TAMING CORONAVIRUS RAMPAGE

Trade deficit widens amid economic fallout

AKM Zamir Uddin

The economic fallout brought on by the ongoing coronavirus pandemic has had an adverse impact on the country's balance of payments as both trade gap and deficit in the current account widened remarkably in April.

Trade deficit stood at $14.22 billion in the first 10 months of the current fiscal year in contrast to $12.07 billion in the nine-month lead up to March, according to data from the central bank.

Between the months of July and April, the trade gap also increased by 1.73 per cent from that of one year ago, when the figure was $13.97 billion.

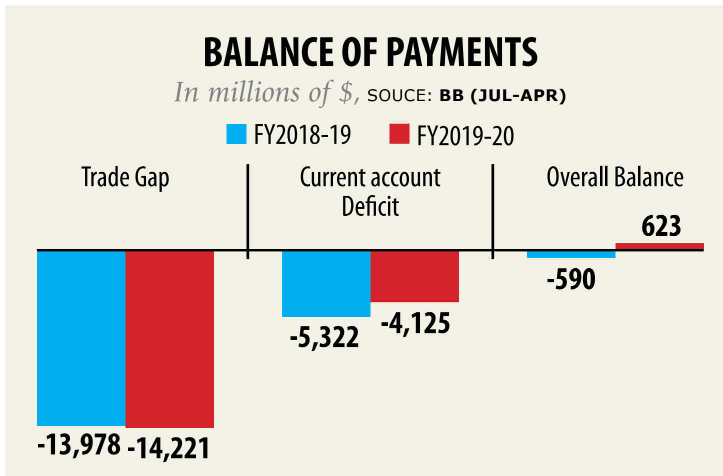
The existing global recession is mainly responsible for the upward trend of the trade deficit and the financial indicator will get worse in the days ahead, economists said.

The significant decrease in both exports and remittance has also had a negative impact on the country's current account, which can be viewed as a wake-up call to take the required policy measures, they said.

Current account deficit in the July-April period stood at $4.12 billion, up 71.16 per cent from the first three quarters of this fiscal year.

The current account records a nation's transactions with the rest of the world—specifically its net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments—over a defined period of time.

"Trade deficit is still in a stable condition. But the ongoing trend indicates that it will be unstable in the future as the global economy will take more time to get an expected turnaround," says Ahsan H Mansur, executive director of the Policy Research Institute



The deficit in the first 10 months of 2019-20, however, was still lower than the same period of the last fiscal year, when it was $5.32 billion.

Both the trade and current account deficit will increase significantly in the months to come, said Ahsan H Mansur, executive director of the Policy Research Institute.

"The trade deficit is still in a stable condition. But, the ongoing trend indicates that it will be unstable in the future as the global economy will take more time to get an expected turnaround," he said.

He feared that the current account would face a major challenge in the coming days as the global oil market will take at least two years to return to normalcy.

Oil price is one of the major components for the rebound of the global economy and the price will return to its previous position if countries like China, India and the US can restart full-fledged economic activities.

This means Middle Eastern countries will not recover until the global petroleum market gets a boost, said Mansur, also a former official of the International Monetary Fund.

Remittance will not rebound if the economy of the gulf countries does pickup, he said.

Nearly 80 per cent of the 1.20 crore Bangladeshi migrant workers are based in the Middle East.

Against this backdrop, the country's foreign exchange reserve will face trouble due to the probable large deficit in the current account, Mansur said.

Foreign exchange reserves stood at $32.92 billion as of April 30, which is good enough to settle for export earnings of 5.9 months.

The central bank should stop its intervention on the exchange rate, which will help decline the reserve.

Zahid Hussain, former lead economist of the World Bank's Dhaka office, echoed the same, saying the central bank should stop selling US dollar to banks in the interest of the reserve.

A good volume of a foreign exchange reserve is highly important to tackle the upcoming rainy days, he said.

"Flexibility in the exchange rate will depreciate the local currency [taka] against the US dollar. The policy will have to be taken by the central bank to keep the macro economy stable," he said.

However, this is not good enough to strengthen the foreign exchange reserve, he said while adding that the government will take more initiatives to this end.

The authority should explore more avenues to mobilise foreign currencies in the form of foreign loans, grants and aids from the donor agencies and multilateral lenders.

Money laundering checkpoints set to be erected

Sohel Parvez

EYE ON BUDGET

The government is expected to tighten tax rules to curb the scope for money laundering through under and over invoicing of exported and imported goods and through fictitious or inflated investment, said a finance ministry official.

From next fiscal year, taxpayers will face a hefty fine if they inflate values of goods when declaring investments in their tax returns.

Under the measure, 50 per cent of the difference between the actual value and fake value will be slapped as penalty, said the official.

"We expected that introduction of such penalty will discourage money laundering and unlawful transfer of funds abroad, especially through opening of letters of credit in the name of imports of machinery and others," said the official.

Illegal capital flight continues to strain Bangladesh's ability to finance its development schemes by increasing revenue collection.

The country lost a staggering $7.53 billion on an average per year between 2008 and 2017 to trade misinvoicing during foreign commerce with its 135 trading partners, said Global Financial Integrity Report (GFI) earlier this year.

The loss accounted for 17.95 per cent of Bangladesh's international trade with all trading partners during the period, according to the GFI's annual update "Trade-Related Illicit Financial Flows in 135 Developing Countries: 2008-2017".

There are allegations that many people transfer funds illegally abroad by showing inflated values of imported goods or just in the disguise of making imports.

Many also show fake or higher values of investments in goods to evade tax, said the finance ministry official.

Such practices are expected to drop once the measure, which is likely to be proposed by Finance Minister AHM Mustafa Kamal as part of his overall tax measures for the next fiscal 2020-21, comes into place, said the official.

"This will ensure checks and balances as penalty amount would be high," he said.

BEA places alternative budget with development spending in focus

EYE ON BUDGET

Star Business Report

Bangladesh Economic Association (BEA) yesterday came up with an alternative budget of Tk 1,319,600 crore for the next fiscal year and stressed the need for allocating 77 per cent of the resources for development expenditure to help the country recover from the COVID-19 fallouts.

To finance the plan, which is expected to be around 2.5 times higher than that of the finance minister's upcoming national budget, the BEA set a revenue collection target of Tk 1,261,600 crore, with 79 percent coming from direct tax and rest from indirect taxes.

The finance minister is likely to propose a budget of Tk 569,000 crore for 2020-21 fiscal year in parliament on Thursday.

The new budget should focus on steps to fight against the pandemic of Covid-19, said Abul Barakat, president of the BEA, at a virtual press conference.

"It should be Covid-19 infected patient-friendly."

Direct tax has been emphasised in the proposal of the BEA, as indirect tax increases disparity among people, he said.

The budget proposal, themed "Building Bangladesh with the spirit of liberation war and recover from the pandemic of Covid -19: alternative budget proposal of Bangladesh Economic Association (BEA) for FY 2020-21", will soon be sent to the government.

There is no alternative way to implement the proposed budget to recover from the economic losses of the epidemic, Barakat said.

"The upcoming budget must be expansionary to address the crisis instead of slimming the expenditure."

He proposed for printing taka on logical grounds to maintain continuous flow of money and keep domestic demand alive.

However, he cautioned that inflation should be held back at any cost.

For the Tk 135,000 crore budget deficit, the association proposed managing Tk 70,000 crore from bond markets, Tk 40,000 from savings instruments and rest from public private partnership arrangement.

Although there is no option in Bangladesh to collect funds from bond markets, any country can do it to meet emergency needs, he said.

This year's budget will be the most complex budget in the history of Bangladesh, as the country had never faced a pandemic and economic crisis of this type, according to him.

So the impact of novel coronavirus should be kept in mind while preparing the next budget to protect public health, which is the most valuable aspect from an economic perspective, he said.

Barakat ruled out covering budget deficits from the banking system and foreign loans as he does not want to create any debt burden on the next generation.

He wanted Tk 40,000 crore to be allocated for the health sector to properly address the impact of the deadly virus.

A division focusing public health security should be introduced to address the existing weaknesses of the health sector, the economist said.

In this circumstance, the government will have to take all the responsibility to face the ongoing challenges, he said.

The country's poverty rate has doubled to hit 40 per cent, as the lower middle class became the new poor due to the prolonged shutdowns, he finds.

So he recommended setting aside Tk 172,548 crore for social safety net programmes.

The poverty rate can only be reduced if the social security programmes are properly implemented, he said.

The association said the rich do not pay taxes properly. It recommended collecting more revenue from them through direct taxes instead of the indirect ones.

It suggested increasing wealth tax to reduce social disparity.

The association's stance is always against jobless economic growth and it does not express solidarity with the logic of measuring development in terms of higher per capita income, Barkat said.

Jamaluddin Ahmed, secretary general of the BEA, and AZM Saleh, vice president, also spoke.

ALTERNATIVE BUDGET AT A GLANCE

Total budget: Tk **1,319,600**cr

Revenue target: **Tk 1,261,600**cr

Budget deficit: Tk **135,000**cr

Health sector allocation: Tk **40,000**cr

Social safety net: Tk **172,548**cr

Don't terminate workers

Department of Inspection for Factories and Establishment tells garment factory owners

Star Business Report

The Department of Inspection for Factories and Establishment (DIFE) issued a circular on Sunday, urging garment factory owners to not terminate any of their workers in order to avoid labour unrest in the country.

During a tripartite meeting between the government, factory owners and trade union leaders on April 25, it was decided that workers would not be laid off despite the current situation, the DIFE circular read.

Due to the ongoing coronavirus pandemic sweeping the nation, the government had ordered the closure of all business operations since March 26 in an effort to curb the spread of the deadly pathogen.

The nationwide lockdown came to an end on May 30 and many factories were allowed to resume operations.

However, in those two months, about 17,579 workers from 67 garment factories across Bangladesh lost their jobs because of the economic fallout brought on by the COVID-19 outbreak, according to reports from 23 DIFE deputy inspector generals.

Following these terminations, workers took to the streets in protest, going so far as to form blockades on several roads and highways.

The trade union leaders also alleged that many factory owners only paid 60 per cent of their workers' full salaries and bonuses with the promise that at least they would not lose their jobs.

Nonetheless, there were many terminations still taking place, they said.

Various union leaders, organisations and workers have been lodging complaints with the DIFE as workers are being terminated while factories are closing down due to a lack of work orders, said Amirul Haque Amin, president of the National Garment Workers Federation (NGWF).

However, workers should not have been terminated as the government gave a stimulus package worth Tk 5,000 crore and owners also paid 60 percent salary, Amin said.

A list of garment factory workers who lost their jobs because of the pandemic should be prepared so that those people can receive some financial aid, Amin said.

The government should also form a central coordination committee featuring buyers, factory owners, union leaders, the Bangladesh Garment Manufacturers and Exporters Association and Bangladesh Knitwear Manufacturers and Exporters Association, to monitor worker termination and misappropriation of funds meant for the industry, the NGWF president said.


STAR

Garment workers are living in constant fear of losing jobs as the pandemic took a toll on export orders. The photo was taken recently from Ashulia on the outskirts of the capital.

Cabinet okays draft law scrapping age limit for BB governor

Bss, *Dhaka*

The cabinet yesterday in principle approved the draft of "the Bangladesh Bank (Amendment) Act, 2020" by abolishing the 'proviso' of the 65-year age limit for the governor of central bank.

The approval came at the regular cabinet meeting with Prime Minister Sheikh Hasina in the chair, Cabinet Secretary Khandaker Anwarul Islam told a press briefing after the meeting at Bangladesh Secretariat.

According to the provision of clause (5) of the Article 10 of The Bangladesh Bank Order, 1972 (President's Order No. 127 of 1972), the tenure of the central bank governor is four years and he or she could be given reappointment, Islam said.

"But the 'proviso' of that clause mentioned that no person can hold the post of the governor after completion of 65 years of his/her age."

The cabinet secretary said an experienced person is appointed in the financial sector as the governor.

"But it's not possible to appoint an efficient and experienced person in the financial sector after his/her 65 years of age as the current law has fixed the highest age limit at 65 years," he said.

Even it is not possible to reappoint an experienced person who performed the responsibility of the governor at the Bangladesh Bank, Islam said.

In this connection, he referred that the highest age limit of the governor of central bank of neighbouring countries of India and Sri Lanka has not been mentioned.

"In this circumstances, an initiative has been taken to scrap the proviso of clause (5) of the Article 10 of The Bangladesh Bank Order, 1972 (President's Order No. 127 of 1972) related to the highest age limit of the central bank governor in the public interest," the cabinet secretary said.