

FISCAL MEASURES

Mr. Speaker, Sir,

In the very beginning of second part of my budget speech I express my gratitude to the most gracious Allah for enabling me to present the national budget for the eighth time before this august Parliament. The present economic and political scenario and the perspectives are much different than those prevailing at the time when I presented national budget for the financial year 1995-96. With the passage of time, various political changes and in some cases dramatic events, have taken place in various parts of this restless world. Amongst all these, some startling events that have immensely affected the world economy, deserve special mention here: the terrorist attack at Twin Tower and Pentagon in the USA, prolonged economic recession prevailing throughout the world, fall in the price of world share markets in general, military operation in Afghanistan and lastly the crisis in Argentina. The economy of Bangladesh has also been affected directly or indirectly by these serious debacles as it happened with many other countries of the world. When the world economic recession was continuing our economic condition was also having a set back which further aggravated, and comparatively became more vulnerable. During the last regime of the Awami League government a dismal atmosphere prevailed in our overall economic activities specially in our tax structure due to mismanagement and lack of farsightedness. This has created impediments in attaining rapid economic growth. The measures taken by the present government to come out of the clutches of such recession have started to yield positive result in different sectors of the economy. In the backdrop of such a frustrating situation in the domestic economy that existed during the previous regime, the budget I am presenting today has been prepared mainly with the aim to repair the damages caused by mismanagement of the previous government. The measures that we have under taken so far is to foster, promote and cajole economic growth upholding the overall national interest.

Mr. Speaker, Sir,

2. Imbued with the ideas of nationalist concept, the main objective of the present government is to ensure overall welfare of our country and the people. With this end in view the effective measures that we undertook during our previous tenure in office started to yield very good results and Bangladesh made some breakthrough in the region when the country was introduced as an "Emerging Tiger" in the economic arena. But this very image of our country was shattered and tarnished during the last domain of Awami League government (1996-2001) for their shortsighted and retrogressive policies. In this context, I want to place on record some statistical information here wherefrom the honourable members of parliament will be able to know to some extent the prevailing condition of the economy of the last regime. In the financial year 1995-96 the revenue deficit was 4.5 percent of the GDP while the deficiency increased to 6.5 percent in 2000-2001 financial year. The economic growth that we achieved at 9.5 percent in 1995-96 went down to 8.85 percent in 2000-2001 financial year. It is true and painful to mention here, that the reserve of foreign currency decreased to the lowest level in the history of the country in the last Awami League regime. The unprecedented debacle and mess that was created in the country's share market during the last Awami government is yet to be salvaged and brought back to its normal functioning. The whole share market atmosphere has been vitiated in such a way that it has become very difficult to bring back the confidence amongst the people. The debacle in the share market seriously affected our investment. We are yet to absorb the shock and recover the losses so incurred. The present government is committed to come out of this unwanted situation and rebuild the confidence in the mind of our people. With this objective we have designed the budget goals and proposed measures reflecting our own thoughts and ideas in this budget making process in order to harness internal resources to speed up our growth efforts.

Mr. Speaker, Sir,

3. The new century has opened up new challenges for developing countries like ours. If we fail to face these challenges effectively we will lag behind in the race of achieving economic progress and will be dropped from the march past which is being carried out globally. One of the main challenges before us is globalization. Its dimensions are not limited to trade sector only, of capital and information technology. Overall macro economic rather it has affected all aspects of the economy including flow stability is one of our priority area and towards that end we must endeavor to utilize this opportunity of globalization. The reform

programme, that the BNP government had undertaken during the spell of 1991-1996, came to a stand-off during the regime of the last government. As a result, we failed to proceed effectively with the process of globalization. We have to bear in mind that political stability is a prerequisite for economic emancipation. A number of decisions have been taken with regard to framework of rules and disciplines in the recently concluded ministerial level meeting of World Trade Organization (WTO) in Doha, capital of Qatar. Some of the various important decisions are, to eliminate the quota system in textile sector by the year 2004, inclusion of agriculture in the working agenda of WTO, and Special and Differential Treatment (S&D) for developing countries. Bangladesh shall have to play an important role in the implementation of these decisions. Keeping these into consideration, attempts have been made to restructure the tariffs and rationalize the rates of custom duty in the budget so that the opportunities of globalization can be utilized, leaving the interest of the indigenous industries intact. In fact the proposals that I have placed before this august parliament are aimed towards that direction.

Mr. Speaker, Sir,

4. It is all but impossible to survive in this modern competitive world without reforms. The programmes that we had taken under Structural Adjustment Reforms during the 1991-1996 spell of the then BNP government became stagnant during the period of Awami League government. The last government was also criticized by world bank for not properly following up reform programmes that we introduced earlier. In this context, I would like to cite some observations made by the World Bank in its recent report (March: 12-15, 2002, Page-7): "Little progress has been made in further liberalization since the mid 1990's; rather some back-peddling was evident in that import bans/restrictions were added to the existing list for trade (protective) reasons, and the top tariff rate has held its ground since 1998. More importantly, rampant non-neutral application of supplementary duties and other surcharges in recent years have non-transparently raised the level of nominal protection well beyond what is implied by customs duties". Generally speaking any reform programme undertaken by any government for overall economic development of the country cannot meet such a fate in the hands of successive government. Had the continuity of reform programmes that we undertook during our previous term been maintained, there would be no room for an organization like the World Bank to come up with such observation. The present government is firmly committed to implement various reform programmes in order to improve upon the existing situation. It is expected that the programmes, which we have already undertaken, will ensure transparency and accountability in administration, and reduce corruption. The people will be encouraged to pay taxes on time as a result of simplification of the tax payment procedure which will help increase the collection of internal revenue. I would like to mention here that steps already taken by us this time has attracted attention of international organizations. The comment as mentioned in the said report of the World Bank also states that: "Bangladesh's new Government recognizes the gravity of the problems at hand and is contemplating appropriate reforms - the need now is to translate recognition and intention into action. The process of de-regulation begun in the early 1990s needs to be completed." It appears from this comment that the reform programmes we undertook were internationally acclaimed but because of the failure of Awami League government, we have to take the responsibility back again to implement these unfinished reform programmes. In the mean time, we have lost some valuable years which we can not get back. In the proposed budget, I have, as far as possible, tried to remove the distortions, irregularities, inequities, anomalies, and avoid cascading effects that occurred due to faulty measures adopted by the previous government.

Mr. Speaker, Sir,

5. I want to apprise this august Parliament through you that this year a number of audit firms have been appointed for the first time to assess tax evasion in VAT and Income Tax areas. As a result of this action, cases of evasions of large amount of revenue has been unearthed from the concerned sectors, and steps have also been taken for speedy recovery of the evaded tax. In a recent report (March 2002, Quarterly report, Page-4, paragraph-10) of the Asian Development Bank, these steps of the government were termed as "welcome initiatives". A portion of the report is reproduced here: "In a bid to improve generation of tax revenue, the National Board of Revenue has undertaken to

investigate large tax evasion cases. For the first time, over a dozen accounting firms have been assigned to the task of investigating evasion cases relating to VAT and income taxes. In addition to these welcome initiatives, there is a need to revisit the tax holiday facilities given to different categories of industries, to find out if these have contributed to industrial expansion in the country". The present government was very alert from the beginning about the misuse of the present tax holiday system. In order to improve upon this situation number of specific measures has been proposed by me in this budget.

Mr. Speaker, Sir,

6. The World Bank has made some forecast that the global economic growth in the year will not reach the expected level in the backdrop of economic recession. The World Bank apprehends that the growth in world economy this year will be around 1.3 percent although it was originally expected to be 3.5 percent. The present measures as suggested in the budget of this year has been formulated keeping in mind the achievable economic growth, creation of employment opportunities and poverty alleviation. In this budget, measures have been taken to restructure and reconcile the taxation system. At the same time proper attention has been given to the protection and promotion of domestic industries in the face of liberal trade policies. Steps have also been taken to eliminate the existing distortions in the rates of custom duty and rationalise the same. In this context various measures have been taken in the proposed budget including reduction of the rate of custom duty on imports, complete withdrawal of supplementary duty on a large number of goods, and withdrawal of license fee etc. As a result, the incidence of custom duty on many imported goods will decrease to a great extent.

Mr. Speaker, Sir,

7. I want to mention here another important aspect of the tax structure. Now-a-days many countries have adopted two or three tier custom duty rates including some member countries of SAARC. The highest rate of duty has been brought down substantially. At the same time, zero rate of duty has been withdrawn in case of import of most of the commodities. But in our case the zero rate of duty still exists in case of import of many commodities. This is quite undesirable. We have to change this situation as quickly as possible.

Mr. Speaker, Sir,

8. Agriculture is the largest field of economic activity in our country. It is also the main source of employment and livelihood of our rural population. As such special facilities have been provided for agro-based industries in this budget. The present era is the era of technology. Giving proper importance to this sector, the government continued the existing benefits, and in many cases, its ambit has been further widened. Without imposing any new tax, steps have been taken to increase the overall tax revenue by strengthening monitoring and supervision by tax administration. The government expects that it will also be possible to collect more revenue than before from Non-NBR sources through improvement of overall management and efficiency.

Mr. Speaker, Sir,

9. Last budget of the previous Awami League government can be termed as more politically motivated and not designed with farsightedness to achieve economic gains. What was implicit in its presentation was - to win the election; but in that also they failed very miserably. By this time international organizations have pointed out a number of unrealistic and unreasonable aspects of the last budget. Expressing an apprehension about the successes of the last budget, it was mentioned in the gentleman's version in the 'Periodic Economic Update (July 2001)' of the World bank which termed it as: "Prudent, But Difficult to Meet." Such analysis highlighting doubts in the minds of many was made because of the unrealistic character of the said budget which in no case can graciously be accepted. This year I have tried to present a realistic budget to the nation which I did many times in the past also. We have had series of pre-budget discussions with different expert groups, different Chambers of Commerce and Industries including FBCCI, professional associations, editors of different news papers, former finance ministers, former governors of Bangladesh Bank, and former finance secretaries, esteemed members of the parliament and renowned economists. Through these discussions we have worked out the modalities to reduce the gap between the policy makers and the taxpayers. Besides, the concerned wings of the NBR have had regular long discussions with members of the Task Force of the FBCCI on the



PHOTO STAR  
Finance Minister Saifur Rahman accompanies prime Minister Khaleda Zia to the Jatiya Sangsad minutes before unveiling a budget for 2002-03 fiscal yesterday.

budget. In short, it can be said that in the preparation of this budget the government has taken a participatory approach, which has contributed a lot in solving various problems.

Mr. Speaker, Sir,

10. Good governance and accountability are of obvious necessity to successfully implement economic reforms. The discretionary power of the tax officials has been curtailed drastically in this budget to ensure their accountability. I think, as a result of this the tax-payers will come forward to pay tax on time and overall tax collection will increase. With regard to this, I want to remind this august Parliament that it was the BNP government that brought reform in the financial sector during its previous tenure and at that time introduced modern VAT system. We are now deriving the benefit of the VAT system, which has become a major source of our revenue. In this budget I have proposed a number of important changes, in the existing VAT system and withdrawal of supplementary duty has been proposed from all local goods excluding nine specific items. Giving priority to agriculture, VAT has been completely withdrawn from electricity used in this sector in order to reduce the production cost of agricultural produce and encourage agricultural production. Now VAT is calculated on truncated value at different rates. To eliminate these anomalies, the rate of VAT has been restructured to introduce rational tax rate. At the same time programmes like "Educating the Taxpayers" have been taken up for the first time to increase awareness among the taxpayers about the tax laws. I hope that the changes will result in long-term benefit to tax payers.

Mr. Speaker, Sir,

11. I mentioned at the beginning of my speech that Bangladesh is one of those countries that made commitments to Millennium Development Goals (MDG). Considering from this angle, like many other developing countries Bangladesh will undertake programmes for fulfillment of many socio-economic commitments by the year 2015, and to meet the cost of these action programmes we need sufficient resources. We believe that we shall be able to materialize these commitments by financing from our internal resources and to this end we shall not leave any stone unturned.

Mr. Speaker, Sir,

12. Bangladesh is considered a country of immense possibilities by many and we have a very bright future. We have sincere will and popular mandate to accomplish the task to make us a self reliant and prosperous nation. We have blessing of Allah with us and we are confident that we will be able to achieve the desired goal.

Mr. Speaker, Sir,

13. Now I like to present some of the major and important proposals relating to direct and indirect taxes.

Direct Taxes  
Income Tax

Mr. Speaker, Sir,

14. Among direct taxes, income tax is our main source of revenue. Import dependent revenue is gradually falling in the backdrop of globalization. We are to depend now mainly on income tax and value added tax for internal resource mobilization. The previous government has not introduced any