TAMING CORONAVIRUS RAMPAGE

Next fiscal year's budget priorities must be aligned with the needs of the pandemic-hit economy

EYE ON BUDGET

ZAHID HUSSAIN

The coronavirus-infected economy requires dealing with the disease burden and the economic devastation caused by measures to contain the virus.

The combined supply and demand shock cannot simply be countered by expansionary macroeconomic policies. Measures to improve the quality of regulation and public service delivery are equally important.

The focus of fiscal 2020-21's budget must be to limit the damage due to shaky business and consumer confidence rooted in the fear of the virus.

Large fiscal packages are needed to expand healthcare provision, protect payroll, delay tax payment, avert unnecessary bankruptcies, shore up the financial system and help the informal sector households survive the pandemic.

We need to ramp up the capacity of the health system to deal with health risks. The physical and human capital deficits in the health system at the national and local levels are painfully evident.

Restructuring existing health-related expenditure to focus more on COVID-19-related capacity building is needed, but not at the expense of reducing the provision of non-COVID-19 care.

Fiscal policy can play a supportive role in slowing the spread of the virus.

The binding constraints are mostly technological and institutional.

The challenge is to nudge incentives of the actors, open entry points for wider collaboration and provide funding for procuring tests, tracing technology, isolation, treatment facilities, PPEs, drugs, and vaccines (when available).

The decision on the level of these existential spending must err on over rather than underbudgeting. It could be 2-3 per cent of GDP if the institutional capacity permits.

The losses suffered by the poor and the vulnerable are tremendous. A large proportion of the households don't have enough cash and food to survive.

Existing and new cash transfer programmes need to be funded to reach the affected poor and the vulnerable in the urban and rural areas.

The targeting strategy has to broaden outreach to increase the number of beneficiaries. Benefits per person also need to increase to reverse the COVID-19 impact on poverty.

Keeping businesses afloat is the other challenge. Many of the measures taken by the Bangladesh Bank (BB) and the government are in the right direction.

They are short of what is needed until both the global and the Bangladesh economy get moving.

BB is partially refinancing bank loans under directed interest rates without sharing risk.

Making this work may require increased reliance on state-owned banks because they benefit from implicit government guarantees.

Stronger governance and accountability of public banks will be needed to produce the intended results.

The crisis has exposed the administrative weaknesses in delivering fiscal support. This is glaring in the food distribution system and the delivery of financial support to businesses.

To increase the probability that those who need the support get them, the assistance package should err on the side of simplicity in regulation and delivery.

The challenge for the announced assistance packages is to achieve the best trade-off between speed and targeting.

Bangladesh has excelled in the past in doing both by forging partnerships between the state and non-state actors. A coordinated effort is not visible yet.

Assisting economic recovery amid uncertainty about the virus spread is a double-edged sword.

Its success in assisting the recovery could end up steepening the spread curve if the mitigation measures are undermined.

Focus on building resilience by investing in food security, economic diversification and education will be critical.

The United Nations has warned that coronavirus protective measures could jeopardise food security around the world.

The government must ensure that the country has enough food stock and people continue to have access.

The current food stock and hopefully a good boro harvest should not breed complacence.

Rising food export barriers and stockpiling by countries may create volatility in international food markets.

Keeping the prices of the essentials affordable through proper market intervention will be needed to ensure food security.

Agricultural activities could be affected in poultry, livestock and fisheries by the need for more than usual social distancing.

Policy support, both fiscal and regulatory, will be needed to keep functional the complex web of food producers, input supply, processing plants, transportation and internal trade.

RASHED SHUMON

COVI-19 has unmasked the economic and social risk of depending on one sector for the bulk of exports and employment. Both policies and politics get beholden to the sector.

Several industries will emerge from the pandemic. These include manufacturing, e-commerce, global services sector, health care and biotechnology, logistic services, renewable energy and agriculture.

Each of these could provide investment opportunities.

Coronavirus has brought to the fore the criticality of vibrant agriculture, agribusiness, digital economy, manufacturing, and logistics. We have to begin to take full advantage of the tools, skills and new technologies.

We need enhanced skill development efforts in the post-COVID recovery period.

Before the outbreak of the pandemic, Bangladesh was already in a learning crisis as evidenced by high numbers of learning poverty.

The education system is facing a new storm with school closures impacting millions of children and youth. The closure coincided with a key assessment period.

COVID-19 spread may happen in waves. Preparedness is crucial. This includes introducing protocols for screenings in schools, rolling out hygiene practice campaigns, imposing school closures, offering distance learning and using closed schools for emergency purposes.

All these have budgetary implications that will need accommodation.

Educational administrators and policymakers need fiscal support to introduce new learning modes that can reach everyone, to prepare for emergencies and to make the system more resilient.

Supporting aggregate demand demands creative thinking. This is not a normal slowdown.

Stimulating demand above the constrained capacity may lead to rationing and inflation rather than an increase in activity.

The concern about supply constraints is not a major issue if much of the spending goes toward redistributive items such as buying food, making utility, rent and debt repayments.

Even if there are some rationing and inflation, the outcome will still be desirable if poorer households have enough to eat.

Boosting aggregate demand beyond disaster relief is not wise if conditions are not right.

When confidence returns locally and globally, there will be pent-up demand from consumers who postponed buying nonessentials.

However, concerns about the possible return of restrictions, if the infection rate continues to rise, will likely lead to precautionary saving by consumers and low investment by firms.

The government should be ready to act depending on which way the demand goes. This is tricky in a dual budgeting system with process inflexibilities.

Will the government be able to mobilise the necessary resources? Opportunities for increasing tax revenues are limited.

Tax cuts should, in fact, be preferred to expenditure increases when the two deliver equivalent amounts of cashflow benefits. This will save transaction costs, ease access barriers and increase liquidity.

The fiscal space may shrink due to revenue reducing policy response for containing the spread and the economic impact of the virus.

A broad range of essential medical products needed in the treatment of COVID-19 cases is still subject to import duties and taxes despite the government's removal of tariffs on 17 medical products.

Reducing taxes on all essential goods and raw materials including medicines, ventilators, hand sanitisers, surgical masks, personal protective equipment and staple food items for next fiscal year deserves serious consideration.

A combination of austerity, international financial assistance and exchange rate flexibility can smooth the adjustment.

Fiscal austerity measures, including exploring opportunities for savings from non-essential non-development and development expenditures, will help.

Small savings from several line items in the budget, particularly subsidies, block allocations and low priority projects in the annual development programme could add up to something substantial.

The austerity measures are unlikely to be enough to prevent a rise in the budget deficit.

We should not hesitate to run a deficit when it is required to reverse the increase in poverty and maintain output at the potential.

Increased hunger and bankruptcies of the small guys are not acceptable outcomes. A relatively low debt economy can well withstand any increase in debt needed to prevent such outcomes.

Accessing the new avenues of international assistance, including seeking suspension of bilateral debt service payments, opened by COVID-19 can ease the burden.

The government has reportedly approached the Asian Development Bank, the International Monetary Fund and the World Bank for about $2.5 to $3 billion support from their COVID-19 emergency and concessional funding windows.

Given that the needs are larger, it is difficult to understand why, as reported in this newspaper on May 7, the finance ministry has decided not to avail the temporary debt service suspension facility extended by the Group of 20 major economies.

The G20 nations are offering to freeze bilateral government loan repayments until the end of 2020 to help tackle the health and economic crises triggered by the pandemic.

If Bangladesh avails the facility, it could potentially defer paying about $300-350 million in debt obligations to the G20 countries.

The suspension period starts from May 1 and lasts until the end of 2020.

Creditors may consider a possible extension during 2020.

Both amortisation and interest payments will be suspended. The repayment period will be 4 years, with a one-year grace period.

The conduct of monetary policy cannot be subordinated to the vagaries of the foreign exchange market at a time like this.

Increasing exchange rate flexibility to tackle excess demand for foreign exchange will preserve taka liquidity in the banking system. This will help accommodate domestic financing of the deficit.

Transparency is needed to make sure increased regulatory forbearance, fiscal and monetary expansion do not enhance macroeconomic risks, inflation and financial stability in particular.

BB has slipped in updating and reporting data on key economic indicators of late. Lags are growing. Central banks all over the world have not stopped macroeconomic monitoring and disclosure because of the virus. BB must not fall behind.

The writer is an economist

Leaden-footed NBR sitting on Tk 800cr of VAT refunds

SOHEL PARVEZ

The ongoing pandemic stands to leave a lasting legacy of bankruptcies and redundancies. Which is why, government all over the world are scrambling to prop up their businesses as much and as fast as they can.

One of the ways they are helping bleeding businesses is by accelerating tax and value-added tax refunds.

But over in Bangladesh, the response from the state appears to be rather leaden-footed.

Businesses are yet to get the refund of advance tax (AT) although more than 10 months have passed since the revenue authority levied the fiscal measure on the import of goods by firms, said industry operators.

Refund claims involving at least Tk 800 crore related to AT are pending at the field offices of VAT.

In December, BSRM, one of the largest steel mills in Bangladesh, applied for a refund for July, but it hasn't got the money back yet.

The fund is blocked, which would have come in handy in the current scenario, said Aameir Alihussain, managing director of the steel-maker.

His reaction comes as the country's burgeoning steel industry came to a halt as sales tumbled because of the shutdown.

Sales have dipped 70 per cent as almost all construction activities have stopped.

"We are paying more VAT in advance than we collect from customers. But there is no refund system yet."

Alihussain went on to raise questions about the rationale behind the AT in the first place.

"It is not logical. Crores of our working capital are being blocked. It increases our financial cost and it is not helping us to be efficient."

The tax should be removed immediately because it affects businesses unnecessarily, he added.

About Tk 90 crore of refund claims made by TK Group has been pending since it applied in January, said Md Shafiul Ather Taslim, director for finance of the leading commodity importer and processor.

"We have not collected bills in the last two months owing to the coronavirus crisis. It would be helpful to meet operational expenses if we are reimbursed quickly," he added.

Imposed for the first time in July under the new VAT system, the AT would be adjustable with the total payable VAT in their returns and the tax paid in excess would be refunded to businesses, according to the NBR.

It levied the tax to ensure that firms maintain records of sales and purchases properly to adjust or seek refund against imported goods. The idea is to widen the VAT net and curb the scope of money laundering through trade mis-invoicing.

In reality, AT refund process has remained cumbersome and difficult although the fiscal year is coming to a close within one and a half months.

Contacted, Abdul Mannan Shikder, a member for VAT at the revenue board, said: "We have already issued a letter to all commissioners to pay the undisputed refunds. And they are doing it."

The field offices have been instructed to give feedback within 15 days, he added.

In practice, there has been little progress.

One of the agencies that received applications but could not reimburse is the Jashore VAT Commissionerate.

"This is because there are errors in applications," said Zakir Hossain, commissioner of the office, adding that he is targeting to complete all the applications within May.

A senior official of the Dhaka North VAT Commissionerate said the field office would initially clear refund claims of VAT-exempted sectors such as poultry and fish feed.

Until January, it received more than Tk 180 crore AT refund claims.

The field office is yet to complete its procedures with the Bangladesh Bank and the Office of the Controller General of Accounts (CGA) to start processing refund claims, said Md Shawkat Hossain, commissioner of the Dhaka East VAT Commissionerate.

As per rule, each commissionerate of VAT has to open an account at the BB through the CGA office. After the account opening, VAT offices are given cheque so that they can issue a refund to businesses.

The Dhaka East VAT Commissionerate sent a letter to expedite the matter of opening an account and issuance of cheques to settle the refund claims, Hossain said.

"We will go to the CGA office once the offices reopen," he said, adding that nearly Tk 100 crore of refund claims are pending at the field office.

The Chattogram VAT Commissionerate is also facing a similar problem, with more than Tk 500 crore AT refund claims from ship-breaking yards and ship scraps and large importers.

"We applied to the accounts office nearly three months ago so that it recommends the central bank to open an account. It is yet to be settled," said Mohammed Enamul Hoque, commissioner of the VAT Commissionerate Chattogram.

The office has completed the paper works for 16 applications involving refund claims for Tk 112 crore.

City Group would have benefited if the refund claims were settled fast, said Biswajit Saha, its director for corporate and regulatory affairs. The group has filed refund claims of Tk 127 crore.

GPH Ispat applied for a refund of Tk 25 crore, said its Managing Director Mohammed Jahangir Alam.

NEXT STEP

Making a DIFFERENCE

Bangladesh is rapidly moving towards middle income status by 2021. Our businesses definitely offer immense opportunities for the growing economy and this diversity needs a stage for the stories untold. See Bangladesh make its mark on the global map as Making a Difference brings you our proudest success stories from across the country.

Four things that demotivate your best employees and how to avoid them

Do you love your job? As a manager or CEO, you're probably delighted with your paycheque at the end of the month. Your employees, on the other hand, will punch in at 9 and out again at 5, but with less responsibility, there is more time to reflect upon their role in the office. And so the question really shouldn't be whether or not you love your job, but whether your employees love theirs?

LACK OF FACE TIME

In today's active workplace, managers must make sure all employees, especially the ones who work remotely, are engaged. Employees should have a frequent feedback system and be made to feel as if their opinions are valued. A lack of real-time, face-to-face communication among teams and with managers can leave employees feeling less connected to the organization, hence demotivating them.

PLAYING FAVOURITES

Every organization needs to nurture top talent, but creating an elite group of people who are given special development opportunities or the best projects can and will often backfire. Playing favourites can be anything from taking one team out to lunch to celebrate some achievement, but not giving other teams the same treatment when they achieve something alike. When talented individuals see themselves as having no future in the company, they're going to look elsewhere.

UNNECESSARY REWARDS

According to researchers at Harvard Business School, external rewards and punishments can work well for algorithmic tasks but are detrimental for heuristic ones. Rewards aren't demotivating if they are unforeseen and offered only after the task is complete. Offering it at the beginning will inevitably focus people's attention on obtaining the reward, rather than solving the problem. When managers use rewards to motivate, that's when they are most demotivating.

MICROMANAGEMENT

Micromanagers can really get under the skin of personnel. There's nothing worse when trying to do your routine job, then to have someone breathing down your neck the whole time, trying to control your process. When CEOs or managers start to follow this, employees feel like no one has confidence in them, and that inevitably triggers disengagement and apathy towards the job at hand.

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