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# New budget fails to address old concerns

*Proposed reforms amorphous*

THE proposed budget for fiscal 2019-20 did not throw up any big surprises, but that itself is perhaps somewhat of a surprise. The Tk 5,23,190 crore budget—biggest in our country's history—has maintained more or less the same allocation trends. Among the few noticeable changes is a substantial increase in budgetary distribution to the power and energy sector, which could benefit businesses in the long run, and an allocation of Tk 100 crore for startups—which we hope will be used transparently and kept free from corruption and nepotism.

The biggest concern with the budget is that it once again seems to favour monied quarters above others. And criticisms of past budgets and their lack of focus on key sectors such as education and healthcare, once again applies to this one. The budget does propose an increased social safety net allocation—from Tk 64,404 crore to Tk 74,367—but not nearly by what was hoped for. And despite talking about ensuring pension for all employed citizens in both formal and informal sectors, the budget proposal gives no clear indication how that would be achieved.

This seems to be a common feature of the budget across the board. As even the banking reforms that were mentioned during the budget speech, have remained largely esoteric in nature, with the budget itself failing to mention any concrete measures that could restore discipline in the sector. Furthermore, the overall lack of attention given to the sector, is also quite disappointing. As is the absence of much attention given to the agriculture sector, particularly after the struggles faced by farmers this harvesting season.

Middle- and lower-income groups will also be adversely affected by higher indirect taxes, which always disproportionately affects lower income groups. And if the government fails to bring the ultra-rich around to finally pay their share of taxes—which it says it plans to—revenue collection may seriously get hampered.

The budget will have a huge deficit of Tk 145,380, which the government plans to finance using both foreign and domestic credit. Increased borrowing from the banking industry, which is already in a liquidity crisis, could crowd out the private sector, creating further obstacles for private investment which too has been a major concern in the past years. Moreover, it is important to remember that the interest payment on borrowing will eventually have to be borne by the citizens. Which could prove to be a major burden on them in the long run.

This massive deficit financing also means that the government does not have much wiggle-room when it comes to achieving its revenue collection targets, which could prove difficult in the absence of substantive fiscal reforms.

Because the incumbent government has had the luxury of formulating several budgets in a row, this was a great opportunity for the ruling party to sort out many unaddressed issues from past budgets and make use of its budgetary intervention to now address some of the more burning economic concerns—such as lack of employment generation, rising non-performing loans and others—that we have. That, however, does not seem very likely from the budget proposal.

# When hospital wards become death traps

*Such negligence is criminal*

WHEN parts of the ceiling of a paediatric ward falls on child patients and their attendants, it cannot be dismissed as an accident. The five children and four attendants who were injured in a ward of Noakhali General Hospital on Wednesday when a part of the ceiling collapsed on them, are victims of criminal negligence on the part of the hospital authorities. The hospital was built in 1968 and had been declared abandoned three years ago. In fact all three buildings of the hospital are in a dilapidated state and this was known to the authorities responsible. Last year two nurses were injured when part of the ceiling in another building collapsed. After such obvious warnings, how could the hospital authorities allow it to go on operating, risking the lives of patients, attendants and staff?

The excuse that it continued to operate because there was no alternative space is completely unacceptable. Common sense dictates that such risky buildings should have been sealed off long time ago, whether alternative space had been found or not. It is only after this horrific accident that the hospital authorities sealed off the building and relocated them to another building. But why did they wait until this happened? And who will guarantee that the building they have been moved into is not free from such risk?

This kind of apathy towards basic maintenance of crucial infrastructure such as government school buildings and hospitals has come at a high price, namely deaths and injuries of people, including little children. Are human lives so unworthy to the authorities concerned that they allow such buildings to remain dilapidated for years on end? We urge the concerned ministries to immediately conduct a survey to identify these risky buildings, seal them off and make sure they are repaired so that they are safe again. If it is a question of having adequate funds, special budget allocations must be made for such maintenance and temporary relocation.

## LETTERS TO THE EDITOR

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### World cup in rainy days

The India-New Zealand match was the fourth to become the victim of British weather. Rain often plays the spoilt sport, in sport

Given the uncertainty which, not surprisingly, is disappointing to the fans and certainly to the teams for losing two points to the rains, should the organisers consider keeping a spare day, and organise the fixture with adequate gaps to factor in the unforeseen?

*By E-mail*

BUDGET FY2019-20

# Unravelling the realities

MACRO MIRROR

FAHMIDA KHATUN

BUDGET for fiscal year (FY) 2020 has not surprised us much. It maintains the status quo. One may, of course, argue that there is limited scope to demonstrate innovation through a budget since it is designed only for a year. But revenue collection and spending—two important activities of the budget—can have significant implications for the people of the country. It impacts our lives directly and indirectly. That is why a well thought out budget can help achieve medium- and long-term socio-economic goals of a government. So what precisely is the message of the budget for FY2020? Is there any new narrative for the future? What is there underneath the numbers that have been presented?

The economic context under which the budget for FY2020 has been announced is important to note. Gross domestic product (GDP) growth touched 8.13 percent, surpassing the target of 7.6 percent to be achieved by FY2019 according to the seventh five-year plan (7FYP) of the country. Per capita income has increased to USD 1,905 from USD 928 in FY2011. At 5.5 percent, the inflation rate is at a tolerable level. However, the external sector is facing challenges due to lower export and remittance income. This has resulted in negative current account balance. On social indicators, despite, lot of noises about spectacular achievements, some indictors such as maternal mortality, literacy rate and net enrolment at secondary level are far behind than targets to be achieved by FY2020. More importantly, high growth has so far failed to create employment in the economy and reduce inequality in the society. Thus, growth numbers were not meaningful for broader sections of the population.

The size of the budget is highest so far at Tk 5,23,190 crore. But that is still 18.1 percent of GDP and not large enough for an emerging economy. In FY2019, originally the size was 18.3 percent of GDP which became 17.4 percent in the revised budget of FY2019. What is always less pronounced is the performance against these numbers. Fiscal framework is becoming weaker day by day as both revenue collection and development expenditure targets remain unfulfilled. At the end of each financial year the budget deficit remains well within the target of 5 percent. This is because the capacity to spend is limited as is the capacity to generate revenue.

But the more noticeable part in this deficit is how to finance this deficit. This year there is an attempt to maintain a balance between foreign and domestic sources of deficit financing. Within domestic sources, bank borrowing will be the major source. However, in recent years saving certificate has become the dominant source of borrowing which is a costly source for the government. In FY2020, sale of national savings certificates is planned to be reduced by as much as 40 percent compared to last year. But the banking sector is observing a liquidity crunch. So how the government is going to borrow from banks without a crowding out effect on the private sector is something to watch out.

The budget does not take a strong position on improving the performance of a number of problematic sectors through concrete reform measures. The top of the list is the banking sector. Burdened with huge non-performing loans (NPL) and faced with liquidity crisis the banking sector needs a total overhaul to overcome the existing challenges. The amount of NPLs in the banking sector exceeded Tk 1 trillion for the first time in March 2019. The share of NPLs also rose to 11.87 percent of the total outstanding loans in the first quarter of FY2019 from 10.30 percent in the previous quarter. Without a full stop in the wilful default culture, curbing of political influence and corruption, and enhancement of efficiency, the banking sector will not get a new life. Sadly, the budget does not have much to offer towards solving such a serious problem. It talks of exit route for loan defaulters through insolvency and bankruptcy laws, but does not provide any details.

In line with higher budget, revenue targets are also set high. In FY2020, revenue target has been set at 13.1 percent of GDP compared to 12.5 percent in the revised budget of FY2019. High targets set during the last couple of years have been beyond the capacity of the National Board of Revenue (NBR). Without institutional strengthening of the NBR through meeting up human resource requirements and full automation, higher revenue collection is not possible. Budget speech does not shed any light on how revenue-GDP will be increased from the current low level.

The budget talks about creating three crores jobs by 2030. With a private investment hovering around only 23 percent of GDP for the last few years, how this additional employment will be created is somewhat fuzzy. A proposal to allocate Tk 100 crore for the training and employment of specific group of people is mentioned in the budget. But there is no clarity on the type of training and employment and the beneficiary groups. Besides, compared to the need of the large unemployed youth this allocation is negligible. There is also a commitment to allocate Tk 100 crore to provide start-up capital to the youth. One would expect that the distribution of this capital will be transparent.

Social sector has largely been ignored by successive governments. Total allocation for the education sector in FY2020 is 18.2 percent higher than the revised budget of FY 2019. However, if compared as a share of total budget, allocation for education has declined over time—from 12 percent in FY2009 to 11.7 percent in FY2020. Also, education budget is only 2.1 percent of GDP in FY2020. This is lower that the target of 7FYP. Similarly, allocation for health as a share of total budget has fallen from 5.1 percent in FY2019 to 4.9 percent in FY2020. Indeed, the share of health budget as percent of GDP remain at 0.9 percent since FY2017. This is lower than the target of 7FYP which was set at 1.12 percent of GDP.

In case of social safety net programmes, net allocation excluding pension is only 1.8 percent of GDP. This is much lower than the target of 2.3 percent of GDP as suggested in the 7FYP. As was pronounced in FY2019, the budget for FY2020 also refers to a Universal Pension Scheme. However, no allocation has been made for undertaking this scheme.

Given that the ruling party has implemented several budgets in a row, more innovation was expected in the budget. Instead, one sees several deviations from the political plank of the government that was reflected through commitments in its election manifesto during the national elections of 2018.


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Fahmida Khatun is the Executive Director of Centre for Policy Dialogue (CPD).

# Smile for a while?

MAHFUZ KABIR

PRIME Minister Sheikh Hasina herself presented the proposed budget this year! While it was completely a new phenomenon in the history of any country, she was praised for extending her affectionate hands to take on the finance minister's budget speech when it seemed very difficult for him to read it out. He often smiled despite his blurred vision and extremely weak physical condition, and the prime minister also smiled when her name appeared as the recipient of gratitude for many initiatives.

The budget cannot be termed as an "ambitious" one merely because of its size; it is 18.13 per cent of nominal Gross Domestic Product (GDP) projected for fiscal year 2019-20. An expenditure target which is up to one-fifth of GDP is considered to be less than ambitious for a developing economy that aims to accelerate the growth of real GDP and achieve rapid rate of poverty reduction consistently by adopting expansionary fiscal policy. However, my own calculation shows that Bangladesh can achieve minimum 8.45 and maximum 10.3 percent growth of real GDP in the next fiscal year with the same level of public spending. It implies that the Finance Division could either cut the size of the planned spending or set a higher target of GDP growth to do justice o the taxpayers through efficient use of public resources. Efficient use of resources necessarily implies optimum productivity of per unit of resource. Needless to say, wastage of money through leakages and investment in projects with very low return are among the major impediments to achieve higher productivity. Even though the Finance Division has been striving towards placing output-oriented budgeting at the centre of public expenditure management for nearly one and a half decades, it still remains a far cry.

The budget was expected to pronounce more on addressing at least four major macroeconomic and developmental concerns, which seems to have maintained a rather low key. First, it could delve more to achieve a rapid growth in private investment from a prolonged period of stagnation. Indeed, the growth of GDP seems to have been blessed with massive public investment, especially considerable spending for infrastructure and mega projects, and aided by political stability and absence of major natural disasters. The investment of public sector, nevertheless, cannot generate large-scale employment and sustain the motion of economic growth. A startup fund of Tk 1 billion is definitely a positive initiative to encourage young and creative people who want to emerge as entrepreneurs rather than job-seekers. But the main impediment for private investment is high cost of doing business including corruption as perceived by the business community. A specific work plan to improve business environment along with roadmap to make the special economic zones (SEZs) operational was imperative in the budget speech.

Second, the mounting inequality has been a major concern for which the redistributive measures, especially spending on direct poverty reduction and social safety net programmes (SSNPs) should have been increased more, since these seemed to have alarmingly failed to arrest rising economic disparity. The 2010 Household Income and Expenditure (HIES) data revealed that there is a "Kuznets curve" for Bangladesh's income distribution, while it suddenly disappeared in HIES 2016 even though the country has been performing quite well in terms of reducing poverty and social development. High inequality is the worst case of development, where the economy perpetuates to produce "super-rich" individuals with an abnormal concentration of income in their hands, while the overwhelming majority of the population are left with a modest share of national prosperity. Although the finance minister, at the outset of his deliberation, mentioned that the proposed budget would benefit everyone and the resources will go everywhere of the land including chars, haors and hills, an explicit mentioning and workplan on reversing the direction of inequality is missing in the budget speech. Traditionalism could be avoided in the SSNPs to generate higher and lasting impacts on poor, marginalised and backward communities.

Third, agriculture has received considerable attention including subsidy, research and development, and proposed piloting of the long-pronounced crop insurance. Conversely, the so-called "cobweb phenomenon" has appeared to be the biggest curse on millions of rice-cultivating small and marginal farmers. Extreme paucity of the government's storage facility during harvesting period, as well as lack of alternative track of the paddy-to-rice value chain, have led the ill-fated farmers to a never-ending spiral of misery. The proposed budget could have provided a clear direction to lessen their suffering and help them realise the essence of the country's magnificent economic development.

Fourth, effectively discouraging demerit goods, especially tobacco use was one of the most prominent demand from various civic groups including PROGGA and Anti-Tobacco Media Alliance, due to significant erosion of national welfare and physical wellbeing of the citizens. Increasing price of medium, high and premium brand cigarettes as well as introducing "minimum retail price" for smokeless tobacco products are praiseworthy. However, about three-quarters of smokers use low segment cigarettes and bidi but their prices have slightly increased. In addition to four price tiers of cigarettes and absence of specific tax on the top of ad valorem, the proposed tax and price measures would hardly help discourage tobacco use in the next fiscal year and achieve the prime minister's commitment to eliminate tobacco use by 2040. Rather, tobacco companies will benefit and get more breathing space to prosper and accumulate strength to survive.

Nevertheless, proper implementation of the proposed budget will determine whether the smiles of the prime minister and finance minister are one-off, or lasting till the end of the next fiscal year. It will depend on robust financing mechanism from domestic sources, despite the fact that performance of the National Board of Revenue (NBR) is dismal so far in the outgoing fiscal year. Proper execution will thus largely hinge on the implementation of the new Value Added Tax (VAT) law and increasing the number of individual taxpayers from a meagre 1.5 to 10 million in the next fiscal year. Both the targets will remain formidable challenges because the level of economy-wide automation preparedness of the NBR has not been encouraging.

I hope the smiles of our top policymakers will last long, not shine once and only for a while.

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