



# Time to reflect on budget

*The government faces scrutiny in presenting the last budget for this term*

FAHMIDA KHATUN

**B**UDGET is a means to implement economic activities of a government. The political government prepares the budget in line with its political philosophy. This was the case with the present government as well when it took over power in 2009. The government set several milestones when it presented the first budget during its current regime. These included among others, growth of gross domestic product (GDP) to 8 percent by 2014 and to 10 percent by 2017, maintaining price stability, enhancing rate of investment to at least 30 percent of GDP, undertake three year special programme to mitigate the power and energy sector deficit, curbing corruption and attaching highest priority to establish digital Bangladesh. Now after four years, as the fifth budget of the present government is announced, a common citizen would like to reflect on the earlier commitments made by the government and try to compare those with the actual performance. This is more so as the budget is also considered by citizens as an instrument for realization of their expectations. However it depends, to a large extent, on the context and reality under which the budget is prepared and implemented. That is, the performance of the economy can influence the implementation of the budget significantly.

The budget for fiscal 2014 has been prepared in the backdrop of a few distinguishing features that the economy experienced during fiscal 2013. The macroeconomic scenario in the current fiscal year indicates that there has been impressive achievement in case of income tax, export growth, remittance flow and balance of payment. Though revenue collection of the National Board of Revenue (NBR) falls short of the target, the achievement in case of direct tax, particularly of income tax, has been significant.

In July-April 2013, the increase in income tax has been 34.6 percent against the target of 24.9 percent in fiscal 2013. Besides, despite low recovery of global financial crisis, exports from Bangladesh increased 10.1 percent in July-April, compared to the same period a year ago. Similarly, remittance in the same period has increased by 15.9 percent.

Utilisation of foreign aid in project implementation has accelerated as there has been a higher flow of foreign aid. Supported by these, the balance of payments sees a large surplus and foreign exchange reserves get stronger. There has been improvement in government investment as the implementation of annual development plan (ADP) has been greater in July-March of fiscal 2013 compared to the same period in fiscal 2012. Another major achievement of the present government is food self-sufficiency which has been possible through incentive measures.

The budget for fiscal 2013-14 comes at a time when the



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economy is faced with some challenges in terms of meeting its targets in the area of GDP growth, performance of NBR and private investment. Based on nine months' data, Bangladesh Bureau of Statistics has predicted that the GDP growth will be around 6 percent. The revenue collection scenario in July-April of fiscal 2013 has increased 16.1 percent which is lower than the targeted level at 18.5 percent. The private investment scenario is depressed. As a share of GDP private investment is expected to be 19 percent compared to 20 percent in fiscal 2012. The investment scenario has been dampened by power and energy crises, high bank interest rates and political instability. Low investment is reflected through a lower flow of credit to the private sector and lower imports of capital machinery.

Against this backdrop, the budgetary framework for fiscal 2014 reveals that total expenditure has been increased by 17.5 percent in fiscal 2014 compared to revised budget of fiscal 2013. Total revenue on the other hand, will be 19.9 percent higher in fiscal 2014 than the previous fiscal year. The higher target of revenue is justified as the current trend of revenue mobilisation is not so encouraging and has become dependent largely on direct income. This is, of course a positive move. Due to depressed investment demand, import of capital machineries has observed a negative growth during

July-March period of fiscal 2013. Import duty grew only 0.9 percent in the same period as opposed to the target of 16.2 percent. In the coming months, as the country approaches to national election, political instability is apprehended to be intensified resulting in further discouragement for investment. Hence the import duty has lower chances to pick up. The NBR has a tough task to expedite their efforts to meet up the gap in revenue generation.

The financing of the deficit budget, which is set at 4.6 percent of GDP, will come largely from domestic sources. Though the share of bank borrowing as percentage of GDP remains the same, the share of bank borrowing in total budget deficit is set at 47.2 percent in fiscal 2014. This is higher than the initial allocation of fiscal 2013. However, the target of bank borrowing in fiscal 2013 has risen to Tk 28,500 crore against the target of Tk 23,000 crore resulting in higher interest payments. During the first half of fiscal 2013, interest payment has been 33.6 percent against the 15.7 percent target. This is not desirable as these resources could be used for productive activities towards poverty alleviation. The target for non-bank borrowing through national savings schemes (NSS) has seen a significant reduction in terms of realisation in fiscal 2013. This has probably led the budget to set a lower target for NSS in fiscal 2014. However, if there is not enough incentive through upward revision of interest rate on NSS, any progress on this success may once again be difficult to make.

The much-debated provision of whitening of undisclosed money is once again back in the proposed budget. Owners of undisclosed money can legalise their money by paying 10 percent tax on the transfer or contact price while buying land, plot or flat. While these provisions are supposed to inject money in the system and help mobilise resources for financing the budgetary activities, the success has been negligible. Apart from low collection, the ethical ground of such provisions for undisclosed money is very weak as tax evaders are supposed to be punished rather than rewarded with such leniency. It is unfortunate that regular taxpayers are often harassed by the authorities while tax evaders curry favour.

A closer look at the ADP indicates the share of allocation for carryover and unapproved projects in the budget of fiscal 2014 is higher than in fiscal 2013. Given the increase in spending, the completion of carryover projects demand highest priority. Also allocation for unapproved projects should be reduced. The allocation for much-talked-about Padma bridge will mostly remain unutilised since the initiation of the actual implementation of the project requires several preparatory activities. There is inadequate time before the national election to complete these initial tasks.

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## Some misses in budget

AF Nesaruddin, partner of Hoda Vasi Chowdhury & Co, shares his views on the budget with The Daily Star. The following is what he thought the budget missed.

- The corporate tax rate has not been reduced. A low corporate tax rate is an incentive for foreign direct investment and helps reduce tax evasion. Corporate tax in Bangladesh is apparently high if compared with neighbouring countries and similar economies.

- No major avenues have been identified to widen the tax base. There appears to be no measure to improve the tax-GDP ratio.

- The presumptive tax for the transport sector is not justifiable and causes a lot of tax leaks, setting back tax collection. Transport should come under the normal tax system. The renewal of route permits should be subject to payment of normal tax.

- Additional tax over the tax collected under 82C as final settlement has remained unchanged. Charging additional tax is contradictory and against the basic principle of "final settlement".

- Certain emerging and employment-generating industries like tourism are still out of tax holiday or reduced tax.

- No steps appear to have been taken to reduce the discretionary powers of assessing officers and as a result, corruption by assessing officers and hassle for taxpayers will remain. No steps were also taken against enforcement of arbitrary and unlawful assessment orders and tax demands.

- The audit system for universal self-assessment returns is still not scientific and transparent. In majority cases, taxpayers are being harassed for arbitrary assessments and decisions.

- Appointment of 'judicial member' in each bench of the tribunal has not been considered and tribunals are mostly run by departmental officers losing its independent and neutral character.

## NEWSINbrief

### District budget begins with Tangail

STAR BUSINESS REPORT

Along with the national budget for 2013-14, finance Minister AMA Muhith yesterday placed a separate budget of Tk 1,673 crore for Tangail district, beginning the process for district budget presentation.

He said budgets for six more districts of six divisions will be prepared and placed in parliament by June.

Work is on to prepare budgets for all the districts, he told the parliament.

The budget for Tangail district was prepared on the basis of the allocations against different government departments and local government bodies and non-government organisations in the current fiscal year and the proposed allocation for the next fiscal year.

### Online TIN registration takes off this month

The government is set to introduce online registration of tax identification numbers (TINs) within this month.

Using details from their national ID card, taxpayers will be able to get their TIN certificates from home.

The government also hopes to start online tax returns processing by 2014.

### PSI system to end on June 30

The mandatory pre-shipment inspection system in customs management will come to an end on June 30.

The installation of ASYCUDA World software (customised software) will help customs to resolve problems associated with classification and valuation of imported goods.

However, optional PSI system will take effect from July to ensure hassle-free customs valuation and assessment of imports.

### Some tourism items may get duty waiver

The government has taken an initiative to allow import of some machinery and items at concessionary rates for the development of the tourism sector.

However, only the instruments recommended by the cabinet committee on tourism would get the exemption from the existing customs duty and applicable taxes. It is expected that this will promote investment in the sector.

## Govt draws up ambitious plan for railway



STAR

The interior of a commuter train recently introduced to Bangladesh Railway. In a big plan to revamp the railway system, the government will invest more than Tk 120,000 crore in the next 17 years.

STAR BUSINESS REPORT

**T**HE government has drawn up an ambitious plan to develop the railway communication for which it has to invest more than Tk 120,000 crore in the next 17 years.

However, the finance minister did not clearly mention the sources of the huge amount to put railway on a higher trajectory by 2030.

He hinted the money will come from both local and foreign sources.

Railway officials and analysts said the government will have to depend on foreign donors to materialise the plan.

Currently, Bangladesh Railway is implementing 44 projects with funds mainly from India, JICA and Asian Development Bank.

The allocation in the railway sector in the new fiscal year does not also support the master plan. An addi-

tional Tk 850 crore has been given to the sector in the proposed budget, which is much less than what the sector needs to implement its ongoing projects.

Since independence there has been little or no investment in railway, which left the public transport sector in disarray.

The master plan will be implemented in three phases.

In the short term, the railway will implement the 44 ongoing projects by 2015. The projects include construction of new tracks, improvement of the signalling system and procurement of locomotives and coaches.

Also, there is a plan to take up about 50 new projects during the short-term period of two years. Linking with Trans-Asian highway is included in this phase.

The expansion of the domestic and international rail network will get

priority in the mid-term plan spanning 2015-21 when 49 projects will be implemented.

The construction of elevated circular rail lines around Dhaka, lines from Tungipara to Fakirhat and conducting feasibility study for some projects have been kept under the long-term plan.

Another 57 projects will be implemented in the long-term programme from 2021-30 to develop the railway as a modern service providing organisation and extend its network beyond the territory after covering all the parts of the country.

Some of the projects aim to build rail lines from Khulna to Barisal, Barisal to Kuakata, and Navaran to Satkhira and establish rail connection between Chittagong and Khagrachari and Bandarban. Linking Cox's Bazar with the proposed deep-sea port at Sonadia is also included.

## Import duty for shipbuilding to go down

GAZI TOWHID AHMED

**F**INANCE Minister AMA Muhith has proposed to reduce the duty on imports of shipbuilding accessories and raw materials to 5 percent from existing 25 percent to bolster the local shipbuilding industry.

In his budget speech yesterday, Muhith said the reduced duty will boost the growing export industry.

The government move will help the sector grow as international orders are falling due to the world economic meltdown, said Afruja Bari, managing director of Ananda Shipyard.

Local shipbuilders will be able to offer low prices to the local entrepreneurs with the cut on import duty, she said.

The government step will help the sector flourish further, said Md Sakhawat Hossain, managing director of Western Marine Shipyard.

The government should increase duties on import of new or used ships to 25 percent, which will compel businessmen to look to domestic shipbuilders, Hossain said.

"We can save a lot of foreign currency if the country reduces its dependence on imported ships. It will also create more employment opportunities."

## Superstores to get a boost

SUMAN SAHA

**T**HE government plans to withdraw the supplementary duty on equipment import for superstores.

The preservation of perishables at certain temperatures is important in such stores that need different types of equipment such as cabinets, showcases, display counters and refrigerators.

These items are currently subject to 107 percent tax, including a 30 percent supplementary duty.

The proposed budget withdrew this 30 percent supplementary duty for VAT registered super shops.

More than 150 outlets now operate in the country with a total investment of Tk 750 crore, said Md Zakir Hossain, general secretary of Bangladesh Supermarket Owners' Association.

The withdrawal of the supplementary duty will help expand the sector, he said.

It currently requires around Tk 6 crore to set up a superstore, which would come down to Tk 4.5 crore due to the tax exemption, Hossain said.

Supermarkets account for around 2 percent of total sales in the country, compared to around 10 percent in India, industry insiders said.