# National Budget FY2019-20: first impressions

Sadiq Ahmed

THE annual national budget is the most important government statement of its socio-economic policy for the coming year. The FY2019-20 budget is the last budget for the implementation of the 7th Five-Year Plan (FYP). It is also the first budget for the new government elected in 2018 and provides an indication of the government's thinking on policy and programme priorities and the reform agenda.

There are several strengths of the new budget. First, it admits the dismal state of affairs with tax revenue mobilisation, which at around 9 percent of GDP, is among the lowest in the world, and intends to address this policy failure in the new budget. Second, it anchors the budget to the macroeconomic framework of the 7th FYP and the forthcoming Perspective Plan 2041 (PP2041), thereby acknowledging the fiscal challenges moving forward. Third, it formally announces the intention to adopt the National Social Security Strategy (NSSS) approved in 2015 and initiates the implementation of the Bangladesh Delta Plan 2100. Fourth, it specifically targets several of the key growth drivers (public and private investments, exports and human capital) and seeks to take policy actions to stimulate these drivers. Finally, it reasserts the intention to preserve fiscal discipline and debt sustainability by keeping control over the fiscal deficit.

As against these strengths, there are major issues that reduce the quality of the budget as a strategic document. First and foremost, the revenue and expenditure projections are highly optimistic. Second, even though the budget is anchored on the 7th FYP and the PP2041, the underlying policy framework is either undefined or inadequate. Third, the prevailing challenges in the banking sector that can easily threaten financial stability are basically overlooked with no indication how they will be addressed. Fourth, the budget is completely silent on the need for reforms of public enterprises that are a huge drag on the Treasury. Finally, there is no mention of fiscal decentralisation that is key to improving public service delivery and urbanisation.

Budget Realism: Cumulative shortfalls in past budget implementations have enhanced the degree of optimism to an extent that the budget numbers are no longer in the realm of realism. With the fiscal deficit basically capped at around 5 percent of GDP, the size of the annual budget is essentially determined by the tax revenue mobilisation effort. Absence of tax reforms over past several years has caused the tax-to-GDP ratio to stagnate at around 9 percent of GDP and actual annual public spending has stabilised at around 14 percent of GDP. Yet every year the budget targets to increase public spending and the tax-to-GDP ratio by 1-2 percent of GDP that is not achieved.

As an example, total tax collection was targeted at Tk 3,059 billion in the FY2019 budget. Based on actual revenue collections for the first nine months, the estimated revenue collection is Tk 2,227 billion, yielding a revenue shortfall of Tk 832 billion. Combined with an estimated non-tax revenue shortfall of Tk 72 billion, the total revenue shortfall in FY2019 is estimated at Tk 904 billion. With fiscal deficit fixed at 5 percent of GDP, this massive revenue shortfall will be met through expenditure cutbacks, mostly in development spending but also reductions in transfers to local governments, state-owned enterprises, subsidies and social security spending.

The main reason for the revenue shortfall is the inadequacy of policy reforms to mobilise the targeted revenues. The ex-post expenditure cutbacks make the interpretation of the budget allocations, especially for development spending and transfer programmes, very unreliable because these are only intentions. Even the revised budget numbers are optimistic and not very helpful to understand what actually happened. This reduction in the meaningfulness of the budget numbers is a serious problem that needs to be addressed swiftly with the publication of actual budget outcomes for all revenue and expenditure items.

The revenue numbers and total spending for the FY2020 budget are similarly optimistic. Although the budget announces several tax measures, especially the implementation of the new VAT law and the intention to increase reliance on personal income tax, these reforms have major limitations that are not likely to yield the targeted and unprecedented 3 percent of GDP increase in tax revenues. The revenue effectiveness of the VAT is diluted by the introduction of several lower rates (5 percent, 7.5 percent and 10 percent) that are essentially excise duties and not VAT. Also, there are many exemptions in the VAT. Regarding income taxes, reliance only on increasing the number of tax collection centres and tax collectors will not likely increase the tax yield much. There are serious inefficiencies and corrupt practices in income tax collection that must be addressed comprehensively with a major overhaul of the income tax administration.

The projected revenue shortfall for FY2020 budget is Tk 800 billion (1.5 percent of GDP), suggesting that the likely growth in tax-to-GDP ratio would be 0.5 percent, which will be a positive development but far short of the targeted 3 percent. Total expenditure will similarly be below the budget by Tk 800 billion or so (1.5 percent of GDP). How this projected shortfall will be reflected in actual budget spending is unclear. However, given that a large part of the budget spending are fixed commitments (salaries, defence and security spending, interest costs, materials and supplies) the cutbacks will likely concentrate on the development spending, local government transfers, and safety net schemes. Because of this uncertainty, it is near impossible to analyse the true spending priorities.

Impact of the budget on GDP Growth: The budget targets a GDP growth of 8.2 percent for FY2020. It focuses on improving several growth drivers, including public and private investments, exports and human capital. The BBS shows progressive increases in public investment as a share of GDP (8.2 percent of GDP for FY2019 and 8.6 percent of GDP for FY2020). These investment rates are highly optimistic and not consistent with the ADP estimates of 6 percent of GDP for FY2019 and 6.3 percent of GDP for FY2020. The BBS says the difference is public investment by local governments and state enterprises. The problem is both institutions are financially bankrupt and their investment spending is financed directly through the budget. The mystery about the true level of public investment must be resolved credibly. Nevertheless, modest increases in the ADP have supported higher spending on infrastructure that has helped GDP growth.

An open question though is if indeed public investment is 6 percent of GDP as reflected in the ADP and private investment is 23 percent (BBS estimate), whether this 29 percent investment rate is adequate to sustain an 8 percent plus GDP growth rate. With growing capital intensity of production due to technology and skill intensity, this level of investment will appear inadequate. The budget proposes to expand the private investment rate by 1 percent of GDP in FY2020 through lowering the cost of doing business but provides no details how this will be done. For exports, the main policy is to provide fiscal incentives to textiles and RMG. Here the budget misses the boat by miles. The only sustainable way of expanding exports is through sharp reduction in trade protection and correcting the appreciation of the real exchange rate. The budget is silent on both counts. Regarding human capital the budget's focus on education and training spending is appropriate but the allocated education spending of 2 percent of GDP is highly inadequate relative to needs. The proposed increase in the taxation of ICT sector, which is already over-taxed, will likely reduce the growth impetus of this important growth driver and is also inconsistent with the Prime Minister's Digital Bangladesh Initiative.

Impact on Employment and Poverty: Much will depend upon the ability to sustain an 8 percent plus GDP growth, which is uncertain. Given technology changes and growing capital intensity of production, employment prospects will depend upon growth of relatively labour-intensive export-oriented manufacturing and upgradation of skills. The budget does not have a broad-based export promotion strategy. This is a major policy gap. The budget's emphasis on skills and employment for youth is good but policies are not well-defined. The 2 percent of GDP spending on education is business as usual. This spending has to go up to 3-4 percent of GDP to make a real dent in education quality and skill accumulation. Other necessary policies that are missing include decentralisation of education and partnership with private sector on training.

While GDP growth is a major determinant of poverty, public spending on health, education and social security are very important. The budget does well to focus on these areas, including the NSSS and the Delta Plan. The main problem is that the uncertainty surrounding the highly optimistic revenue targets will adversely impact on the budget's ability to finance social sector spending, especially social security programmes. Depending upon the magnitude of the expenditure cutbacks, the poverty impact will be commensurately reduced.

## BUDGET SUMMARY

| | (TK IN BILLION) | | | | (AS PERCENT OF GDP) | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 2017-18 | 2018-19 E | 2019-20 B | 2019-20 P | 2017-18 | 2018-19 | 2019-20 B | 2019-20 P |
| Total Revenue | 2,165.5 | 2,488.5 | 3,778.1 | 2,970.5 | 9.6 | 9.8 | 13.1 | 10.3 |
| Tax Revenue | 1,943.2 | 2,226.7 | 3,401.1 | 2,672.0 | 8.6 | 8.8 | 11.8 | 9.3 |
| Non-Tax Revenue | 222.3 | 261.9 | 377.1 | 298.5 | 1.0 | 1.0 | 1.3 | 1.0 |
| Total Expenditure | 3,218.6 | 3,747.8 | 5,231.9 | 4,424.3 | 14.3 | 14.8 | 18.1 | 15.3 |
| Revenue expenditure | 1,997.1 | 2,229.8 | 3,102.6 | 2,608.8 | 8.9 | 8.8 | 10.8 | 9.0 |
| ADP expenditure | 1,221.5 | 1,518.1 | 2,116.8 | 1,815.5 | 5.4 | 6.0 | 7.3 | 6.3 |
| overall balance (excluding grant) | 1,053.1 | 1,259.3 | 1,453.8 | 1,453.8 | 4.7 | 5.0 | 5.0 | 5.0 |
| overall balance (including grant) | 1,044.4 | 1,221.4 | 1,412.1 | 1,412.1 | 4.6 | 4.8 | 4.9 | 4.9 |
| GDP | 22,504.8 | 25,361.8 | 28,858.7 | 28,858.7 | | | | |

SOURCE: MINISTRY OF FINANCE AND AUTHOR'S PROJECTIONS. NOTES: E IS ESTIMATED; B IS BUDGET; P IS PROJECTED

*The writer is vice chairman of the Policy Research Institute of Bangladesh. He can be reached at sadiqahmed1952@gmail.com.*

# Huawei files lawsuit against US Commerce Department over seized equipment

Reuters, *Washington*

HUAWEI Technologies Co Inc filed a lawsuit against the US Commerce Department on Friday challenging whether telecommunications equipment it sent from China to the United States, and then back to China, is covered by Export Administration Regulations, according to a court filing.

The lawsuit is the latest salvo in a battle between the US government and Huawei. Washington says the Chinese company's telecommunications gear could be used by Beijing to spy. Huawei denies that is the case.

In the lawsuit, Huawei said that it shipped telecommunications equipment from China, including a computer server and Ethernet switch, to a testing laboratory in California. After the testing was done, the equipment was shipped back to China. No application for a license was made because none was needed, the lawsuit claims.

But the equipment was seized in Alaska by the US government, and no decision has been made about whether a license is required to ship it, the filing said.

"The equipment, to the best of HT USA's knowledge, remains in a bureaucratic limbo in an Alaskan warehouse," Huawei said in its lawsuit.

The Commerce Department did not immediately respond to a request for comment.

Huawei contends that the equipment did not require a license because it did not fall into a controlled category and because it was made outside the United States and was being returned to the same country from which it came.

Huawei asked for the equipment to be either released for shipment or for the Commerce Department to decide that it was shipped illegally.

In May, the Trump administration added Huawei to the entity list, barring it from buying needed US parts and components without US government approval. US President Donald Trump has said the United States could resolve complaints about Huawei as part of a trade deal.

Huawei Chief Financial Officer Meng Wanzhou, daughter of the company's founder, has been detained in Canada since December on a US warrant. She is fighting extradition on charges that she misled global banks about Huawei's relationship with a company operating in Iran.

Shortly after her detention, Chinese authorities detained two Canadians citizens, charging that with espionage.

AFP

**Huawei founder and CEO Ren Zhengfei gestures as he hosts a panel discussion on technology, markets and enterprise in Shenzhen, Guangdong province last week.**

# Southeast Asian leaders throw weight behind China-led trade pact

AFP, *Bangkok*

SOUTHEAST Asian leaders gathered in Bangkok on Saturday determined to drive forward the world's largest commercial pact, with the trade war between the US and China clouding the outlook for their export-led economies.

Disputes in the flashpoint South China Sea, Myanmar's persecution of Rohingya Muslims and plastic pollution in the seas are also set to be discussed at the two-day Association of Southeast Asian Nations (ASEAN) summit, chaired by Thailand.

But trade will take centre stage with Asean leaders keen to hasten the signing of a China-drafted commercial deal covering around half the world's population.

The Regional Comprehensive Economic Partnership (RCEP) includes all 10 Asean economies, plus India, Japan, South Korea, Australia and New Zealand.

It is seen as a mechanism for China to draft the rules of Asia-Pacific trade, following a US retreat from the region.

Shortly after his election, President Donald Trump pulled the US from the Trans-Pacific Partnership (TPP) -- which would have been the world's largest trade deal -- slamming it as an American "job killer".

While tit-for-tat tariffs between the world's biggest two economies have seen some manufacturers flee China to safer Asean hubs, economists say the big picture for global growth is bleak.

In that context, "RCEP is key to increasing trade volume", Thai government spokesman Werachon Sukhondhapatipak told reporters.

"The faster it (RCEP) gets implemented the better," Martin M Andanar, Philippines Communications Secretary, told reporters.

AFP/FILE

**More than 740,000 Rohingya refugees have fled into Bangladesh, and virtually none have volunteered yet to go back to Myanmar.**

"Free trade is definitely what we need here in this region," he said, adding that the US-China trade row has resulted in "the entire world catching a cold".

Progress on the deal has stuttered in recent months with India digging in over fears cheap Chinese goods could flood its massive consumer market.

Australia and New Zealand have also raised concerns over a lack of labour and environmental safeguards.

Asean is frequently criticised as a soft forum where diplomatic niceties often outweigh concrete action on pressing problems.

Malaysian leader Mahathir Mohamad on Friday raised the prospect of a joust with Myanmar over the Rohingya, the Muslim minority driven in massive numbers into Bangladesh by waves of concussive violence.

"We hope something can be done to stop the oppression," he said.

Myanmar's de facto leader Aung San Suu Kyi is in Bangkok for the weekend meeting.

Asean foreign ministers discussed the repatriation of more than 740,000 Rohingya refugees that have fled into Bangladesh, according to Thai foreign minister Don Pramudwinai.

The bloc has come under fire for suggesting the refugees should go back to Myanmar within two years, according to a leaked report seen by AFP -- though virtually none have volunteered to go back so far, citing safety concerns.

"It (repatriation) will be quick, Myanmar knows this process is being watched by everyone," Don told reporters.

The bloc is also poised to agree on a declaration to "prevent and significantly reduce" marine debris -- including plastic -- across the region, according to a draft text seen by AFP.

Though the statement is the first of its kind for the region, which dumps millions of tonnes of plastic waste into the ocean every year, activists fear it doesn't go far enough in curbing single-plastic use.

Regional leaders are also set to tackle thorny South China Sea issues at the weekend meet, with a draft Code of Conduct agreement up for review, though observers doubt any major progress will me made to inch the deal closer to completion.

Discussions around the resource-rich waterway that Beijing claims most of were overshadowed by a recent dust-up in the sea between a Chinese ship that rammed a Filipino fishing boat and caused it to sink.

Manila said a joint investigation into the incident has been launched, adding that the run-in would not derail Code of Conduct talks.