

BUDGET FY2018

# Middle class: Loser on all counts

## Why are citizens paying so much more?

No justifiable reason to keep prices up

THE Bangladesh Petroleum Corporation's (BPC) own data shows that it is going to make a massive profit this fiscal year. In the last three years, the BPC has made a profit of Tk. 20,500 crore by charging citizens high prices for fuel. Yet, despite repeated calls from economists, businesses, etc. to lower domestic energy prices, the authorities have repeatedly come up with one excuse after another to keep prices high, even when international prices have been low.

One of them happened to be the bank loans the BPC had. But now that those loans have admittedly been paid off, it makes no sense not to lower prices. Another common excuse the authorities have often used is the subsidy given to the BPC. But the fact of the matter is, it is the taxpayers' money which had been used to subsidise the BPC. And it makes even less sense to now charge the same taxpayers' higher prices so that the BPC can deposit the subsidy amount to the government. What good is it to have citizens pay double and have the money sitting around in the government's coffers?

Meanwhile, experts have fervently pointed out the huge benefits the overall economy can enjoy from lower energy prices. Citizens too would benefit most from the price cuts, having had to pay much higher prices than the international market for years now.

We hope that the government will take heed of what is most in the interest of citizens, the economy, etc. and act accordingly by lowering energy prices.

## Cleaning clogged canals

A put on?

A picture carried in an inside page of this paper showing an excavator cleaning a clogged canal -- the Dholiakhal, in the capital city, is fairly representative of the conditions of many other canals and waterways in the country. Once a lifeline of Dhaka, it ran through the centre of the city into the Buriganga, it has been long dead and the small streams that ran into the canal are moribund like the three main rivers around the capital.

Much of the current state of these water bodies is due to the way we have defiled them. These have been filled up to make way for buildings. Effluence and waste have been allowed to disgorge into these canals from industries making these unusable. Regrettably, cleaning up drives have been far and few between, and that too, in most cases, very cosmetic. And no sooner had a canal been cleaned up of the waste and restored to its previous form to some extent then it was illegally occupied and made a dumping area for the locals.

The regretful part of the story is that most of the illegal occupation and the illegal structures along these canals are the work of 'influential' persons, as is the case depicted by the said picture. And the shops and shanties built along it cannot be pulled down because the influential person can 'cause trouble.'

The question is how long will influence and links continue to impede delivery of public good, how long will the nexus of money and muscle continue to call the shots to the detriment of public interest?



While private investment is yet to pick up, steering the wheel of the economy, public investment has been making up the void to some extent, but faces the challenge of improving efficiency and accountability of large expenditures. Employment generation has slowed down despite high GDP growth. And to top it all, piled up bad loans in the banking system have hit the governance of the whole financial sector.

The task of formulating a budget in such a situation is understandably not easy. Maintaining the growth momentum, energising the investment, creating jobs and reducing poverty -- all demand the close attention of policymakers.

The budget can be a tool to achieve these objectives which in the medium and long term would benefit the citizens of the country. It can also directly affect the lives of people in the short run particularly through various fiscal and allocative measures. That is why every year common people become curious and alert about the proposals of the upcoming budget. They are interested to know which goods and services will become costlier, which ones will be cheaper and how they have to plan their future consumption patterns within their limited income. More often than not, the middle class feels the pinch of fiscal measures more than others.

The proposed budget for FY2018 does not bring anything for the middle class to cheer for. Due to a number of measures, the middle class has to brace themselves for having more money drained out of their pockets with less net income. The tax exemption threshold for personal income tax remains the same at Tk 2.5 lakh for the last three fiscal years without being adjusted for the inflation rate. Similarly, tax for income up to Tk 6.5 lakh remains unchanged at 10 percent. In its budget recommendations for FY 2018 the Centre for Policy Dialogue suggested for lowering the personal income tax rate for this income threshold to 7.5 percent so that they have more disposable income. The foregone revenue could be made up for through bringing more taxpayers into the net and collecting resources from tax evaders.

With the ambition to achieve 26.2 percent higher public expenditure, the revenue mobilisation effort has also been set 31.8 percent higher than the revised budget for FY 2017. The attempt to meet this large revenue target is thus desperate. Ironically, people who are already in the tax net become the target for additional tax collection. Such extraction from soft

targets is demotivating for honest taxpayers. A classic case of resorting to another easy route is the proposal to increase excise duty on bank deposits. In most cases, individual deposits are already taxed.

As it is, interest rate on bank deposits has declined drastically during the last few years due to low demand for credit in the face of tepid private investment. Higher excise duty coupled with income tax deduction at source, various bank charges, and inflation rate would reduce the net return from bank deposit instead of gains. This will discourage savers to keep money in the bank. This is contrary to the objective of enhanced financial inclusion and encouraging bank transactions for more transparency.

group or even into poverty. The non-existence of social protection by the state and low allocation for the social sector has put the full burden on the people themselves. Allocation for the health sector is abysmally low at 5.2 percent of the total budget expenditure, 0.92 percent of the GDP in the proposed budget.

The initiative of implementing the VAT act is a positive step as it would streamline revenue collection through a modern system. In the midst of hue and cry, a number of items have been kept outside the VAT. Despite several products being exempted from VAT the apprehension of price hike and inflation continues since market prices in Bangladesh do not follow any norm. In the absence of consumer protection and



ILLUSTRATION: EHSANUR RAZA RONNY

Whether a person having a bank balance of Tk 1 lakh is wealthy or not is an illusion. For a petty salaried person, Tk 1 lakh is a large amount. Even for those who earn a monthly income of Tk 1 lakh and live in Dhaka this is a dear amount. Thanks to mal-governance in the banking sector and corruption in the economy, a lot of unearned money is also floating in the market. This has pushed up the cost of living which cannot be explained by the official inflation rate. The pressure of this easy and unaccounted money has reduced the value of Tk1 lakh significantly which many of us may not realise.

In the event of any shocks of such as critical illness, the middle class risks sliding into the lower income

market monitoring measures, consumers end up paying a lot more without any reason. No plausible explanation can be given why a kilo of chickpeas goes up from Tk 80 to Tk 90 within 24 hours. So the operational issue for VAT exemption in reality has to be followed up so that the benefit is transferred to consumers.

The middle class is considered to be the driving force for higher growth and investment across the world. As a thriving economy Bangladesh should not undermine the potential of its large and growing middle class.

The writer is the Executive Director of the Centre for Policy Dialogue.

## UK GENERAL ELECTIONS 2017 Is Theresa May in for a surprise?



MD ABDUL HANNAN

British Prime Minister Theresa May has faced huge criticism for her deliberate absence from a BBC debate held on May 31 in Cambridge with other leaders, including her strongest opponent Jeremy Corbyn of Labour Party. Mrs. May argued that she "prefers to reach out to the real voters" while "Jeremy prefers the number of debates".

Theresa May surprised everybody by calling a snap election on April 15, 2017, citing as an excuse the need for a stronger Britain with a renewed mandate for BREXIT negotiations with the EU. Calling the opposition parties "a

year). Her policies on austerity measures, which impacted social care (even cutting lunch for school children), police force and the NHS, faced stiff criticism. The Labour manifesto (titled For The Many Not The Few) on the other hand, received positive reaction which resulted in enhancing the ratings dramatically in Mr. Corbyn's favour, though the party still trailing by 5-9 percentage.

Earlier, Mrs. May's performance in a TV interview with Mr Corbyn didn't auger well. Both the leaders were practically grilled by the moderator. Mr. Corbyn did better by responding knowingly and forcefully to the questions. Mrs. May termed the labour policies "half cooked and unrealistic" and claimed that Mr. Corbyn will be a "risky choice for Brexit negotiations just 11 days after the general election

the Houses of Commons and the Lords. She probably declared snap polls to enhance her legitimacy as the PM of Britain by winning a general election as leader of her party. But it is to be noted that she had high popularity amongst pollsters vis-a-vis Mr. Corbyn (around 20 percent) even in mid April, projecting an overwhelming majority for her party.

She was not in a comfortable position even within her party politics. Her Secretary of State Boris Johnson, Secretary of State for Exiting the European Union David Davis, and former Justice Secretary Michel Gove, openly campaigned against former Prime Minister David Cameron during the Brexit referendum. She had failed to carved out a profile against Cameron even while claiming leadership of her Party and the country.

also emerged as a factor. The Swing voters group will be larger than before. Mr. Corbyn started attracting pro- and anti-Brexit voters in favour of a 'deal' with EU on a win-win basis. Liberal Democrats (Lib Dem) could regain the position that they lost in 2015 while the Scottish National Party has become even more serious about solidifying their position in Scotland.

If it's a hung parliament, even if Theresa May still leads in the election, her leadership within her party will be questioned. Essentially, she will either leave or be weaker even if she manages to muster up a coalition government, that too provided that the Conservative's former partner Lib Dem enjoys sufficient numbers and is willing to join the coalition. LibDem is, however, very vocal against Brexit this time around and favours a single EU market which would include Britain.

Theresa May has already been cautioned by EU leadership to not mislead the British voters about the cost of the 'divorce' and EU's fundamental pillar-free movement of their citizens and their rights. Presently, the EU has been quite inflexible and demonstrated their solid unity and readiness to negotiate on the 11th day of the British election.

Contradicting the poll ratings, Mr. Corbyn could also emerge as the Prime Minister of Her Majesty's government, though he has a different position on British monarchy and 'personally prefers for Britain to become a Republic'. If he forms a coalition, he too, will be in a weaker position when it comes to negotiations with the EU. That is possibly the reason why Mr. Corbyn indicated that he would be interested in reaching a 'deal' as opposed to Theresa May's hard line "no deal is better than a bad deal" stance. However, it would be premature to bet on either May or Corbyn as a clear winner.

Following Ed Miliband's debacle in 2015, Jeremy Corbyn emerged as the Labour Leader from nowhere. Immediately after the BREXIT referendum, he had to prove his leadership once again. As a 'radical left winger' Jeremy Corbyn has recently proved himself a survivor with regard to his leadership crisis since 2015. Thus, the question remains: Are the British people and others who are interested in Westminster politics, and particularly Mrs. May, in for a surprise?

The writer is a former Ambassador and Secretary



PHOTO: AFP

coalition of chaos", Theresa May maintained that only she could "negotiate the right Brexit deal, fully committed to the cause with a clear plan to see it through". And, she is prepared to negotiate with a principled position and the belief that "no deal is better than a bad deal" on issues such as immigration, cost of divorce, trade, EU rules, and supremacy of the British judiciary, among others.

On policy issues, Theresa May has not been so comfortable. The non-EU immigration cap she introduced as Home Secretary failed (the number rose to 175,000 against a cap of 100,000 a

wanted by EU". Mr. Corbyn is also "absolutely unprepared", she added. Even in the BBC Question Time: Leaders speak programme, although they were given separate time slots, Theresa May faced awkward questions that called out on her manifesto lacking detailed information on policy issues, particularly on social care. Jeremy Corbyn, on the other hand, appeared rather confident and well-prepared with a detailed manifesto.

Calls for a snap election, political analysts suggest, was not even necessary as Theresa May, before triggering Article 50 for BREXIT, had the approval of both

Pollsters suggest that Mrs. May could lose the present simple majority and it will be a "hung Parliament". Recent opinion polls suggested that the gap between May and Corbyn is continually narrowing, though she is still leading. However, pollsters also projected that Conservatives would lose 20- 56 seats against Labour's 28 seats gain in 2015. Considering the failure of pollsters in predicting a Conservative majority in 2015, the BREXIT referendum and Trump's victory, people have started losing faith in them.

The BREXIT issue will definitely impact this election but the economy has

## LETTERS TO THE EDITOR

letters@thedailystar.net

### "Tears for taxpayers"

It seems that the "honourable entrepreneurs", ministers, members of parliaments and bureaucrats are taking away money from the banks, where the lower middle and middle class are trying to accumulate their hard earned money for the uncertain and vulnerable days when they won't be able to earn any livelihood. The government has been 'silently' deducting Tk. 500 for every Tk 1 lakh that is saved in banks. How disgraceful is it that the government, the protector of the lives and wealth of citizens, is itself quietly siphoning the hard earned money from its people without even letting them know. Who do we trust?

Fawzia Chowdhury

by E-mail

### The possibility of bank runs

The banking sector of Bangladesh may face difficulty in dealing with its customers due to increase of excise duty on debit and credit balances. People will be reluctant to use banking services and withdraw their savings; this may cause bank run in the financial sector. No one can expect negative returns on their savings account. On the other hand, no tax is levied on the interest of savings certificate and interest rate of savings certificate is higher than deposits of banks. This will keep the people away from using banking services.

The government has also decided to take a domestic debt of TK 28,203 crore from the banks in the fiscal year 2017-18. People will prefer to use non-banking channels to execute transactions that will produce negative impacts on the economy that may lead to increase in shadow money. As a result, the banks may face a liquidity crisis. The spirit of financial inclusion will be hampered. It will narrow the space for small investors to invest their savings in other fields because there is no bond market, and the health of the capital market and financial derivatives are not strong. Therefore I urge the authorities to reduce the excise duty on debit and credit balances to ensure expected returns.

Newton Mia  
Department of Banking and Insurance  
University of Dhaka