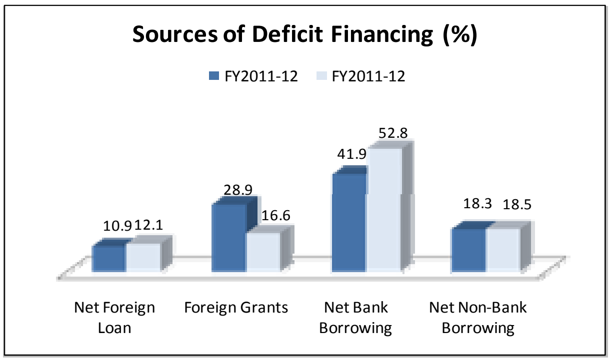
Year	Rate of Inflation
2004-05	7.35%
2005-06	7.54%
2006-07	9.20%
2007-08	10.04%
2008-09	2.25%
2009-10	8.70%

The country is experiencing an inflationary pressure mainly manifested through food inflation caused by soaring oil and food prices, weakening foreign exchange reserves, and high expansion of credit. In such an environment projected inflation has been assumed at a surprisingly low level of 7.5% for the FY2011-2012. As per government claims, average inflation in fiscal 2009-10 was 7.3%. On a point-to- point basis it went up to 10.7% in April of 2011. Growing inflationary pressure will be the biggest challenge for the government to achieve the projected 7% GDP growth.

In the present context, taming the inflationary pressure should obviously be of prime concern for the government. Past experiences suggest that a section of profit mongering and dishonest traders raise the prices of essential commodities, much ahead of the budget. On many occasions, tax and duties were cut or withdrawn but there was no reflection of such fiscal adjustments in the prices at the local market.

Yarning deficit may crack knuckles

In the proposed budget for fiscal 2011-12, total revenue has been estimated at Tk1183.85b as against an expenditure of Tk1635.89b leaving a deficit of Tk452.04b or 5% of the GDP. In the last two budgets the deficit was also projected at 5% of GDP but owing to failure in ADP implementation it could be sustained only at a lower level as ADP had to be slashed in the routine revised budgets.



However, with increased outlays over the years the amount in absolute terms has increased substantially from year to year. To finance this deficit the government is likely to borrow or seek aid & grants for Tk130.58b from foreign sources and borrow Tk272.08b from internal sources of which Tk189.57b is set to be arranged from the banking system with serious possibilities of crowding out the private sector.

Of the various means through which the government borrows funds from the public, issuing savings instruments is a popular one. In the FY2009-10 the government net borrowing from such sources was Tk115.90b up by Tk79.57b than the amount borrowed in the FY2008-09, according to the National Savings Directorate (NSD) statistics. In the FY2010-11 budget the government reduced interest rates on different savings instruments by 1.5 to 2 percentage points and downsized the investment ceiling from July 01, 2010. The maximum interest rate was re-fixed at 11% down from 12.50%. At the same time, budget 2010-11 imposed 10% tax on interest of savings tools except the Family Savings Certificate, Pensioners' Savings Certificate and Wage Earners' Development Bond (WEDB). Newly imposed tax measures and capital market's booming growth in 2010 attracted a number of investors to divert their funds to the stock market. After the capital market crash such funds are now thought to have been parked with the banking sector also due to higher deposit rates. According to the data of NSD, sales of savings instruments stood at Tk25.05b in the Jul-Apr period of the FY2010-11 against Tk94.67b of the corresponding period of the last fiscal year. The drastic fall in sales of sovereign instruments forced the government to borrow more from the banking system. Net borrowing stood at Tk651.43b from Tk479.82b on the corresponding date of the previous fiscal. Apparently, the private sector started facing trouble in obtaining required bank credit partly following the increased government borrowing.

Bowing to criticism from own party stalwarts, the Finance Minister at the fag end of discussions in the Parliament declared reduction of tax at source on interest income from saving instruments to 5% only from the existing 10%. However, all such instruments would be taxed from now on without any exemption that was hitherto enjoyed on some. Additionally, the government has also decided to pay 'Social Security Premium' as a form of subsidy at rates between 0.38-1.07 percentage points on some saving instruments, without increasing the underling interest rates, in order to compensate small investors and attract renewed interest on the dwindling new net sales of such form of borrowing tools.

Currently the banks are adversely affected by persisting and troubling liquidity crunch that propped up since the middle of the outgoing financial year with no signs of respite as the banks are still in a rat race to secure deposits to match up strained asset & liabilities triggered with the raising of Central Bank prime rates, increase in Cash Reserve Ratio (CRR) by 0.50 percentage point and the subsequent stock market crash that caught most banks and financial institutions off-guard and overexposed. The proposed budget sets a target to finance the deficit by collecting 60.19% from domestic sources that in turn might trigger more inflation. The remaining 39.8% would be met through foreign financing. In the FY2010-11 gross foreign aid requirement was $3.3b of which only $1.4b was received during Jul-Apr period of FY2010-11, therefore, just like the other years this is a very challenging target for the government for the coming year too.

Ironically, comparing the size of the proposed ADP and the estimated budget deficit it would appear that without borrowing any of the development programs could be undertaken in the coming fiscal year.

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Monetary policy implications lacked co-ordination

Bangladesh is encountering severe macro economic challenges since the second quarter of FY2010-11. To stabilize the economy, firm fiscal guidelines that synchronize with the monetary policy statements would have been helpful. Bangladesh Bank (BB) has adopted a contractionary monetary policy that pursues strong support for credit disbursement in productive sectors but discourages flow to unproductive sectors. Private sector credit growth target was set at 16% this fiscal year but in reality credit grew by 29.1%. Broad money target for the period was fixed at 15.2%, reserve money at 13.0% while domestic credit at 17.9%. On the contrary, broad money increased to 22.2% in November 2010, while reserve money stood at 19.4% and domestic credit at 24.2% raising red flags.

To mop up the excess liquidity from the banking system, BB in December 2010 raised the Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR) of commercial banks by 0.5 percentage points each to 6% to 19% respectively. This triggered a sudden liquidity crunch in the overall financial sector making it unstable; call money rate went up as high as 190%. Meanwhile, BB directed the conventional banks to cut down their CDR to 85%, while Islamic banks to cut it to 90% by June 30, 2011. To mobilize deposit desperate banks hiked the deposit rates and enter in severe competition to enlist clients. However, later on BB lifted the existing 13% cap on lending rates to ease liquidity condition of the banks as well as succumbing to grumblings from the International Monetary Fund (IMF). Meanwhile, the yield or coupon rate of 15-Year government treasury bonds has been increased from 9.20% to 9.30% on March 08, 2011. Since February, 2010 BB adjusted repo and reverse repo rates thrice and finally fixed it at 6.75% and 4.75% respectively revising both the rates upwards by 0.5 points. But the hike in interest rates would shrink the credit opportunities for the private sector. At the backdrop of limited private sector credit growth and money supply target along with higher government domestic borrowing intention, private sector borrowing might be crowded out, hampering the projected GDP growth. Also empirically it has been seen that a hike in interest rates has a boomerang effect on inflation. A liquidity crunch is already lingering in the economy, and tightening monitory policy along with high level of government borrowing and lower purchasing power at this moment might weaken the situation.

BoP breath with exports lifeline

The external balance sheet of Bangladesh is under stress since December 2010. Widening disparity in composition of export-import created $6430m trade deficit in the first 10 months of FY2010-11 that is markedly (81.24%) higher than the $4885m deficit figure of the corresponding period of FY2009-10. Diminishing foreign loan and grant aggravated a 31.63% shrink in the current account balance to $641m. Ultimately the Balance of Payment (BoP) statement constituted total deficit of $502m during Jul-Apr period of FY2010-11. Visibly one of the major challenges for the upcoming fiscal year is to take the BoP to the positive territory, but the budget provides no such guideline for it. According to estimations of think-tank Center for Policy Dialogue (CPD), the trade deficit is heading towards a massive $8b plus figure with a record of such dimension for the first time.

Amid this stressful situation of BoP, export sector came up with the required life support. For the first time of the history of Bangladesh, total export crossed the US$20b milestone touching $20.54b by May 2011 as against $16.2b during the whole the earlier fiscal year. It posted massive growth of 41.61% during the first eleven months of the FY2010-11. Export receipts during this period exceeded target by $2.38b.

Period	Export (In million US$)
2006-07	12178
2007-08	14111
2008-09	15565
2009-10	16205
2010-11 (*July-May)	20538

Exports have attained a new level of diversification in terms of both product and destination. The prime foreign-exchange earner, readymade garment, earned $15.95b despite global economic meltdown, labor unrest and the crippling energy and power crisis. On the other hand, jute has emerged as another billion dollar industry as earnings from jute and jute goods in the Jul-May of FY2010-11 amounted to $1.03b, growing by 42.04% from that of the earlier year. The emergence of the long lost glory of the jute sector ensures more local value addition than any other sectors. Either of the home textiles or leather industries also have all the potentials to become the third billion-dollar export industry in the near future.

However, growth rate of import had a neck-to-neck pace with the export growth during the period. During the first 10 months (Jul-Apr) of FY2010-11 exports were for $18.31b. But imports also recorded a significant growth of 41.43% straining the foreign exchange reserve position and widening the trade deficit. The total import of Jul-Apr period was $27.45b against $19.41b during the same period of the last year. The towering global commodity prices along with higher demand for imported commodities fueled this accelerated growth in terms of value. Import of food grains was 4.6 metric ton during Jul-Apr of FY2010-11 against 2.3 metric ton during the corresponding period of the previous fiscal. Depreciated local currency has also made imports costlier as during the last half of the fiscal year the Taka depreciated by about 5% against the US Dollar.

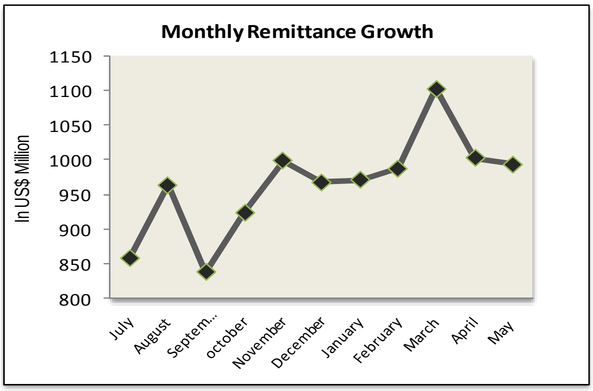
Period	Import (In million US$)
2006-07	17157
2007-08	21629
2008-09	22507
2009-10	23738
2010-11(July-April)	24753

Considering the relative importance of the export sector, it always deserved more attention and budgetary support which were on the scanner on the budget proposal. Tax holiday facility that the garments and textiles industry has been enjoying was destined to expire on June 30, 2011 but originally there was no proposal to extend it. Moreover, the budget papers proposed a 1.5% advance income tax on export earnings at source with a massive enhancement from existing 0.40% or o.50%.

However, with hue and cry from the affected sectors and the textile industry leaders threatening a complete shut-down if the enhancements were not reviewed downwards, the Finance Minister finally relented by extending the tax holiday status up to 2013 including that of the poultry & fisheries sector. He also announced re-fixing the advance income tax on export earnings at source at 0.6% for the ready made garments and 0.7% for other sectors.

Sapping remittance squeeze reserves

Bangladesh had a rather smooth sailing in terms of inward remittance flow from expatriate workers in spite of global recessionary pressures. Bracketed among the highest remittance recipients of the world, Bangladesh ranked 12th in 2008, 8th in 2009 and 7th in 2010. During the fiscal year 2009-10, the amount of inward remittance stood at $10.99b which was 13.40% higher than that of the corresponding period of the last fiscal. The total remittance received during Jul-Mar period of fiscal 2010-11 stood at US$8.60b, indexing a meager 3.97% growth over the corresponding period of the previous fiscal. After being almost stagnant for a couple of months, the slight growth is attributed to the Middle East turmoil, as expatriates found it safer to remit their earnings rather than keeping it in the banks overseas. Lessening of dependence on informal ways *(Hundi)* is another factor which worked as a catalyst behind the sustained flow.

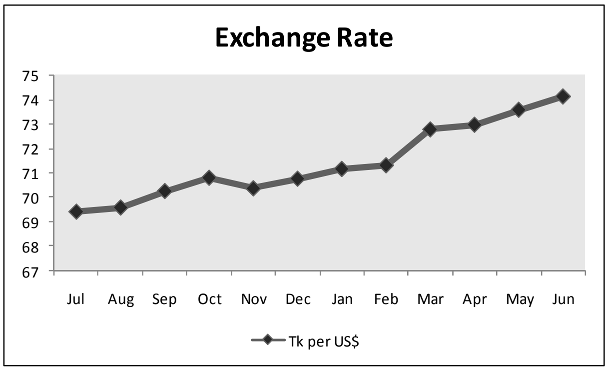


For the FY2011-12 the government has set a target to achieve $12.7b in worker's remittance. But the recent North African and Middle East political crisis left a negative impact on manpower exports and if the crisis continues it could poise a serious threat for Bangladesh economy on remittance inflow and consequently on the overall balance of payment.

The shrinking manpower export could be a big challenge in 2011, when nearly 26,000 workers had to flee form Libya alone, resulting in a huge drop in ultimate total remittance inflow. Foreign exchange earning was also adversely affected by the diminishing export of manpower, especially in Saudi Arabia & Malaysia, the two major destination of local labor. The growth target of foreign exchange reserve for FY2011-12 has been set at 11.6% which may not be achievable due to low flow of remittances & high growth in imports. The gross reserve held by the BB was $10.77b on June 30, 2011 which was $10.74b on June 30, 2010. The reserve is apparently under pressure owing to a sharp rise in imports of food grain, petroleum products and capital machinery during the second half of the fiscal year. A rather high injection of Dollars by the central bank to stabilize the foreign exchange rates and aid the banks in trouble has also deteriorated the reserve situation further.

Exchange rate on slide

As a consequence of price hike of commodities, especially food grains and other edibles, in the international market resulting in higher import bills coupled with decline in inwards remittance flow, the demand for US Dollar, the major trading currency, increased in the formal market. This has created a pressure on the exchange rate of US Dollar against the local Taka. As a result, during the Jul-Apr period of FY2010-11, the exchange rate of Taka against US Dollar depreciated by 5.1%.



The exchange rate stood at Tk74.10 per Dollar on June 30 2011, which was Tk69.44 per Dollar at June 30 2010. On March 20, 2011 it faced largest ever single day plunge against the US Dollar by 0.58% since the introduction of the Floating Exchange Rate (FER) in 2003. Six month forward is now being quoted at Tk78. Increase in commercial bank's CRR and SLR might have some impact on the situation. The prices of imported wheat, rice, pulses and chickpeas are expected to rise by 5.0-10% due to the depreciation of Taka. The devaluation of Taka acts as a catalyst in consequential hike in local prices levels of fuel, food, capital machinery and industrial raw materials. The situation may worsen further due to a rising pressure on the balance of payment, weak remittance flow and enhanced import payments.

Usually if import raises suddenly then it adversely affect the value of the local currency. Bangladesh Bank has intervened at different times to jack up the value of Taka when under pressure, in order to smooth import payment and remittance inflow. The bank has taken various steps among which selling of the green back is predominant to keep the Taka value stabilized against the US Dollar. Earlier it is on record to have bought Dollars while it was under pressure in the international markets and bought gold to secure reserves.

Hollow PPP likely again, and again

Public-Private Partnership (PPP) is touted again in the new budget and just might flunk one more time like the previous two years in absence of policy framework support and almost no takers from the private sector segment as well as any realistic measures for utilization of the sanctions and implementation of qualified projects. After being initiated in the year 2009-10 for the very first time, PPP has always been a major highlight of the national budget. But after failing to generate sufficient interest on two consecutive years; the much vaunted PPP is losing steam and euphoria. The government, nonetheless, has promised to take some serious initiatives regarding PPP with a fresh allocation of Tk30b for the next fiscal year. This allocation will raise the cumulative total fund under PPP to Tk46b; Tk16b of fund is carried forward from the previous year which remained unutilized.

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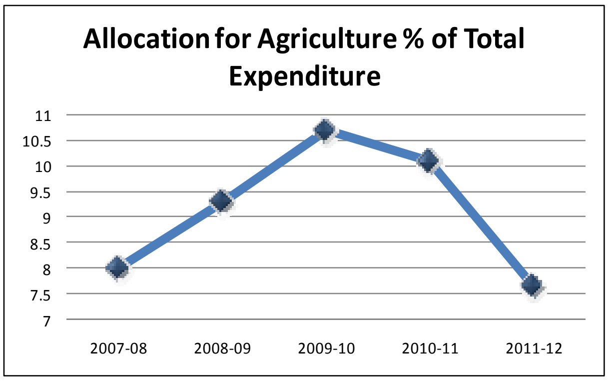
With already two terms of less-than-expected results; putting in such a substantive allocation to this initiative does not appear rational. In the meantime the government has developed new set of rules, policies and strategies for PPP implementation. The minister claimed that the PPP has been working to implement numerous projects since its initiation and so far 7 power plants with 178 MW electricity generation capacities have been constructed under PPP. Among the many initiatives promised to be initiated under PPP; only the Jatrabari-Gulisthan flyover in the capital city has seen the light of reality. To strengthen the PPP program further the government has created 'Bangladesh Infrastructure Finance Fund' as finally it took off though with a ho-hum speed.

The initiatives proposed under PPP are appreciable but like the past years it lacks proper direction in this year's budget as well. The government should prioritize the PPP tasks, identify which problem or sector needs immediate attention or immediate funding for further development. Feasibility studies and tests are required to be run for each of the sectors and projects under consideration.

Agriculture falling from grace

In the last fiscal year Bangladesh saw a healthy performance in the agriculture sector. Most of the major rice crops had bumper harvests, while other crops like potatoes & vegetables etc. also did well. Given all this, pre-budget expectations of the people were for greater fund allocation for the sector in general but surprisingly the government has proposed to reduce the agricultural subsidy by 12.19%. Tk45b has been kept as agricultural subsidy during the FY2011-12, which is 26.66% lower than revised amount of the last fiscal year budget. This move may be seen as a diminished prioritization in terms of allocation, even though the agricultural sector accounts for about 20% contribution in GDP as well as ensures food security for the growing population. The government may have to revisit the matter sooner than later.

The budget proposes to increase target of distributing Tk138b as farm loans. This particular initiative is likely to have positive impact on different agro- based and cottage industries located in the rural areas. In the current fiscal year, up to April 2011, 81.5% of agricultural credit has been disbursed against a target of Tk126b. The Central Bank been quite zealous on this particular issue with encouraging results to show.



The proposed budget envision initiation of 'Crop Insurance' scheme to be launched in the next fiscal year to provide the small and medium farmers with crop price support in the event of crop failure due to natural disasters. However, there remain doubts on implementation of agriculture insurance in absence of buying-in of the idea by the private sector enterprises. There is also no concrete pledge about crop insurance in the budget as well as no allocation for implementation of the scheme by the state sector.

There had been some interest and initiatives from the private sector to lease or rent arable land overseas, especially in neighboring Myanmar and some African countries, but it now appears increasingly farfetched with reservations from the Central Bank in capital account convertibility in view of increasing pressures on Balance of Payment (BoP) and foreign exchange reserves as well as absence of any budgetary support or incentives. Therefore, ensuring food security in a situation of increasing consumption would remain a challenge in the near future.

Meanwhile, just prior to placement of the budget in the national parliament, fertilizer prices have been increased quite abruptly and substantially by about Tk10 per kilogram at the retail level. The hike would increase cost of crop and other farm production when the government deliberately delayed usual internal procurement of paddy to dampen prices while opting for substantial import of food grains to fill-up falling stock levels owing to open market sale (OMS) at subsidized prices to rein in galloping food inflation. These actions took away some of the sheen from the otherwise merry farmers having harvested record crop production. In all indications, next year it might even be harder to put a faint smile.

Big dream on energy & power

The government has set Tk83.11b in allocation for the power and energy sector for the upcoming fiscal year. The allocation has been increased by 15% from that of the previous year. Tk82.87b is allocated under the ADP and the remaining amount is for non-development expenditures. The allocation is in line with the policy to augmenting and strengthening the dismal power supply situation in the country. The government has declared to add 6,800mw to the national grid by 2013. Presented below is the government projection of future power generation scenario:

Year	Initial Target (Megawatt)	Revised Target (Megawatt)
2011	920	2194
2012	2269	2157
2013	1675	2674
2014	1170	2323
2015	2600	2350

The ministry has claimed that the project implementation is on right track to ensure electricity to households and industry while already having 29 power plants with a capacity of 2547 mw under construction. However, the much trumpeted quick rental power projects in fact turned out not to be that quick in action as almost all have been plunged in varied form of crisis through delayed implementation and high cost. Meanwhile, industrialization efforts have been stymied as a result. All the industries are adversely affected by the lack of supply in electricity and power. Considering the present circumstances, energy and power sector have been allocated more subsidy funding ostensibly through cuts in other sectors, including agriculture. The agriculture sector got Tk12b less subsidy; while subsidy in power sector increased from Tk42b to Tk52b in the current budget. The government has promised to add 1769mw electricity to the national grid by December 2011 and

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2167mw by December 2012. But it appears to be mainly fueled by high cost petroleum products as the whole country is in the grip of severe gas crisis that would have been fodder for electricity generation and fertilizer production. On the other hand the government has failed to produce a national coal policy that would have facilitated low cost power production through use of local or imported coal. Instead the country is increasingly poised to enter an era of high cost electricity produced from diesel or furnace oil. The indication from Bangladesh Petroleum Corporation (BPC) for doubling import of petroleum products to over US$6b in the next fiscal year only validate the possible uncompetitive cost of local production regime in the days to come. The per unit price of electricity at the wholesale and retail levels are being increased with regular intervals. Petroleum and CNG prices have also been revised upwards adjusting to internal trends. These have adversely affected the transport sector which merrily transferred the cost to beleaguered passengers and consignees. There are ominous signs of a *Catch 22* situation as the continued subsidization is not sustainable. The budget however focused on the usage of alternative sources like solar power but such initiatives may not be feasible for industries and service sectors and also may not prove cost effective for urban households either. In another move to preserve and channel dwindling gas supply the government has kept shut gas guzzling fertilizer factories that is affecting the sensitive agriculture sector and has stopped pipeline supply of gas to new households. In stark contrast household pipelines are being installed in the northern regions mostly under political considerations. Lately, the Rural Electrification Board (REB) is also reported to be taking up projects to install electricity transmission lines all over the country while it now receives less than 50% of required electricity supply to existing connections. The policy dichotomy leads to wasteful resource allocation devoid of prioritization.

Social Safety Net Program (SSNP) shrinking

In 2010, 31.50% Bangladeshi used to live below the poverty line. To accelerate economic growth, there is no alternative to poverty alleviation measures. For the fiscal year 2011-2012, the amount allocated under SSNP is Tk225.56b or 13.79% of the national budget. Budget FY2010-11 endowed Tk194.97b allocation for SSNPs which was later revised to Tk208.93b. The allocation was 2.64% of GDP of FY2010-11 which is now only 2.51%. However since the number of beneficiaries has been cut down by 4m to 76.8m for the next fiscal, the effectiveness of SSNP allocation is somewhat unconvincing. In the proposed budget Tk8.91b is allotted for Old Age Allowance and Tk3.31b under Widow & Divorced and the Distressed Women Allowance Scheme. Major SSNPs are employment generation program 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), gratuitous relief, food for work, allowance for the financially insolvent disabled, etc. But the execution lies in accurate identification of genuine and deserving recipient and proper monitoring of the scheme. Interestingly, micro-credit, a very effective program for social empowerment, has been neglected, as the budget has trimmed down coverage vicinity of this program.

Microcredit Program: Social empowerment	Coverage person in mil		Budget (Tk in mil)	
	Revised 2010-11	Budget 2011-12	Revised 2010-11	Budget 2011-12
Social Development Foundation	-	-	2140	1184.4
Fund for welfare of acid burnt & disabled	0.08	0.04	20	15
Stipend for dropout students	0.657	0.5	1220	1045
National nutrition programs	0.218	0.183	2150	1810
Fundamental education for urban working children	0.136	0.061	510	230
Vulnerable Group Development for ultra poor (women)	0.047	0.012	582	21.2

Education

The proposed national budget for FY2011-12 provides for a 12.1% or Tk198.06b allocation for the education sector. Last year this allocation was Tk179.59b. A chunk of Tk10b has been embarked for *Prime Minister's Education Assistance Foundation* to provide full scholarship and full free studentship to meritorious students from standard six to undergraduate level. Bangladesh has achieved notable gender parity in the primary and secondary levels of education in the rural area owing to government's ongoing incentives as 40% students in the all *upazila* (sub-district) level are currently under coverage. The government will continue providing stipends amounting Tk40.35b at primary school level until 2013. To remove regional disparity in education system, steps has been taken for infrastructural modernization. However, due to lack of adequate monitoring and pervading corruption, the desired results could not be achieved at earlier instances. A prudent proposal has been made to re-examine Monthly Payment Order (MPO) system to avoid the pervasive exploitation in this regard.

Health & family welfare

The budget allocates Tk88.69bb for the health care system, which is 5.4% of the total budget outlay. The proposed budget has slashed funding for family planning programs by Tk13m to Tk644m. It also plans to employ alternative health care practitioners at different districts and *upazila* levels. But no clear direction has been mentioned on the budget in this regard. Non-prioritization of family planning delivery service may impact on the population growth curve which has been slowly but surely rising during past years with severe consequences on food security and employment scenario.

Food security and employment

To counter the increasing population problem the government undertook some food security program in FY2009-10 which has been continuing. Under this program the government has enhanced the storage capacity of old as well as new godowns and also expanded the Open Market Sales (OMS) operation to ensure low priced food grains for the poor. FY2011-12 allocation for Food Security Program is 4.3% of the total budget; 31.5% of total SSN budget and 0.8% as share of GDP which was 5.56% of total budget, 35% of SSN budget and 0.92% as share of GDP in FY2010-11 revised budget. This reduction of allotment was perhaps due to assuming a fall in inflation and food price in FY2011-12. Another effort to reduce the poverty level has been proposed in the budget which is the 80 day employment program known as "Employment Generation for the Ultra-Poor' that will employ around 2.73m people in the lean season. The allocation for Employment Generation Plan is Tk15.99b in the proposed budget. As Bangladesh is facing on an average 1.56 % high growth rate in population, the above measures would need to be revised upwards and broadened to counter emerging food and unemployment problems.

SoEs languish as usual

The losses recorded by the State owned Enterprises (SoEs) in the FY2010-11 amounted to Tk69.35b. After making record losses since FY2001-02 these SoEs made profits of Tk32.82b and Tk27.76b in the FY2008-09 and FY2009-10 respectively. The overall losses made by the public entities has been attributed to the rising trend of losses incurred by the Power Development Board (PDB) and the Bangladesh Petroleum Corporation (BPC) along with decrease in profits made by some other organizations. PDB incurred losses of Tk47.16b in FY2010-11 and losses of BPC have been estimated at Tk72.08b. Bangladesh Sugar & Food Industries Corporation and Bangladesh Chemical Industries Corporation incurred losses of Tk1.98b and Tk3.78b in the immediate past fiscal year. Bangladesh Jute Mills Corporation (BJMC) suffered Tk169.2m losses in FY2010-11. In the next fiscal year's budget there is no indication of any reforms in these losing SoEs. On the other hand, there is also no mention of any receipt from the source of divestment of the SoEs on the budget that was declared earlier time and again to cool-off an increasingly over-heated stock market.

Real Estate is in real crisis

The real estate sector became stagnant due to non-availability of utility services and sky-rocketing prices of land; mainly in Dhaka. Sales of newly developed housing projects declined drastically in recent times. The real estate companies were also complaining on mounting bank interest on their loans that they usually take in the primary take-off phase of a project. The recent budget has not provided any tranquility other than conditional promise to resuming new electricity connections. The cost of doing business in the sector is expected to shoot up because of imposition of higher duty in cement and glassware. The source tax for registration of commercial buildings originally proposed to be raised from Tk2000 to Tk15,000/Tk20,000 per sqm. depending on different areas has since been adjusted to a lower level of Tk6,000/8,000 per sqm on protest and intense lobbying by the sector leaders. The sluggish state of housing & real estate sector has placed 1.5m worker along with 2.5m people related with this business in jeopardy. The government has allocated Tk218b in the budget for land management and housing sector. Nevertheless, the "City Area Planning & Land Use Management Act 2011" should be implemented at the earliest to streamline the private sector endeavors associated with land development for residential projects. However, there is always a risk that the price bubble in the land price followed by the stagnancy in real estate industry might end up with a thud.

Tax experimentation

Major changes

Threshold levels redefined:

Existing Tax Rates		Proposed Tax Rates	
Level of Income	***Tax Rate***	***Level of Income***	***Tax Rate***
up to Tk165,000	0%	up to Tk180,000	0%
Tk165,001-Tk440,000	10%	Tk180,001-Tk 480,000	10%
Tk440,001-Tk765,000	15%	Tk480,001-Tk8,80,000	15%
Tk765,001-Tk1,140,000	20%	Tk880,001-Tk1,180,000	20%
Above Tk11,40,000	25%	above Tk1,180,000	25%

- For the first time a 10% surcharge has been imposed on disclosed net wealth if it exceeds Tk20m.
- Withdrawal of tax exemption for parliamentarians and government officials but government is to pay the income taxes of its employees.
- Tax rate on interest income from national saving instruments reduced from 10% to 5%.
- No changes in corporate tax rates other than for listed tobacco companies reduced to 35% and for non-listed ones to 42.5% from earlier 45% for either.
- 10% tax rebate for CSR donation up to Tk80m subject to a limit of 20% of income.
- No import duty on essential food items like rice, pulse, wheat, sugar, etc.
- VAT on SIM Card of mobile phones reduced by Tk200 to Tk600.
- Rate of tax deduction at source from all export proceeds increased to 0.6% for RMG and 0.7% for others from existing 0.4% and 0.5% respectively.
- Increase to 45% (from 20%) supplementary duty on imports of all kinds of fabrics and RMG articles.
- Tax holiday's facility for the garments and textiles industry will expire on June 30, 2011. This period has been extended up to June 2013 and also to include pharmaceuticals industry, basic ingredients of electronic industry, biotechnology, compressors, boilers, computer hardware, energy efficient appliances, insecticides & pesticides, radioactive appliances industry, textile machinery and tissue grafting.

There was expectation and strong suggestions for increasing the minimum taxable income at a higher level which has been addressed on the proposed budget as purchasing power of the citizens has declined owing to double digit inflation and persisting high inflationary trends. The meager measure will bring some relief to the low-income group of the society. However, while adjusting the cascading slabs it would rather implore the relatively higher income bracket earners to pay more in taxes on certain instances than in the previous year. It was expected that the anomaly would be rectified in the final review before passage of the Finance Bill in the parliament. But that did not happen. Through introducing the new wealth tax in the name of 10% surcharge on income tax the government is expected to earn higher revenue. Attempt to bring public and private sectors employees under the same tax umbrella for the first time is also a bold step in the right direction. However, the process was protested by the public sector employees and bureaucrats and the pressures could not be deflected ultimately as the government agreed to pay the taxes on their behalf. Lowering of the tax rate on interest income from government savings tools, which was slapped only last year as an ill advised policy measure which saw erosion of interest from prospective investors, may help to increase sales of these instruments and consequent government borrowing from local sources other than the banking system. After imposing 10% tax on income from savings certificates the net sale of these tools declined drastically in FY2010-11. Government's total net borrowing from savings tools up to Q3 of FY2010-11 was only Tk26.36b, far below than the budget target of Tk74.77b.

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The redesigned tax holiday policy and increase in the tax rate on import of fabrics would have adverse impact on the RMG industry. These adjustments could have been made gradually over a longer period of time; it is opined from concerned circles. However, tax holiday facilities that have been extended to promising industries should promote diversified industrialization and reduce the dominance of RMG in export earnings. But the crunch still is the unavailability of infrastructural support including power-energy sources and supply. Belying all hypotheses regarding tax reform for the banking sector and lower adjustment of corporate tax as well as doing away with the incidence of double taxation on dividend income at the recipient level, the government kept the rate unchanged. There is nothing mush to make the corporate segment happy. However, for corporations, tax rebate on investment in Corporate Social Responsibility (CSR) is expected to serve as an encouraging incentive.

Perplexing black money paradox

Undisclosed money was allowed to enter into the stock market without questioning on payment of a nominal tax @ 10% after introduction of the provision in the national budget of FY2009-10, where the maximum tax slab is 25% for genuine and honest tax payers. According to a recent report of the Ministry of Finance, the size of the underground economy in 2010 was at least 45% of the GDP. Another report on the Global Financial Integrity showed Bangladesh exported US$34.8b illicit capital during 1990-2008, which is undoubtedly a very substantive amount. Taking advantage of the official patronization, unethical though, a hullabaloo was created centering the issue that gave a false impression of huge liquidity flow on that account which aided in creating the bubble that ultimately ended with a natural burst. Statistics of the NBR reveal that only Tk4.27b was actually whitened under the facility during the period experiencing a long bull-run. The amount is about 25% of the total daily volume of trades at the Dhaka Stock Exchange (DSE) at that time. It had no relevance other than creating artificial stock price hype that has also been attempted this year too. The black money whitening provision syndrome also engulfed the real estate sector triggering the recent price spiral in the sector. But the original budget proposal for the next fiscal year kept the avenue open for the next year only for investing in the bonds of the government initiated Bangladesh Infrastructure Finance Fund Limited (BIFFL) or Treasury Bonds subject to payment of tax at the concessionary rate of 10%. If the intention is to create a vibrant bond market, only money whitening provision may not to be enough in absence of proper planning and policy implication is also required to create an active secondary bond market. However, succumbing to intense lobbying by the bourse bosses, some section of the economist, business leaders and none other than ruling party stalwarts including the parliamentary standing committee on finance ministry, the Prime Minister herself requested the Finance Minister on the floor of the parliament to reconsider entry of black or undisclosed money in the stock market unquestioned with payment of 10% concessionary tax. Thereafter, the minister who was on record to be against any such facility had to relent in allowing the opportunity for the next two years. The prime minister also requested extending 10% rebate on IPO investment by regular tax payers. So much so of ethics and fair play.

Naught for empty stocks

The post-crash stock market was looking-up to favorable fiscal measure and budgetary provisions for a bailout.

	4-Jul-10	30-May-11	High	Low
DGEN	6217.08	5758.26	8918.51	5203.08
			5-Dec-10	28-Feb-10
Market Cap (Tk. In Bil)	2702.93	2688.10	3680.71	2413.07
			5-Dec-10	28-Feb-10
Trade volume (Tk. In Mil)	21273.25	7307.51	32495.76	2064.12
			5-Dec-10	25-Jan-11
Daily Avg. Turnover (Tk. In Mil)	14332.59			

It was widely expected that the corporate income tax rate would be rationalized downwards, especially for bank & financial institutions, as well as the incidence of double taxation on dividend income from subsidiaries would be rationalized while acceptance of the deducted tax at source as final settlement at the hand of the ultimate recipient would find favor. Unfortunately, none of the propositions were accepted by the finance minister. Yet, the proposed 10% tax rebate for listed companies paying over 20% dividends might attract the companies from the high tax-bracket to the market. Lower tax rate may also attract unlisted tobacco companies to the bourses. Otherwise, the budget grossly lacks any measures that would facilitate long-term growth of the capital market from a precarious situation.

Discounting all fears and apprehensions the proposed budget did not introduce the taunted capital gain tax on stock profits for the time being and requirement of mandatory Tax Identification Number (TIN) for all BO (Beneficiary Owners) accounts, which could have been an effective device for establishing better transparency in transactions. However, some measures and withdrawal of exemptions proposed in the budget would adversely affect the capital market and hence has been termed as untimely by the stakeholders.

Though currently there is no direct tax on the investors but the tax rate for stock exchange members on transaction volume has been proposed to be doubled to 0.10% from 0.05%. This raise will definitely increase the cost of transaction which might be passed on to the clients and consequently sap up daily transaction volumes at the bourses. The apprehended chain reaction in fact may ultimately narrow the government revenue collection from the stock market. However, higher transaction cost may act as a disincentive for short term and speculative trading. As a result, the market volatility might thankfully smooth out a bit over time.

Some of the proposals made on the budget paper could intensify the deepening disinterest and aggravate the ongoing liquidity dearth in the capital market. Withdrawal of the tax rebate facility in stock investment, enjoyed for decades, was poised to dampen interest of individual wage earners on stock investment. It is to be seen how the 10% tax rebate on IPO investment by regular tax payers ultimately works out. The exemption hitherto enjoyed by sponsor/issuer of mutual funds from earnings derived from such funds has also been withdrawn. The measure is likely to adversely affect the local mutual fund industry in a critical time of growth and evolution.

The budget proposes withdrawing of tax-free facilities to foreign investors on the capital gains from stock market. According to some reports the non-resident investors have reportedly siphoned away Tk38.77b or $531m from the capital

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market during July 2006 to January 2011. Leading up to the recent share market debacle, earning of such investors during Jul-Jan of FY-2011 from the local stock market was Tk6.11b ($84m) which were totally untaxed. Introduction of capital gain tax will guard such free flow of money as well as generate some revenue.

Addressing the shortage of fundamental shares in the market, there could have been some policy directions in the budget on offloading shares of state-owned enterprises. Though the government and especially the finance minister has time and again vaunted divestment of state-owned enterprises and stocks held in government hands through the stock exchange, the budget provides no earning estimation from such promised divestments. This puts a question mark on the level of commitment of the government in this regard on the one hand and the veracity of financial budgeting by the government on the other.

A number of measures have been proposed for financial reporting of listed companies i.e. formulation of Financial Reporting Act, establishment of Financial Reporting Council and a Clearing & Settlement Company for stock market transactions, Demutualization of the stock exchanges, amendment of the SEC Act and the Companies Act, different Rules & Regulations, including the SEC (Public Issue) Rules, 2006. These are however not necessarily fiscal measures. Nonetheless, if properly implemented, the reforms are expected to positively contribute in strengthening financial reporting and the quality of information. But there is not much to cheer up as of now.

Items to get costlier

- Cigarettes and chewing tobacco will be dearer as tax on those has been increased.
- Four-door double-cabin pick-up trucks have been slapped with tax between 30% and 500% based on engine size.
- All fabrics and ready-made garments become costlier as supplementary duty increased to 45% from 20%.
- Glass tube and float glass.

Items to get cheaper

- Tax on several industrial raw materials for making containers for compressed or liquefied gas, LP gas cylinder, LED lamps, rechargeable LED lamps, and solar lamps has been reduced.
- Tax on Effluent Treatment Plants has been reduced.
- Tax on cell phone SIM cards has been reduced to Tk600 from Tk800 so new mobile connections may become cheaper than earlier.
- Raw material for medicines.

Dreams ought to be untrue

The proposed national budget appears to be highly ambitious given the target of GDP growth and inflation as well as the size of the ADP as against the amount of deficit financing. It is thus fragile and might need a Houdini Act to bail out in the end. In an environment of contesting statistics it is hard to bridge policy plans and implementation results beleaguered with shifting priorities and political compulsions. The target of reining in average rate of inflation during FY2011-12 at 7.5% while the same is being experienced at double digits now and recording a highest GDP growth rate of 7% would be salutary. Hallelujah. However, given the improbable projection of deficit financing and quantum of foreign resources to implement the annual development plan it is quite obvious that the government will have to lean heavily on easy bank borrowing and thus crowding out the private sector in a situation of acute liquidity crunch. The amount of investment needed to reach the goal of 7% growth simply does not match as it again will have to come essentially from the private sector while the quality of public sector financing hinge on the fringe of non-starter if not outright dubious fraught with crony capitalism. In a situation of wasteful expenditure and high cost of living and production it is the ultimate consumers and tax payers that are expected to tighten belts to oil the bloated bureaucratic machine. As usual the document discussed is tall on talks and low in contents, just waiting for a fresh edition titled Supplementary Budget to be out in another 12 months in a whimper, as black money rules the rots.