TAMING CORONAVIRUS RAMPAGE

Perhaps a rolling budget can give more leeway to fight pandemic

EYE ON BUDGET

AHSAN H MANSUR and ABDUR RAZZAQUE

Making the budget for next fiscal year in this time of pandemic will most likely be the most challenging task shouldered by a finance minister yet.

The crisis is unprecedented in nature, with little scope of drawing lessons from the past.

Even after several weeks of countrywide shutdown measures, the infection rate remains unabated and is actually rising.

It has already taken its heavy toll on economic activities, the actual cost of which is not yet known.

The export outlook remains unusually depressed for the coming months. In April, exports earnings were $563 million, down 82.9 per cent from a year earlier.

Remittance hit a 34-month low of $1.08 billion in April, down 25 per cent from a year earlier. And its outlook is extremely clouded, too.

Manufacturing and services sectors -- including hotels and restaurants, construction, transportation, etc. --have taken massive hits due to the lockdown measures and shrinking demand.

The implementation of the annual development programme (ADP) is likely to less than 60 per cent.

The finance ministry is also grappling to come to terms with the fact the GDP growth rate for the current fiscal year is likely to be much lower than the envisaged 8 per cent.

Even if the government's claim of 8 per cent growth in the first eight months of fiscal 2019-20 is accepted, a conservative assessment of a negative growth of -9 per cent for the remaining period will yield an overall growth 2.25 per cent in fiscal 2020-21.

Revenue shortfall is likely to be more than Tk 1.1 lakh crore, and the prospects of a pick-up are looking increasingly bleak in the face of reduced economic activities.

Even in the recent past normal years, with touted economic booms generating 7–8 per cent GDP growth, tax collection has been appallingly low and declined to 8.6 per cent of GDP last fiscal year, putting the country amongst the lowest in the world in term of tax-GDP ratio.

The National Board of Revenue (NBR) fell short of the target massively even before the coronavirus-related disruptions due to the sluggish economic activities and import slowdown.

And most importantly, the fallout of the most extraordinary global health crisis in recent times will continue to unfold with no way to predict the outcomes.

Given the uncertainty, private investors' confidence will be at a critically low level. This would further reduce domestic investment and private sector credit growth, which had already sunk to an 11-year-low even prior to the crisis.

In this backdrop, one important question is if we can continue with a routine annual budget-making exercise for the next fiscal year.

One insurmountable problem now faced by the government is the lack of a credible outlook of the economy.

The Bangladesh Bureau of Statistics (BBS) and the Bangladesh Bank (BB) are the two major agencies that provide useful information and rapid assessments to help the government come up with realistic financial and contingency plans.

But data collection and compilation have virtually stopped during the shutdown. For instance, the banking, inflation and balance of payment data have not been compiled during the shutdown period.

Even after several years, the National Household Database, as recommended by the National Social Security Strategy, could not be made operational by BBS with the objective of targeting the poor and vulnerable households.

This has already proven to be a missed opportunity for reaching out to the households most severely affected by the current crisis.

The BBS could hardly provide any reasoning when its various growth, employment and poverty incidence estimates were called into question by many economists.

It is no wonder then that the impact of coronavirus will likely to continue as 'guesstimates', aiming to keep the economy as close as possible to normal years.

This is already reflected in media reports that the GDP growth target for fiscal 2020-21 has been set at 8.5 per cent, revenue growth of 30 per cent from the likely actual collection, and the budget size Tk 5.6 lakh collection.

All these figures appear to be unrealistic under current circumstances and global outlook.

This need not be so. It is perfectly possible to be candid about not having all information and having huge uncertainty about growth, revenue prospects and a recovery process.

All this can be reflected in the budget-making process and its implementation. This is an extraordinary time and it perhaps needs an extraordinary out-of-box policy effort.

One option the finance ministry could consider is adopting a rolling budgeting exercise.

A rolling budget is a continuous budget that is updated regularly when the earlier budget period expires or we can say it is an extension of the existing period budget.

Also known as budget rollover, it allows accommodation to unexpected changes and circumstances.

To begin the process, the government can articulate the most pressing expenditure needs for the first six months and consider financing options.

There is a general agreement that in the first six-months (July-December), the government should have three key priorities: (1) COVID-19 health crisis management; (2) livelihood support management; and (3) economic recovery management.

These activities will require additional budgetary allocations, while allocations for other areas should be kept unchanged or reduced to generate savings.

The unutilised part of fiscal 2019-20's ADP with some prioritisation could be rolled over into the first half of fiscal 2020-21.

The health system in the country has broken down and must be immediately strengthened.

While healthcare professionals and workers are increasingly being infected, both COVID-19 and non-COVID-19 patients are not receiving treatment and planned immunisation of children is lagging behind.

This crisis should be considered an opportunity to rebuild the long-neglected national public health system.

Out-of-pocket expenses of Bangladeshi households are highest amongst the global economies and it is high time to address this unfair, inequitable and non-functioning healthcare system.

For livelihood management support, the government initiatives of distributing in-kind benefits, selling rice at Tk 10 kg and supporting 5 million urban households through direct cash transfers (of one-time Tk 2,500 to each beneficiaries) deserve due appreciation.

However, the support will have to be deepened further both in terms of coverage and duration.

We believe that at least 12.5-15 million households need to be supported for at least three to six months.

The rolling budgeting exercise should keep a provision of at least six months' support and make sure that the beneficiary list is correctly matching the information contained in the national identity database.

For recovery management, it needs to be borne in mind that Bangladesh does not have any experience of dealing with such a largescale public intervention to revive the economy.

Given the record of weak institutional capacity and governance, selection of the firms for support and management of fund could be a challenge, and failure to deal with that could result in wastage of resources without contributing to economic recovery.

Whether the banks have the capacity for handling stimulus packages should be taken into consideration.

We must recognise that the weak banking system in Bangladesh cannot shoulder the risk and liquidity requirements associated with the recovery/stimulus package.

The BB must inject liquidity, as needed, and must also share the risks associated with such a massive lending operation, particularly with regard to lending to small- and medium-sized enterprises.

Waiver of interest payments for borrowers, if so desired by the government, should be factored into the budget.

Banks cannot shoulder such financial burden and such a unilateral action may amount to confiscation of private income by the government, even if it is for a good purpose.

But from where will the additional resources for these priorities come from?

It is inevitable that domestic resource mobilisation will take a big hit over the next several months.

Lack of credible reforms in tax policy, tax administration and absence of automation have brought Bangladesh to the point that the government is almost against the wall.

The scope of discretionary spending is rather limited due to diminished fiscal space resulting from falling tax-GDP ratio, which is unlikely to improve in a year with an economic downturn.

Nevertheless, serious considerations should be given to initiate genuine reforms in VAT, direct tax, and customs tax policies and administrative reforms so that the situation improves in the next two-three years.

The crisis should be used to initiate fundamental reforms in the banking system and to improve the business climate and special economic zone infrastructure to attract foreign direct investment.

To overcome the resource constraint, the government has appropriately requested development partners to grant budgetary and BOP support. And, significant amount of support is on the way.

The government can also ask all its ministries and departments to slash non-essential expenses and divert all funds allocated for Eid bonuses to income support programmes.

Private sector workers, in most cases, are not even getting 50-60 per cent of their basic salaries and it would be improper that public sector employees get Eid bonuses with taxpayers' money while taxpayers are in deep financial trouble.

Such expenses are likely to be quite significant and can help generate resources for the priority sectors.

Bangladesh is passing through an exceptional time, requiring exceptional measures.

Preparing a full-year budget in the conventional manner will misdirect out attention from the pressing national priorities of the moment.

A two-segment rolling budget -- with focus on the three priority areas and reforms noted above -- in our view would be the practical and proper way to go.

Ahsan H Mansur and Abdur Razzaque are executive director and research director of the Policy Research Institute of Bangladesh respectively

Pandemic will change the aviation industry forever

Says deputy managing director of Regent Airways

RASHIDUL HASAN

The global coronavirus pandemic will leave a long-lasting stain on the aviation sector, said a top official of Regent Airways, a domestic private carrier.

"The impact on the aviation industry is unprecedented and it has happened suddenly," Salman Habib, deputy managing director of the private local carrier, told The Daily Star in an interview recently.

Governments around the world have imposed restrictions on air travel, while most countries have banned international and domestic commercial flights altogether to flatten the curve on the rogue virus.

In the middle of March, Bangladesh banned passenger flight operations with all countries but China, plunging the sector into mounting losses.

"Airlines have had no choice but to ground their planes, and, in some cases, their entire fleet," he said.

Subsequently, the pandemic could erode passenger volumes in Bangladesh and wipe $190 million, or Tk 1,615 crore, off the airline operators' revenues this year, according to an estimate by the International Air Transport Association (IATA).

The IATA forecasts that airlines across the globe will lose $314 billion in passenger revenue in the current year amid the coronavirus outbreak, while those in the Asia-Pacific region will witness a slump by $113 billion.

Airlines that have a mixed business model are faring better than those that rely solely on scheduled passenger services, Habib said.

"For example, airlines that are doing medevac or transporting cargo, such as urgently needed medical supplies, are still operating. Some airlines that are doing charter work, particularly for government agencies, are continuing to fly."

Private airlines in Bangladesh will be affected more by the immediate aftermath of the crisis because they have smaller balance sheets and fewer financial resources to weather the storm.

Airlines that operate by leasing aircraft are in a far more precarious financial situation as they cannot afford to ground the vessels because they are still expected to pay for the lease.

Asked about Regent's strategy in coping with the evolving situation, Habib said it is difficult to come up with an immediate strategy as of now with all the uncertainties looming large.

"We can't predict when air travel is going to return to normalcy."

Regent, with four Boeing 737-800s and two Dash-8 Q300s in its fleet, is now waiting for the government to lifts the ban on air travel.

"We will then devise plans on how to restore operations at full throttle."

Asked about what they expect from the government, Habib said the IATA has called upon all the governments in the region for a combination of direct financial support, loans, loan guarantees and support for the corporate bond market and tax relief for the aviation industry.

Responding to the call, aeronautical charges for Bangladesh's domestic flights have been waived until 2021 and 50 per cent for international flight operations until December 2020, while non-aeronautical charges have completely been lifted for all until December 2020.

"This is a good short-term move and it will help the operators to a certain extent," Habib said.

However, the private airlines are discussing with the authorities concerned about the long-term changes required in policies, tax and value-added tax relief, along with comprehensive changes in the regulatory charges.

"It's also important to note that all the countries where Bangladeshi airlines operate have already announced significant direct financial support to both their private and state-owned carriers."

For Bangladeshi airlines to be competitive and sustainable against the operators from those countries, similar support should be given by the government, Habib said.

By doing so, the country will not lose valuable foreign currencies, which would be retained by the local airlines.

When Regent started in 2010 as a subsidiary of Chittagong-based Habib Group, its forte was domestic operation. However, as time progressed, international flights took precedence. Regent currently serves three domestic and five international destinations.

"And we did quite well."

Habib said they intended to have an airline in line with some of the successful carriers in the region, concentrating on customer service, while operating to core destinations and serving the people of Bangladesh.

About the barriers the country's aviation sector faces, Habib said the policymakers should at first look at why historically so many private airlines have failed in Bangladesh.

"Infrastructure is the second most important pillar. All our airports are underdeveloped, while the domestic traffic has grown beyond 200 per cent in recent years, which is quite unique in Southeast Asia."

The airports in Dhaka, Cox's Bazar, Jashore, Chattogram and Sylhet require immediate attention, he said, adding that policies on the gateways of the country need a master plan for the next 15 to 20 years rather than a stopgap solution.

"With the addition of the third terminal for the Dhaka airport, we will see major growth in this sector."

Dhaka can be made a future hub for both passenger and cargo flights. Airlines will use this perfect location to move traffic among European countries, China, Korea, Japan and Australia.

To meet the future demand, he called for establishing an institution in the country to train the young generation on aviation management, said Habib, who has a Bachelor's degree in Business Management from the UK's Queen Mary University.

The airline's long-run strategy would be to keep a balance and review the model as well as invest in technology to ensure sustainable operation.

"I think it is now time that we look in bilateral codeshares and move into a revenue and cost model that can sustain the operation."

But major reforms are needed to iron out the imbalances in the regulatory, fuel prices and taxation structures to ensure that Regent's costs are in line with its peers.

The regulatory charges and taxes in the aviation sector are on the higher side compared with other industries, Habib added.

REGENT airways every little thing counts

Salman Habib