

# Budget 2005-06: Is there any wildcard option?

Dr. M. IMTIAZ MAZUMDER

**E**XPECTED decline in external fund flows recently propelled different bodies to recommend disintegrated fiscal and monetary policies for the forthcoming budget. In particular, the Dhaka Stock Exchange (DSE) recommended providing tax incentives to the corporate sector to boost investment that eventually would widen the tax base; the National Board of Revenue (NBR) recommended increasing the tax rates and bases to offset crumbling external funds; and the International Monetary Fund (IMF) advised to increase the bank lending rate to stabilize the economy (or price?).

DSE suggested that NBR should amend current corporate tax structure and accordingly recommended (i) increasing tax disparity between listed and non-listed companies to 15 percent from its current level of 7.5 percent;

(ii) reducing tax on banks and insurance companies to 40 percent from its current level of 45 percent; (iii) introducing differential tax schedule for small companies with market capitalization of 50-100 millions; (iv) providing 10 percent tax rebates to newly listed companies; (v) reducing tax on treasury bonds from its current level of 20 percent. Among other things, DSE also argued that new investment in capital markets should be regarded as "unquestionable" for a minimum of 3 years.

The rationale behind DSE's recommendations lies on the fact that a flourishing capital market is one of the important components to evaluate the overall development and growth of an economy. Besides, capital market can broaden tax bases and generate more revenues for the treasury. Total market value of our capital market is approximately 4 percent of GDP; whereas it is more than 25 percent in our

neighbouring countries. DSE also argues that our capital market lacks the demand for development-oriented and competitive investment mostly because of current corporate tax structure and schedule. Registered publicly traded companies in Bangladesh pay 30 percent corporate tax on net income less dividends. However, corporate tax rate is reduced to 20 percent if listed companies distribute more than 20 percent of net income as dividends. But if they distribute less than 10 percent of net income as dividends or fail to distribute divi-

ally increase lending rates and decrease deposit rates. Higher taxes on fixed income securities induce (small) investors to invest in fixed bank deposits. In the short-run investors may be benefited from fixed deposits; however, in the long-run stocks and bonds theoretically provide higher returns as opposed to fixed deposits. Unfortunately our fixed income capital markets have not been developed and expanded because of hostile tax rates on bonds and other debt instruments. Credit Rating Information and Services Ltd. (CRISL) was accepted

forgotten 1996 market crash!). The tax base is narrow in Bangladesh. Besides, most of the government revenues are generated through indirect taxes. NBR is looking for avenues that generate direct tax revenues for the treasury. As a part of this endeavor, NBR recommended imposing taxes on all sorts of deposit rates. Interests earned on bank deposits are subject to taxes in Bangladesh. But financial institutions such as leasing companies etc. that lend money against deposits are not paying taxes for interests that they accumulated

asked the commercial banks to increase their lending rate to correct the mismatch between lending and deposit growth rate.

The double-digit lending rates in Bangladesh are much higher than our neighboring countries. However, BB argues that the deposit rates, T-bill rates are also higher in Bangladesh. BB introduced floating exchange rate on May 31, 2003. For a short-holding period, the currency with the higher interest rates appreciates in value as opposed to the theoretical prediction that it should depreciate, as predicted by interest rate parity theory. Have we achieved currency appreciation with high interest rates? Probably the answer is known to even a neophyte!

One does not need to be a student of economics to understand the effect of elevated lending rates. Higher interest rates will simply hamper the growth of investment in all major revenue-generating sectors. IMF's prescription seems to be a big blow for DSE, FBCCI, and other business organizations. DSE (and to some extent NBR) considers IMF's recent position as detrimental to the development of capital markets, industrialization, and major service sectors. The FBCCI and other business communities have argued that inflation, historically in Bangladesh, is not an outcome of erroneous monetary policy. Rather, supply shocks, productivity losses, currency devaluation, worldwide increases in oil prices, budget deficits, bureaucratic expenses, poor law and order situation at every stage of businesses (construction, production, transportation, marketing, retailing etc.) contribute significantly to business loss, price hike, and inflation.

In last year's budget, the finance minister raised the ceiling of tax-exempted income in order to reduce the tax burden so that individuals could combat inflation and the rising cost of living. Would the finance minister increase the interest rates this year to provide his citizens with a better cost of living (or to make IMF happy)? External funds and foreign aid have already changed their flight and Bangladesh should prepare to be self-reliant. The remnants of Indonesia's recovery and success during Asian financial crisis ignoring IMF's suggestion, or Argentina's worst economic failure following the so-called IMF prescriptions can be of an intrepid paradigm for Bangladesh.

We can foresee a major quandary for our honourable finance minister. Simultaneously, we are optimistic that finance minister will exercise his wildcard options (if any) given that the external fund flows will drastically decline in subsequent years and we are too young to be self-reliant.

Dr. M. Imtiaz Mazumder is a Senior Lecturer of Finance at Auckland University of Technology, New Zealand.

**In last year's budget, the finance minister raised the ceiling of tax-exempted income in order to reduce the tax burden so that individuals could combat inflation and the rising cost of living. Would the finance minister increase the interest rates this year to provide his citizens with a better cost of living (or to make IMF happy)? External funds and foreign aid have already changed their flight and Bangladesh should prepare to be self-reliant. The remnants of Indonesia's recovery and success during Asian financial crisis ignoring IMF's suggestion, or Argentina's worst economic failure following the so-called IMF prescriptions can be of an intrepid paradigm for Bangladesh.**

dends timely, their corporate tax rates turn out to be similar to non-listed companies (i.e., 37.5 percent). Capital gains from share transfers of listed companies, public limited companies, and government securities are currently tax-exempted. However, capital gains from transfers of stocks and shares of private limited companies are subject to 10 percent taxes (15 percent in previous budget). Individual investors (but not institutional and large investors) receiving dividends up to Tk. 25,000 from listed companies are also tax-exempted.

It is conceivable that a 7.5 percent tax disparity does not provide sufficient incentives to new businesses to be listed with our bourses. A comparatively high tax on banks and insurance companies eventu-

on February 24, 2003 to rate our securities. CRISL so far rated some of the banks and financial institutions. However, ratings for bonds and other debt instruments of listed companies seem to be publicly unavailable. More importantly, the credit rating methodologies of CRISL are flawed and not well-understood. Consequently we failed to develop well-diversified multi-sector open and close-end mutual funds, let alone exchange traded funds and derivative markets. Admittedly, a broader and well-diversified market generates more tax revenues to the treasury.

Government should consider implementing and increasing the security transactions taxes. It not only generates treasury revenues but also reduces speculative trading by informed traders (we have not

over the years. NBR also proposed that government should form a special police force to realize taxes from tax defaulters; initiate a separate bench in the High court to settle tax litigation; appoint magistrates to bring defaulters into justice and realize taxes; impose taxes on private schools, colleges, and universities; withdraw tax-holiday for new business enterprises. In a separate recent investigation, professionals such as doctors, consultant, etc. were also asked to submit their bank statements to NBR.

More than 900 new industries have been established and 100,000 new employments (both white and blue collar) have been generated since the inception of tax-holiday in 2001. Abolishing tax-holiday will reduce the sizes of investment and wipe domestic industries out of competitive world market. Industries, both local and foreign, in our EPZs will be affected if tax-holiday is withdrawn. If NBR removes tax-holiday, a discontinued tax rates may be reinstated to provide at least some incentives for new industries. The service sectors (such as financial intermediation, real estate, renting and business activities, public administration, defense, education, health, social work, community, social, and personal services, transport, construction, wholesale and retail trade, hotels, restaurants, storage, media, communication, utilities, etc.) have already surpassed industrial and agricultural sectors in terms of their contributions to GDP. It is most likely that the service sectors will contribute a significant part of our treasury revenues in future.

Although not clear to all, however, IMF recently asked the government to increase the bank lending rate. The Bangladesh Bank (BB) also favoured IMF's prescriptions probably to control inflation caused by the double-digit growth rate of private sector credit. Accordingly BB

IN MEMORIAM

# Till we meet again, Saneeya

A major South Asian peace journalist and activist passed away

AFSAN CHOWDURY

**O**UR friend Saneeya, a great South Asian and a journalist passed away last week in distant Sao Paulo, Brazil. She had suffered an acute asthma attack that had left her in deep coma and ultimately claimed her life a week later. She never gained consciousness after admission to the hospital. She left behind friends, family and her husband Luis to mourn and battle the overwhelming grief caused by her sudden demise.

Saneeya was born in 1954 and in her time on this earth was a journalist, a development worker and an activist of several shades. But it is her spirit, courage, laughter and an indomitable desire to cherish life as a human being in every aspect that has left her friends and acquaintances in many countries but especially in South Asia and Latin America so affected. She has almost shocked people into realizing how special she was and to so many. While many have mourned openly, all have spoken of her love for life as well. As if in death Saneeya Hussain, a journalist by trade and a friend by choice, had brought together all of us whom she knew into a grand wake -- a festival of mourning and memories -- organised on the occasion of her departure.

I came to know Saneeya as the Director of Panos South Asia (PSA) and a person actively interested in promoting a conflict free South Asia through support to media. As a Pakistani, she was quite familiar with conflict and even war but she never lost confidence in the activism for a better South Asia especially Indo-Pak relations. A relationship that was positive and bereft of the useless rhetoric and banality of jingoism. She knew media practitioners could play a major role and through her Panos work she became a major player in that field. And she did this with minimum fuss yet ensuring visible and concrete returns. Such has been her influence that Panos South Asia's media fellowship on conflict transformation has been named after her. It is a fine and worthy tribute.

The extraordinary outpouring of concern from all corners for Saneeya is not a surprise for many of us who knew her. She had that rare ability to touch all those who came to know her even fleetingly. Not all are as close to her as others are and yet, everyone has felt united in a common grief and hoped together for her recovery. When she was in the hospital and everyone was mailing each other for information, Beena Sarwar of Pakistan started a yahoo group to keep her many friends in far-flung parts of the world connected and informed on the latest news. It served as a great net that kept people aware of what was on till her final moments and after that as well. Beena's efforts have been one of the most remarkable descriptions of love and respect for someone truly special, for a colleague and a mentor.

But Saneeya had reached many more. In Brazil, where her husband was also involved in activism -- they met in South Africa as participants in the global battle for equity and justice -- she was very close to her immediate family and made many friends. They sent words, poems and wishes, hoping that she would return as she once was and light up other people's lives with her presence.

Her parents and a sister lived in Pakistan and a doctor sister who was in the States flew down to her bedside. They received her body and buried her as well as did her Brazilian husband who probably bore the burden of her condition the most and now carries a grief will be even greater. To all her friends and relatives, the courage and fortitude of those closest to her has been a wonder and people have tried to capture the extra-ordinary grace people have displayed in this very difficult time. Even as she lay dying she brought out the best in others.

Yet apart from the numbingly painful grief that has touched her close ones, Saneeya's work has great significance beyond the immediacy of grief. Her public work as a facilitator of peace journalism in South Asia has echoes that will be carried forward by many. Saneeya had a personality that rose above the narrow confines of nationalism and she could push for the idealism that is required to champion the cause. It's an example that many will emulate.

In her work at Panos she was able to demonstrate that more than politicians, it was journalists who were ready to embrace dialogue and understand the prob-



lems faced by neighbours made distant by boundaries and borders. As a South Asian, she was ideally placed to understand the internal complications and conflicts that stood in the ways of peace especially in the region. Ironically, she had enormous difficulties in getting visa to visit India even when pursuing the cause of better Indo-Pak relations. She would laugh the irony away and keep plugging on.

After a two year stint at Panos in Kathmandu, she decided to move to Brazil so that Luis could be close to home while she could touch Latin culture. Her interest in art and music was immense. I remember once in Dhaka, after a hectic day of candidate interviewing she brushed aside her tiredness and visited art galleries and bought music CDs with great enthusiasm. She had such a lovely balance of work and fun.

She was buried in Karachi on Sunday the 24th. Our mutual friend journalist Kanak Dixit of Nepal was there when the last rites were read. He sends this poignant mail:

"Saneeya was laid to rest in a white shroud as a cleric recited verses, the sun was setting behind nearby buildings in this city-centre cemetery. Eagles rode the air currents above, also kites being flown by the kids of the mohalla. We had first gathered at the imambara where a ceremony was held, after which the motorcade headed for the cemetery. Saneeya's family and friends were all present, dignified and gracious as always. The women of Saneeya's life, including her mother, her two sisters and friends, were all there at the cemetery. Her ailing father was seated. Luis stood by the grave. After Saneeya was interred, rose water and rose petals and bouquets were spread on her grave, and some rose petals were also spared for neighbouring plots. As the group left, the cleric stayed behind kneeling to repeat some last words of prayer. Back at Saneeya's home, in the living room, there was a child's notebook filled with details of Saneeya's early childhood. And there was Saneeya's scribbling of her own name when she must have been four, in pencil, 'saneeyahussain', one word in crooked, legible writing."

She will surely find peace because if there was a cause that she fought for, it was that. Her sterling qualities as a human being and friend are so many that one could write entire obituaries just describing her million generousities and kindness, her laughter, friendship and love. She will mean all these to many of us but in the end she will have one more rose to drop on her grave. It will come from all those who wish for a more peaceful and progressive South Asia. And what a lovely rose that is.

Till we meet again, Saneeya.

12x3

8x2

8x3