Star BUSINESS

E-mail: business@thedailystar.net

BUSINESS REACTION TO BUDGET FOR FY 08

Duty cut on essentials, measures for capital market lauded

Duty on raw materials, withdrawal of zero duty on textile machinery come under fire

STAR BUSINESS REPORT

Different trade bodies and associations yesterday expressed mixed reaction to the proposed budget for the 2007-08 fiscal.

Finance and Planning Adviser Dr Mirza Azizul Islam made the budget proposal Thursday.

The business leaders praised the budgetary measures that allocated the highest for education and information technology with emphasis on agriculture, energy and power, health, capital market development and reduced import duties on some essentials such as rice, wheat, onion, lentils, peas, grams, and crude edible oil.

They also welcomed the proposals to set the exemption limit of income tax for individuals, abolish the deduction in tax at source on credit card bill and to continue the duty-free benefit for essential commodities and lifesaving drugs, and the enhanced allocation for SME Foundation.

The business leaders, however, stressed good governance and strong monitoring system to implement the goals of the budget.

The proposed enhancement of customs and supplementary duty on raw and intermediate material and withdrawal of zero duty facility on import of textile machinery and computer and computer accessories have come under fire.

Ficci

Foreign Investors' Chamber of Commerce and Industry (Ficci) appreciated the measures, especially for the social, education, communication and health sectors, proposed in line with the pronounced Millenium Development Goals (MDGs).

Terming the proposed budget of Tk 871.4 billion, which is 30.38 percent higher than that of last fiscal, as ambitious, the chamber said, "We feel that it will require further improvement in governance and strong monitoring to achieve the goals."

The Ficci said abolition of tax treatment for investment in properties like house, land and motor vehicle, abolition of the deduction in tax at source on credit card bill, enhancement of tax-exempted income limit, introduction of 'universal self-assessment procedures', withdrawal of customs duty on crude edible oil and lentils, continuation of duty-free benefit for essential commodities and lifesaving drugs, elimination of existing complexities of VAT laws relating to contract manufacturing, reduction in penal provision and simplification of VAT challan are commendable.

However, the chamber expressed its discontent with huge increase in non-development expenditure and widening of budget deficit, huge dependence on bank borrowings as well as foreign aid to meet the deficit, enhancement of customs and supplementary duty mostly upon raw and intermediate material, withdrawal of zero duty facility on import of textile machinery and computer and computer accessories, and segregation of mobile phone sector and raising of tax rate at higher level.

CCCI

Chittagong Chamber of Commerce and Industry (CCCI) termed the proposed budged as good and congenial for flourishing the agro-based industry and for social development.

CCCI President Saifuzzaman Chowdhury thanked the government for complete withdrawal of import duty on edible oil and lentils and continuation of 'zero duty' for rice, wheat, onion, peas, and gram in the proposed budget.

He, however, expressed resentment over absence of additional allocation for Chittagong division under Annual Development Programme (ADP) in the budget.

He called for making equitable allocation for all the areas for the best utilisation of the resources and potentials the different regions have.

The Chittagong chamber chief believed that the proposed export subsidy amounting to Tk 1,100 crore would boost the export sector.

Finding the allocations made for power, IT, agriculture, primary education, food and environment development sectors as right, Chowdhury thought that an enhanced amount should have been proposed to be earmarked for farming and information technology sectors.

He lauded the proposal for providing Tk 150 crore as loan for flourishing the agro-based industries through specialised banks.

He also hailed the budget for putting utmost importance on reducing the self-empowerment of the tax officials, easing the process of paying taxes and making the tax administration transparent and accountable.

He urged the government to reconsider the proposal for realising income tax of Tk 1000 in advance during issuance or renewal of trade licenses from city corporations.

The CCCI president criticised the re-introduction of Pre-shipment Inspection (PSI) system for import of cement clinker and feared that it would raise the price of cement to leave a bad impact on the construction industry.

BGMEA

President of Bangladesh Garments Manufacturers and Exporter Association (BGMEA) Anwar-Ul-Alam Chowdhury welcomed the new budget for taking the Chittagong and Mongla ports into special consideration.

"Like previous year, the government has allocated Tk 20 crore for increasing labour skills of Chittagong Sea Port. I wish this time the authorities will be able to spend this budgetary allocation," he told The Daily Star over telephone.

He appreciated the government decision to handle the New Mooring Container Terminal through private management hoping that this would further increase the port's efficiency.

Reshuffling the duty structure also appears to be a positive decision, he added.

The BGMEA chief sees the power sector allocation as very thin to cater to the present need.

"The government has decided to install 345 mega watt (MW) power plant in the next one year, but this should have been of at least 1,000 MW to ease the chronic power shortage of the country," he said.

He was also critical of not having any allocation for 570 sick industries in the proposed budget.

BCI

Bangladesh Chamber of Industries (BCI) also praised the exemption limit of income tax for an individual to Tk 1.5 lakh.

It said the proposal for raising advance taxes from doctors fees at hospital and diagnostic centres to 10 percent and continuation of zero-duty benefit for essentials is commendable.

The chamber is also happy with enhancement of customs duty from 12 percent to 25 percent on imports of formalin and stearic acid to prevent public health hazards.

However it sees imposition of import duty on textile machinery as a negative step.

The BCI said such an import duty would not only reduce competitiveness of local textile mills but also affect the RMG sector, as prices of yarn and fabrics would be raised by it.

DSE

Welcoming the proposed budget, Dhaka Stock Exchange (DSE) said the proposals regarding the country's capital market development are very encouraging.

It said the proposal for offloading shares of a number of government companies in telecommunication, power and energy sector and offering tax incentives to the private sector telecommunication companies to offload their shares will strengthen the capital market.

"We understood from the budget speech that Mongla Port will become a vibrant port again. May we in this regard request the government to consider the proposal of making Mongla Port and Chittagong Port into public limited companies and raise a part of their funds to reconstruct/develop these ports through capital market to ensure public participation for greater degree of transparency and accountability. We would also request the same for Biman," the DSE said.

BJSA

Hailing the proposed budget, Bangladesh Jute Spinners Association (BJSA) suggested that the government should bring administrative transparency for getting the result of the budget.

It may be difficult for the government to achieve the targets set in the budget without proper monitoring and infrastructural development, the association said.

The BJSA, however, lamented that the proposed budget did not make any direction about the development of jute and jute industry.

The association sought reforms in the jute industry.

Corruption a major concern for US firms in SE Asia

Finds survey

AFP, *Singapore*

Corruption is a concern for US businesses operating in Southeast Asia, according to results of a survey by the American Chamber of Commerce (AmCham) Singapore released Friday.

The survey, which polled AmCham members in six countries, showed corruption was regarded as a significant factor impacting business in Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Singapore was the only country polled out of the six where corruption was regarded as a non-issue, the results showed.

"This (corruption), combined with concerns about the lack of predictability and stability in government regulations in several countries ... is a vital competitiveness issue which ASEAN must seriously address," said Dom LaVigne, executive director of AmCham Singapore.

The Association of Southeast Asian Nations (Asean), in which the six countries are members of, is a 10-nation grouping. The other four members are Brunei, Laos, Cambodia and Myanmar.

In Indonesia, 86 percent of AmCham members there polled felt corruption was a significant factor, in Malaysia the figure was 51 percent, in the Philippines 72 percent, Thailand 63 percent and in Vietnam 67 percent.

Overall, 62 percent of those polled in the six countries also expect Southeast Asia will be more important over the next two years due mainly to the region's continued strong economic growth, the survey showed.

A key challenge for Asean lies in how the region can integrate their respective markets, said LaVigne.

"While Asean continues to play an important role for our member companies' bottom lines, finding ways to achieve regional integration and to make Asean a more seamless and transparent market for doing business is of great importance to our members," he said.

"Asean has become a more important for American businesses. The challenge is really Asean integration and how that is going to play out."

Reliance Ins declares 15pc cash dividend

Reliance Insurance Ltd has declared a 15 percent cash dividend for the year 2006, says a press release.

The dividend was declared at the 19th annual general meeting (AGM) of the company held in Dhaka on Thursday. Rokia A Rahman, chairman of the Board of Directors, presided over the meeting.

In 2006, the company achieved a gross premium income of Tk 743.83 million, representing a growth of 18.73 percent. The company registered good underwriting and investment performance and its pre tax profit increased to Tk 70.18 million as against Tk 55.79 million in the preceding year.

The AGM elected Iftekhar Arshad Husain and Rumana Rouf Rumee as two new directors from public shareholders.

Following the AGM, a meeting of the Board of Directors took place in which Asadul Huq and Habibullah Khan were elected chairman and vice chairman respectively.

The Board of Directors of Reliance Insurance Ltd now comprises of Asadul Huq, chairman, Habibullah Khan, vice chairman, M Shamsul Alam, A Rouf Chowdhury, Anwarul Huq, Latifur Rahman, Rokia A Rahman, Shahnaz Rahman, Shamsur Rahman, Rajiv Prasad Shaha, Amanullah Chowdhury, Iftekhar Arshad Husain, Yasmeen Khan, Atiqur Rahman, Romana Rouf Rumee, Ahmad Shafi Chowdhury and Akhtar Ahmed as managing director and chief executive officer.

PHOTO: RELIANCE INSURANCE

Rokia A Rahman, chairman of the Board of Directors of Reliance Insurance Ltd, speaks at the 19th AGM of the company held in the capital on Thursday.

AN ANALYSIS OF THE NATIONAL BUDGET FOR FY2007-08

The analysis is prepared under the CPD (Centre for Policy Dialogue) programme: Independent Review of Bangladesh's Development (IRBD)

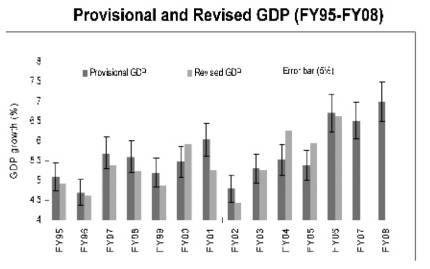
Centre for Policy Dialogue (CPD)

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Growth Performance

- As expected, BBS has revised downward the GDP growth rate for FY06 from 6.71 per cent to **6.62** per cent
- According to preliminary estimates, Bangladesh economy in FY07 is set to post **6.51** per cent growth

Provisional and Revised GDP (FY95-FY08)



- Proxy indicators suggest that the economy has slowed down in FY07.
- **Hence, it is anticipated that the initial growth estimate for FY07 may be revised downward once again (say by about 0.5% to settle at 6.0%).**

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Growth Outlook for FY08

The growth target for FY2008 has been set at 7 per cent.

To attain this optimistic target all the three major sectors must contribute!

- The **agricultural sector** has to post a robust growth as crop and livestock slowed down in FY07 .
  - The crop sector has to significantly increase its growth
  - Livestock must regain the lost momentum after *Avian Flu* syndrome
- The **industrial sector** has to sustain its impressive growth recorded in FY07 despite unfavourable circumstances.
  - Manufacturing has to score a moderate increase in its growth rate.
  - Construction ought to reclaim lost momentum.
  - Electricity, Water and Gas Supply along with Mining and Quarrying must retain its pace of growth

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Growth Outlook for FY08

- The **service sector** has to moderately accelerate its growth on FY07's benchmark.
  - Education and Health and Social Works must significantly improve their growth rates
  - Real Estate, Renting and Business Activities have to revert to higher growth rate and increase contribution to the economy in FY 08
  - Public Administration and Defence are expected to accelerate growth anyway
  - Other sub-sectors will also have to keep up the momentum going.

It is also expected that Import Duty will also break from free its negative growth rate and contribute to this targeted growth.

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Growth - Investment

Overreaching Investment Target

- Latest figures from suggest that the ICOR improved during FY06 by 0.37 per cent (from 4.09 in FY05 to 3.72 in FY06). But in FY07 ICOR registered marginal increase implying a fall in capital productivity.

Recent ICOR Trend in Bangladesh

Growth rate of GDP at constant price	FY05	FY06	FY07	FY08
(%)	6.00	6.62	6.51	7.00
Investment as % of GDP	24.53	24.65	25.30	26.20
ICOR	4.09	3.72	3.89	3.70

Note: Earlier estimate by BBS shows that the investment-GDP ratio in FY07 is at 24.3 per cent, with a similar growth of 6.5, the ICOR was 3.74

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Growth Outlook for FY2008

Low Capital Productivity

- **To achieve the targeted growth rate of 7 per cent in FY08 it would require either a considerable increase in investment rate or a much improved ICOR, or a combination of both.**
- Tk 20,930 crore (i.e. almost an extra 1% of GDP) will be needed to meet the projected investment demand.
- This would also require ICOR to improve by 5%
- **Recent slow down in growth of Gross Capital Formation and stagnant Public Investment will not help the cause.**

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

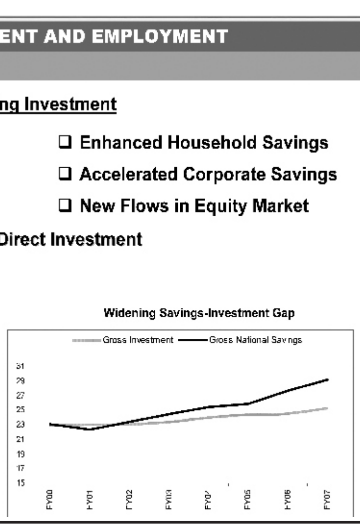
Growth Outlook for FY2008

Sources of Financing Investment

- **Greater Revenue Earnings**
- **Improved Foreign Aid**
- **Higher Government Borrowing**
- **Enhanced Household Savings**
- **Accelerated Corporate Savings**
- **New Flows in Equity Market**
- **Improved Foreign Direct Investment**

- **But Bangladesh is an underinvested country. Gap between national savings and gross investment is quite large (more than 3% of GDP)**
- **Thus the major challenge lies in transforming savings into investment.**

Widening Savings-Investment Gap



II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Outlook for Pro-Poor Growth

- **In budget for FY08 57% of total expenditure or 73.42% of ADP is allocated for poverty reduction. Figures available on poverty-related regional and gender equity-related allocation.**
  - A big progress. Further clarity required.
- **The corresponding figure for revised budget of FY07 were 56.11% and 74.77% respectively.**
- **Poverty reducing expenditure increased from 8.0% in revised budget of FY06 to 8.6% in budget for FY07.**

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Assessing the Performance of PRSP

Assessment of the MTMF

Measuring Budget Performance with PRSP Targets

Macroeconomic indicators	FY06 (PRSP)	FY06 (Actual)	FY07 (PRSP)	FY07 (Revised)	FY08 (PRSP)	FY08 (Budget)
Output						
Real GDP growth (%)	6.5	6.6	6.8	6.5	6.9	7.0
Consumer Price Index	6.5	7.2	6.0	7.0	5.5	6.5
Gross Domestic Investment (% GDP)	25.0	24.7	24.5	25.3	24.8	26.2
ICOR	3.8	3.7	3.6	3.9	3.6	3.7

Source: PRSP, MTBF and Budget Documents

- **GDP growth on track, but challenging target for FY08**
- **Inflation systematically high, marginal moderation of target for FY08**
- **Investment underperforming, unrealistic target for FY08**

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Assessing the Performance of PRSP

Measuring Budget Performance with PRSP Targets (Contd.)

Macroeconomic indicators	FY06 (PRSP)	FY06 (Actual)	FY07 (PRSP)	FY07 (Revised)	FY08 (PRSP)	FY08 (Budget)
Government Accounts (% of GDP)						
Total Revenue	11.0	10.8	11.3	10.6	11.6	10.8
Tax	9.0	8.7	9.2	8.4	9.6	8.6
Non-Tax	2.0	2.1	2.1	2.2	2.0	2.2
Total Expenditure	15.5	14.2	15.0	14.3	15.3	16.4
Current Expenditure	8.6	8.4	8.7	9.2	8.6	9.4
Of which: Interest Payments	1.7	1.9	1.6	2.0	1.7	2.0
ADP	5.9	4.7	5.6	4.6	6.0	5.0

Source: PRSP, MTBF and Budget Documents

- **The revenue targets were not met in FY06 and FY07 and has been slashed down in FY08 compared to PRSP target**
- **Expenditures were lower than targets in FY06 and FY07 mainly due to slack implementation of ADP, whereas for FY08 the target has been enhanced.**

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Assessing the Performance of PRSP

Measuring Budget Performance with PRSP Targets (Cont..)

Macroeconomic Indicators	FY06 (PRSP)	FY06 (Actual)	FY07 (PRSP)	FY07 (Revised)	FY08 (PRSP)	FY08 (Budget)
Government Accounts (% of GDP)						
Overall Balance (excl.Grants)	-4.5	-3	-3.7	-3.7	-3.7	-5.6
Financing (net)	4.5	3.0	3.7	3.7	3.7	5.6
Domestic financing	2.0	2.2	1.9	2.1	1.7	3.6
Borrowing from the Banking System	0.9	1.6	1.2	1.4	1.1	1.2
Non-bank borrowing	1.1	0.6	0.7	1.0	0.6	0.8
Foreign financing	2.5	0.8	1.8	1.6	2.0	2.0

Source: PRSP. MTBF and Budget Documents

- **Overall deficit in FY06 and FY07 remained within the PRSP targets due to lack of development expenditure. Fiscal deficit to increase by more than 1.5 times in FY08**
- **Domestic financing spill over the target due to lack of foreign financing.**
- **Bank borrowing emerges as the major source of domestic financing.**

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Medium Term Outlook

Caretaker Government has set a medium term outlook for FY09 and FY10 at very high note.

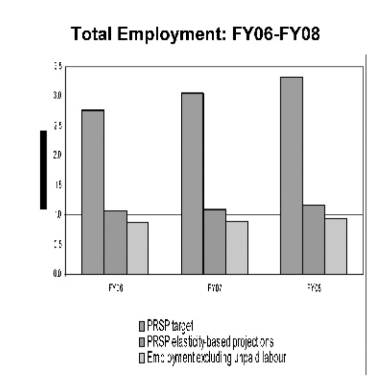
- ✓ The GDP growth rate is set to sustain on high track. Target is set at 7.0 per cent (FY09) and 7.2 per cent (FY10).
- ✓ The government is also quite optimistic to check the inflationary trend, setting target at 5.5 per cent in FY09 and 5.0 per cent in FY10. However given the global inflationary projection this would be very challenging for next elected government.
- ✓ Substantial improvement in revenue collection and sudden check in expenditure is a major curious feature of the outlook. As a result fiscal deficit is also expected to improve "immediately" to a large extent.
- ✓ In monetary sector government expects to sustain private credit growth despite reducing the growth rates in broad money.
- ✓ External sector is expected to demonstrate steady performance, with maintaining export and import performance and improvement in foreign exchange reserve. Remittance is also expected to keep the momentum.

II. GROWTH, SAVINGS, INVESTMENT AND EMPLOYMENT

Assessing the Performance of PRSP

Employment – No figure on job creation

Total Employment: FY06-FY08



- **According to the PRS estimates, 30.6 lakh new employments were to be created in FY07**
- **Estimation from PRS based elasticity approach suggests that only 10.4 lakh jobs may have been created in FY07. Shortfall by 20.2 lakh**
- **Around 12 lakh people have been added in every year in the total labour force**
- **PRS targets more than 30 lakh jobs to be created in FY08**