Clash in Myanmar takes toll on Teknaf land port

ANURUP KANTI DAS

No trade between Myanmar and Bangladesh took place through Teknaf land port in the last eight days due to sectarian clash in Myanmar.

DWAIPAYAN BARUA, *From Teknaf*

BANGLADESH incurred a loss of around Tk 3 crore in the last eight days as trade with Myanmar through Teknaf land port remained suspended due to sectarian clash in the neighbouring Maungdaw since June 8.

There was no transportation of cargo boats with imported goods from or to Myanmar since June 9, said Abdul Mohaimen, general manager of United Land Port Teknaf Ltd that operates the port of six jetties.

Workers handled around 250 tonnes of goods a day in the period, down from usual 500 tonnes to 1,000 tonnes a day.

The port delivered 25 trucks of imported goods on Thursday, down from its regular amount of 50 trucks a day, according to the port officials.

Bangladeshi traders import goods like timbers, fishes, tamarind, spices through the port from Myanmar, while they export cement, plastic and aluminum utensils, tube well and human hair.

The halt is also hurting the people of different localities in the border upazilas who are engaged in cross border trade of some items like crab, fishes and fruits through Naf river at different other points.

Five local importers imported around 450 tonnes of goods, including pulse, dry fish, pickles and bean, with two cargo boats on Friday but the boats fled the port to Myanmar on Sunday as some of its Rakhine labourers sensed insecurity here.

A top official of the port said the two boats will come back after the situation becomes normal.

Abul Hashem, one of the five importers, expressed his anxiety about the fate of the consignment and said he may incur huge losses due to his failure to supply the consignment to clients in time. Hashem said he could have gone for more consignments in this period if the situation was normal.

However, Jamil Akter, an officer of the consulate of Bangladesh in Sittwe, said boats transportation may become normal from Monday.

Visitors throng REHAB fair

STAR BUSINESS REPORT

WITH another day left for the four-day REHAB Summer Fair 2012 to end, a good number of visitors thronged the event venue on a holiday yesterday.

Though sales of lands and apartments declined by nearly 40 percent in the last couple of years, many people come to such fairs with hopes to find an affordable accommodation within their scanty budget.

For some like Fahmida Sultana, a mid-level executive at a telecom company, it is still a dream, but many were quite optimistic about finding a dream home at the fair, as it has showcased enough information under one roof at Bangabandhu International Conference Centre in Dhaka.

Sultana has been nurturing her dream of owning an accommodation in the city from the time she arrived in Dhaka from Rajshahi 10 years ago. A middle-income earner, she enjoys a reasonable salary, but it is not enough to make her dreams come true.

"It's the price. The gradual growth in my income cannot catch up with the spiralling prices of land or apartments in this city."

So, Sultana gave up hope of having a wide and spacious house, full of sunlight and air, and a little greenery around. Now, she has come to the REHAB Summer Fair in search for an affordable home for her only child, Shayan.

She was looking for a housing unit within 950 to 1100 square feet in size and an opportunity to pay the price in instalments. She wants the entire process executed by 2015.

Visitors said most people were looking for smaller flats, and plots of land afar from the city, for instance at Tongi or Savar.

"The main reason behind this trend is the high prices of land in and around Dhaka. If the location is away from the capital, then the prices might be a little more affordable," said an executive at the stall of Parijat Development and Design Ltd. This company has projects in Narayanganj as well, which the executive said are attracting more customers because of the prices.

Another executive of Navana Real Estate Ltd said many companies are now increasingly opting for low-cost apartments that they see as an effective solution to reviving the slumping or slowed down real estate business.

He said if the government introduces housing loans at low interest rates to facilitate accommodation for the middle and low-income groups, sales may rise further.

A total 161 real estate developers are showcasing land and apartment projects in and around Dhaka, Chittagong, Sylhet and Cox's Bazar at the fair. Five building material producers are also participating in the show.

The fair will remain open from 10am to 8pm with a fee of Tk 50 for single entry and Tk 100 for multiple entries.

The closing ceremony of the fair will be held tomorrow, said organisers.

Amin Mohammad Foundation, Asset Developments, Comfort Homes Ltd, Concord, Coral Reef Properties Ltd, Dom-Inno Builders, East West Property Development, Rupayan, Navana Real, Genetic, Hamid Real Estate Construction, Mission Developers, Trust Alliance and Protik Developers are the co-sponsors of the event.

However, although the government warned some 25 companies against displaying unapproved projects at the fair, which is a punishable act as per land development law, a few such projects were displayed at the show.

Budget and some missed opportunities

SADIQ AHMED

THE national budget arguably is the most important instrument for the implementation of the sixth five-year plan. Two budgets (FY11 and FY12) have gone by and the third one (FY13) has just been presented to parliament and will likely be approved with minimal changes. These three budgets send important signal about the government's thinking and economic policy management. The consistency between the annual budgets and the sixth plan also provides valuable insights regarding the gaps between intentions/plans and realism/implementation.

The sixth plan set ambitious targets for the five-year period starting in F11 and ending in FY15 (Table 1). The sixth plan is the first of the two medium-term plans aimed at implementing 'Vision 2021'. At the macroeconomic level, the main targets are: (i) increasing GDP growth rate from 6.1 percent in FY10 to 8 percent by FY15; (ii) reducing poverty rate from 31.5 percent in FY10 to 22.5 percent by FY15; (iii) lowering yearly average inflation rate from 7.3 percent in FY10 to 7 percent in FY13 and 6 percent in FY15; (iv) increasing the share of manufacturing employment from 11.2 percent in FY10 to 15.2 percent by FY15; and (v) reducing income inequality.

To achieve these targets, the plan makes a number of assumptions about the macroeconomic policy framework. The key policy targets are: the investment rate is to increase from 24.4 percent of GDP in FY10 to 32.5 percent by FY15; exports are to increase by 15 percent annually during FY12-FY15 ; tax to GDP ratio is to increase from 9 percent of GDP in FY10 to 12.4 percent by FY15; prudent macroeconomic policies would be maintained to keep inflation low and preserve the stability of the exchange rate; role of the private sector would be bolstered to play a bigger role in infrastructure financing; public investment will emphasise infrastructure, human development, agriculture and social protection; and income inequality will be reduced by improving the equity of the budget.

The actual results of the first two years under the sixth plan are summarised in Table 1. The data on outcomes of the first two years of the sixth plan suggest serious shortfall in GDP growth, investment, export and inflation targets of the sixth plan. If corrective actions are not taken quickly, it will be near impossible to achieve the sixth plan's GDP and exports growth targets, which in turn will jeopardise the employment and poverty targets. There are also serious issues regarding the equity aspects of the budget, including pressure on inflation, which raises concerns about the plan's realism in achieving an improvement in income distribution.

Against the backdrop of the above, the targets and policies underlying the FY13 budget gain added significance. This mid-term budget of the sixth plan needs to tackle forcefully the gaps in economic performance in order to put the economy on the path of the sixth plan and Vision 2021.

Table 2 summarises the FY11 and FY12 budget outcomes and the FY13 budget target. There are a number of positive aspects of budgetary management of the past two years. The fiscal deficit has been contained at around 5 percent of GDP; the tax to GDP ratio has been growing as planned; public investment spending has been rising; and budget spending has been focused in priority areas of infrastructure, education, agriculture and health. These have had a positive effect on economic growth and human development. But the efforts, although in the right direction, fall short of what is needed to achieve the sixth plan targets.

While the tax to GDP ratio has been increasing, the overall tax performance remains weak by international standards and available resources fall far short of what are needed to achieve the targets of the sixth plan. The budget continues to rely heavily on trade taxes including supplementary duties. This has contributed to unintended trade protection that has hurt exports. High trade protection is a major reason for the inability of Bangladesh to diversify the export base.

On the spending front, a major budgetary problem is the inability to curb large subsidies in energy that has caused the current spending to swell. The fiscal deficit targets have been achieved by curbing public investment spending in both FY11 and FY12. As a result, the public investment rate is significantly below the rate needed to achieve the growth targets of the sixth plan. In particular, the FY11 and FY12 budgets have both failed to implement the planned investments in infrastructure. The much heralded public-private partnership (PPP) initiative for infrastructure did not take off in a significant way. Shortage of foreign financing has caused excessive reliance on borrowings from the Bangladesh Bank that has contributed to inflationary pressures. Budget borrowing has also constrained the availability of credit for the private sector.

Improvement in income equality requires policies to improve the equity of both taxes and public spending. Heavy reliance on inflationary financing has had adverse consequences for poverty and income distribution. There is plenty of empirical evidence that inflation hurts the poor and low income groups more than the better off. On top, there are considerable loopholes in the tax net that allow the rich to escape a substantial amount of their income and wealth from the tax net. These include capital gains on real estate transactions and from stockmarkets and property taxes. Personal income tax collection remains woefully low at around 1 percent of GDP even though the top 10 percent of the population accounts for a whopping 35 percent of the national income. This indicates that the effective income tax rate, which is supposed to be the most progressive tax instrument, is a mere 3 percent as opposed to an inflation tax rate of 10 percent which is highly regressive in nature.

TABLE 1: **SUMMARY OF KEY MACROECONOMIC TARGETS**

	Benchmark FY10	Actual FY11	Estimate FY12	SFYP TARGETS FY12	FY13	FY14	FY15
Real GDP Growth Rate	6.1	6.7	6.3	7.0	7.2	7.6	8.0
Investment Rate (% of GDP)	24.4	24.7	24.9	28.8	29.6	31.0	32.5
Export Growth Rate (%)	4.2	40.1	10.0	15.0	15.0	15.0	15.0
Fiscal Balance (excluding grants) (% of GDP)	-3.6	-4.4	-5.1	-5.0	-5.0	-5.0	-5.0
Tax/GDP ratio (%)	9.0	10.1	10.5	10.6	11.2	11.8	12.4
Inflation (average)	7.3	8.8	10.0	7.5	7.0	6.5	6.0
Poverty rate (headcount %)	31.5	29.7	28.1	27.9	26.1	24.3	22.5
Share of manufacturing employment (%)	11.2	11.9	12.1	12.8	13.4	14.0	15.2

TABLE 2: **SUMMARY OF FISCAL POLICY DEVELOPMENTS FY10-FY13**

(As percent of GDP)	Benchmark FY10	Actual FY11	Estimate FY12	NATIONAL BUDGET FY11	FY12	FY13
Total Revenues	10.9	11.8	12.6	11.9	13.2	13.4
Tax Revenues	9.0	10.1	10.5	9.7	10.7	11.2
Current Expenditure	10.6	11.7	12.7	11.6	12.6	12.6
Subsidies	1.8	3.2	3.7	2.3	2.9	4.1
Interest Payments	2.1	2.0	2.2	2.0	2.0	2.2
Development Spending	4.1	4.5	5.0	5.3	5.6	5.8
Fiscal Deficit	-3.6	-4.4	-5.1	-5.0	-5.0	-5.0
Foreign Funding	1.5	0.7	1.3	2.0	2.0	1.8
Domestic Financing	2.1	3.7	3.8	3.0	3.0	3.2
Bank Financing	-0.8	3.2	3.2	2.0	2.1	2.2

On the spending side, although the government has put priority on health, education, agriculture and social protection, weak implementation and inadequate availability of funding limits the positive effects of this policy. For example, Bangladesh spends only 2.4 percent of GDP on education and 1 percent of GDP on health as compared with 4.8 percent and 3.5 percent respectively in Korea. The 2 percent of GDP spending on social protection is similarly inadequate compared to the needs of the population. There are also substantial issues regarding the quality of these spending.

The policy gaps in the last two budgets suggest the need for an aggressive and tough budget stance in FY13 in order to recover the lost ground from the last two budgets. How adequately does the draft FY13 budget presently debated in parliament meet this challenge?

On the growth front, the main budget instruments are public investment, exports and deficit financing. The FY13 budget continues to keep the fiscal deficit under control at below 5 percent of GDP, which is a positive development. It also targets a 0.8 percent of GDP increase in public investment. A key question is how will the increase in investment be financed? Taxes are projected to grow by 0.2 percent of GDP, which still leaves a financing gap of 0.6 percent of GDP. Unless corrective actions are taken to reduce subsidies, it is very unlikely that the investment target will be met. The cumulative shortfall in public investment over the three-year period of FY11-13 would be in the range of 2 percent of GDP, which is a serious shortfall.

Regarding exports, the FY13 budget continues to rely heavily on trade taxes and has introduced some further anti-export measures. So, the ability to achieve a 15 percent growth in exports in FY13 in an environment of European debt crisis looks very difficult. Similarly, the continued strong reliance on bank borrowing for budget financing will imply a likely adverse effect on credit availability for private finance that could hurt private activities. In this environment of both investment rate and exports growth being substantially off-track, the sixth plan GDP growth target will not be met.

The projected reduction in poverty incidence and the increase in employment share in manufacturing in Table 2 are both predicated on achieving the GDP and export growth targets of the sixth plan. A shortfall in the GDP growth target or the export growth target will naturally imply an inability to achieve these outcomes.

Regarding inflation, the result will depend upon the budget's ability to keep the lid on subsidies. The level of deficit financing through the banking system, which is already on the high side, especially in the context of the restrained monetary policy required for inflation control, is predicated on that. The targets for subsidies and bank borrowings were both bust successively in the last two budgets, which leaves an uneasy feeling that the FY13 budget continues to walk on a tight rope.

Concerning income distribution, the budget does not come close to taking any significant measure to improve this. The loopholes in the income tax net remain, largely owing to the absence of effective capital gains and property taxes. On the expenditure side, the tight resource situation and continued strong pressure from subsidy limit the ability of the government to expand the required programmes in the areas of safety net, rural infrastructure, health and education.

These aspects of the FY13 budget lead to the natural conclusion that it does not make any significant effort to catch up with the lost momentum on investment, exports and income distribution from the first two budgets of the sixth plan. This is a missed opportunity. With elections still some 18 months away, the government could take tougher actions on the income tax and subsidy front to release resources for funding higher public investment and social programmes. Trade protection should be reduced to boost exports. The government could also mobilise higher levels of foreign funding to finance much needed investments in infrastructure. These policies would also allow the government to reduce reliance on bank borrowing, thereby freeing up more credit for the private sector while also lowering the pressure on the creation of high-powered money.

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