Blindsided by Covid-19

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economy merely speculative. One cannot but sympathise with the finance minister for seeming to grope in the dark in preparing a budget which he optimistically titled as economic recovery and a road map for the future. The reality is that one cannot at this point even predict the extent and length of the economic downturn, while the immediate need is to find a balance between policies for savings lives and livelihoods as the pandemic scenario unfolds. The budgetary allocations will play an important role in all this, but not without a national comprehensive strategy of surviving this crisis, which still seems missing.

In allocating funds, as expected, the budget has rightly focused on strengthening public health facilities particularly to deal with the pandemic, providing safety nets including food security for the poor, and providing various kinds of incentives and subsidies to agriculture and enterprises of various kinds who have incurred losses due to the lockdown. The question is whether these allocations will be enough to achieve the intended goals, even if the usual misuses and leakages of funds can be minimised. More than ever, the effectiveness of the budget will depend more on the management of implementation than on financial allocations, in respect of the relief, rescue and recovery measures.

The budget has proposed increases in the coverage of the social security programmes and the allocations have been increased to some extent; but these expanded programmes may still fall short of the need, particularly in terms of identifying and supporting those who have lost their livelihoods because of the economic disruptions and have now joined the ranks of the poor. Some studies have shown that providing for the minimum subsistence of the needy people including these new poor may require minimum public spending of up to 4 percent of GDP, depending on the length and severity of the various social distancing measures and the extent and speed of economy recovery.

Incidentally, the challenge of managing the expanded social security programmes have exposed the problem of lack of representative credible local governance. This compels the government to rely on the centralized bureaucracy with very little local knowledge to manage things at such times of crisis. It is no wonder that the Indian state of Kerala, known for its strong local governance, has proved a model for coping with Covid-19, by implementing effective lockdowns, infection tracing and delivery of social security assistance.

The proposed budget has allocated increased funds for the health sector, perhaps equivalent to about 1 percent of GDP, which would imply more than a doubling of the proportion realised in recent years; but this proportion will still be low by the standards of low-middle income countries. The ongoing pandemic has painfully unravelled the extremely poor management of our public health system which cannot be remedied overnight by fund allocations alone. Yet, enough funds must be made available for tackling the endemic, by creating facilities for patients who need hospital treatment, and for largely increasing the numbers of testing for detecting bot existing infections and immunity acquired through past infection. Epidemiologists agree that for devising any meaningful strategy of containing the pandemic, such tests on a very large scale will need to be conducted, and this will need funds even if some low-cost testing procedures become available.

Of course, the budget has had to be prepared under severe resource constraints. The target of revenue collection at about 12 percent of projected GDP is unlikely to be achieved, given the economic downturn and an uncertain recovery. Although there are already some commitments of loans from the international financing institutions, the projection of foreign loans worth about 9 billion US dollars financing of about 40 percent of the budget deficit, is very unlikely to be realised. As it is, the projected budgetary deficit amounting to 6 percent of GDP is nearly double the average ratio of the recent years. The deficit may thus become even larger unless the government resort to more borrowing from the banking system, which is already projected to cover about 45 percent of the deficit, the rest being covered by a reduced projection of earnings from the sale of savings instruments.

A saving grace is that the debt burden of the government from domestic and foreign sources is not too high to pose any problem of fiscal sustainability, so that there is enough justification to go for a higher budgetary deficit, particularly given the needs for public spending in the current crisis situation. Moreover, the public demand for bank borrowing may not pose much problem of meeting the credit demand from the private sector, which will likely to remain stymied depending on the extent of economic recovery, and also because the private sector enterprises will be able to access subsidised bank credit through the refinancing facilities from Bangladesh Bank as part of the government's economic stimulus packages.

Given the resource crunch, extreme austerity will be needed in public spending, which may require not only weeding out nonessential revenue expenditures, but also cuts in spending on more than a thousand on-going development projects. One may argue that such cuts will create delays in the completion of these projects; but if we could have tolerated for years a culture of overruns in time and cost in project implementation, we can very well do so at such extraordinary times. We need to prioritise the foreign funded projects, a few strategic mega-projects where delays will be costly, and projects that will help employment generation. But the allocations for spending for the priority areas, such as public health, social safety nets and food security, and incentives for economic recovery, specially for small enterprises, must be protected, ad if possible, enhanced.

There will be crisis

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In fiscal 2018-19, some Tk 26,446 crore was borrowed by the government, where the central bank gave out Tk 10,333 crore.

"Printing money is not a matter of concern at this moment given the current economic state of affairs," said Ahsan H Mansur, executive director of the Policy Research Institute.

There is no risk of inflationary pressure right now as the aggregate demand has slumped.

But the printed money, generally known as reserve money or base money, must be used for productive purposes or else it would give rise to stagflation -- a scenario of high inflation and low GDP growth.

So Kamal needs to be mindful of this consequence.

He suggested the government should implement the labour-intensive projects such as building highway and bridges on a priority basis under its annual development programmes such that jobs are generated for the marginal people -- a move the US resorted to to get out of the Great Depression.

The authority concerned should think about deferring the construction works of the less labour-intensive projects like Rooppur Nuclear Power Plant and Padma Bridge.

The government will have to check both corruption and sluggishness for implementation of projects under the ADP or else the printed money will create inflationary pressure.

Besides, the government should mobilise foreign loans and grants from donor agencies and multilateral lenders in the days ahead to offset the pressure stemming from monetisation, said Mansur, also a former economist of the International Monetary Fund.

The government will set Tk 80,017 crore in foreign loans and grants to manage its deficit financing.

It is set to receive about $1.5 billion this fiscal year from three organisations: the World Bank, the IMF and the Asian Development Bank.

But there is a scope to bag about $2 billion to $3 billion in soft loans from the IMF if the government reforms the financial sector.

Kamal also relaxed the rule to whiten the black money hoping it would give a boost to investment.

He proposed to whiten the black money if the black money holders invest the amount in residential buildings by paying a tax of 10 percent on the amount invested, which for regular taxpayers is between 10 and 30 percent.

They will get the same facility if the black money is invested in the capital market for at least three years, a privilege not afforded as part of the previous amnesty package for unauthorised money holders.

But the black money-holders will not respond to the relaxation considering the previous instances, said Mustafizur Rahman, distinguished fellow of the Centre for Policy Dialogue.

Besides, this will create a moral hazard and put off honest taxpayers from compliance.

Thumbs-up

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of this opportunity if the money was not from an illegitimate source or derived from criminal activities.

An addition was made in the outgoing fiscal year, stating that black money-holders investing in economic zones and hi-tech parks will not face any question about the sources of their income if they invest in the sectors.

For fiscal 2020-21, this amnesty has been widened to cover just about any kind of untaxed income.

Between July 1, 2020 and June 30, 2021 individual taxpayers will be allowed to declare any type of undisclosed property by paying a certain amount of tax for per square foot of the asset.

They will be able to declare undisclosed cash, bank deposits, savings certificates, shares, bonds or any other securities by paying a 10 percent tax.

And they can invest money in the capital market by paying tax at a rate of 10 percent on the value of the investment.

"Nobody, including the income tax authority, can raise any question on such declarations," said Finance Minister AHM Mustafa Kamal during his budget speech.

"Extraordinary times demand extraordinary measures."

These provisions will increase the flow of money into the mainstream economy, generate employment and enhance collection of tax revenue, the minister said.

The 10 percent tax levied on black money earned from all sources, including criminal activities like human trafficking and drug dealing, is the same rate that a jobholder earning Tk 58,000 per month will be paying as income tax this year.

The minister, however, is going hard on those earning black money through under-invoicing, over-invoicing or false declarations of investments.

"I propose to insert a new section in the income tax ordinance: 50 per cent tax will be levied on the proven amount of over- or under-invoicing, or on the proven amount of false declaration of investment," he said.

"Our government has zero-tolerance for such misdeeds."

Mobile bills on the rise

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Carriers complied with the SRO and have started updating their billing system and sent text messages to all their customers about it.

"Increasing supplementary duty on all telecom related services is highly regrettable and according to the SRO issued by NBR, we are going to implement the new SD [supplementary duty] rate from 12:00am midnight. All preparations in this regard has been completed," said Shahed Alam, chief corporate and regulatory officer at Robi.

Apart from the supplementary duty, mobile phone users also have to pay 15 percent VAT and one percent surcharge on their bills, which takes the total tax for mobile phone usage to 33.25 percent.

Therefore, to get service worth Tk 100 users will have to recharge Tk 133.25, or against each Tk 100 topped up, a user would get services of Tk 75.05.

Even before this proposed budget, Tk 53 out of every Tk 100 spent by customers was going to the government exchequer in different forms of taxation, Alam said.

"Hence, adding 5 per cent SD on the already ultra-heavily taxed telecom sector will only bring further misery for customers," he said.

Both operators and users expressed dissatisfaction at the move and said in the last few years, tax on mobile phone use has increased, which has negatively affected customers' service-availing trends.

Usage and user numbers will certainly not increase under this tax structure, said a chief executive officer of a leading carrier.

He said in the last six years taxation on users increased 122 percent, which goes against the government's digitisation vision.

"We cannot accept this proposal as it will increase our costs," said Sarwar Shatil, a student of Daffodil International University.

This process will increase all costs related to mobile-phone services and that will be a disaster, he also added.

Shahed Alam said a huge portion of the population had started to rely on digital communication during the shutdown and social distancing measures enforced due to the coronavirus pandemic. Raising SD will certainly have an adverse impact on this trend.

"We are very sad that even after making significant contributions to the realisation of the Digital Bangladesh vision by 2021, the telecom sector's problems have been completely ignored in the proposed budget," he added.

As of March, there are 16.53 crore active mobile connections in the country, of which 9.52 crore are also connected to the internet, according to Bangladesh Telecommunication Regulatory Commission.

Total revenue in the market currently stands at around Tk 25,000 crore.

Robi's top brass also expressed their dissatisfaction at the continuation of the 2 percent minimum tax which was imposed on their revenue in the 2019-20 budget.

"Considering mobile operators' contribution in fighting the current Covid-19 pandemic and building the digital ecosystem, we believe there is still an opportunity to review this self-defeating tax and hope that the government will take positive decisions in this regard," Alam said.

In the upcoming budget, the finance minister has also proposed a continuation of the VAT exemption on mobile device manufacturing, as well as the 5 percent tax on assembling.

Nothing specific

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now, about one-fourth of the families in the country have been brought under the social security net programmes," Finance Minister AHM Mustafa Kamal said in his budget speech for 2020-21.

Contacted, Economist Hossain Zillur Rahman said, "Due to the pandemic, the number of poor people in the urban areas has increased and they should be the beneficiaries of the social safety net programmes. Specific programmes are needed for the people who slipped into poverty during the shutdown."

How the money allocated for the sector is distributed among the poor people determines the success of the social safety net programmes, said the adviser to a former caretaker government.

If civil pension spending is deducted from the social safety net, then the 2020-21 fiscal year's allocation would be around 1.5 to 1.6 percent of total GDP, he said.

During the shutdown enforced on March 26, there were widespread reports of embezzlement of funds and hoarding of relief material meant for the poor.

Hundreds of people in different parts of the country demonstrated on the highways demanding food.

The new budget mentions that senior citizens in need in 100 of the upazilas hit the hardest by the pandemic will be brought under the old-age allowance scheme. It is expected that five lakh people will be the beneficiaries.

Besides, widows and divorced women in the 100 upazilas will be brought under the social safety net coverage. This is likely to add 3.5 lakh new beneficiaries to the coverage.

Tk 100 crore for the Rural Social Services Programme will be allocated to keep the rural economy moving after the pandemic, the minister said yesterday.

Mohsin Ali, general secretary of Bangladesh Food Rights Network, said the allocation for social safety net programmes was not enough because the number of poor people has increased a lot.

"We demanded six percent of the GDP. It is insufficient and it will not meet the demands. How the new poor will be helped remains unclear," Ali said.

The pandemic has shed light on the lack of food security of working-class people and brought to the fore the need to ensure transparency in delivery of the services, experts said.

Not enough even

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governance to inadequate coordination among key stakeholders.

There have been some recent instances where patients with flu-like symptoms and other illness were denied admission at hospitals and subsequently they died without treatment, which is a fundamental right guaranteed by the constitution.

Lifesaving machines like ventilators -- critical to the management of Covid-19 cases -- remain elusive and a shortage of oxygen in most of the hospitals have become a matter of grave concern.

Talking to The Daily Star yesterday, experts said the allocation for the health sector is not adequate in the wake of the Covid-19 pandemic, which served as a wake-up call to prioritise on the fragile healthcare system.

Zahid Hussain, former lead economist of the World Bank's Dhaka office, said the allocation has not increased sufficiently.

As the health sector is facing a crisis, the government should have supported it by allocating more but that has not happened, he said in his reaction on a private television.

Prof Dr Muzaherul Huq, former regional adviser, WHO, South East Asia Region, said, "The health sector has failed. Despite past allocations of budget, the sector still remains heavily under-utilised.

"As per the last five-year plan, which is supposed to be completed this year, the health budget is supposed to be 1.12 percent of the GDP," he said told The Daily Star.

Prof Dr Rashid-E-Mahbub, former president of Bangladesh Medical Association, said, "The problem is quite simple. The country's health sector has not been reformed even though the sector itself has evolved over the last five to six decades."

Both the experts noted that only increasing budgetary allocation would never solve the problems. More emphasis needs to be given on utilising the budget efficiently with ensuring proper accountability.

Management is the key issue in the sector. Shortages of nurses and medical technologists are acute at many public hospitals while equipment is available but positions of technicians are found to be vacant, they said.

Recruitment and retention are important and so are the training and professional development of health workers, they said.

Prof Muzaherul said, "As we have seen in the last five-year plan, only 24 percent had been implemented till 2019, which shows the poor performance in management and lack of management skill."

He said there is a lack of skilled workers in the health management system of Bangladesh -- both in the health ministry and the Directorate General of Health Service (DGHS). In many cases, skilled people cannot be a part of the management due to political issues.

Besides, the sector is riddled with rampant corruption, he said.

Prof Rashid-E-Mahbub said, "The health sector is now huge but its planning and monitoring remain weak. As such, concerned authorities cannot even utilise money allocated by the government."

Public hospitals lack necessary manpower, equipment, medicine and most importantly accountability of their authorities. The general public, who have no alternative but to go to public hospitals, however, do not get proper health services, he said, adding that private medical services in the country were developed in an unregulated manner.

"The problems in the health sector cannot be solved overnight … The government should prepare a five-to-ten-year plan for the health sector considering people's expectation and can make an outline from the National Health Policy 2011, which remains unutilised mostly," added Rashid-E-Mahbub.

TK 10,000 CR BULK ALLOCATION

The finance minister also proposed a bulk allocation of Tk 10,000 crore to deal with any special situation related to Covid-19.

"We have taken massive steps to improve the health sector. To combat the Covid-19 pandemic, special programmes worth Tk 5,500 crore are being implemented under the Health Services Division. The government will do whatever required to address the pandemic. To fulfil emergency requirements, I propose the allocation of Tk 10,000 crore as a lump sum," he said.

Zahid Hussain appreciated the allocation to fight the Covid-19 pandemic. "It was much needed," he said.

TK 100 CRORE HEALTH-RESEARCH FUND PROPOSED

The finance minister also proposed the formation of a Tk 100-crore Integrated Health-Science Research and Development Fund to finance the activities for the development of research on health education, and science and technology.

A high-powered committee comprising experienced researchers in the health sector, nutritionists, public health experts, sociologists, economists, environmentalists, civil society members and other suitable representatives will be formed to manage this fund efficiently and effectively, he added.

A budget not of its time

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needed to have been increased by leaps and bounds. And yet, that was increased by 13.63 percent from the current fiscal year's original allocation.

Hospitals are overwhelmed with COVID-19 patients, so much so that non-COVID-19 patients are denied treatment.

Since we don't know when the epidemic curve would flatten out, there was an acute need to ramp up the health services expenditure now. How long are people going to live under the soul-crushing anxiety of being denied medical treatment?

Also, perhaps, this was the occasion to right the historically abysmal attention this sector got in the national budget. Alas, it wasn't meant to be.

The coronavirus rampage has magnified destitution and stands to unravel the brilliant progress made in poverty alleviation over the past decade. So, like health services before, there was an acute need to ramp up social protection to help poor households weather the pandemic.

But it was increased from 2.58 percent of GDP this fiscal year to 3 percent.

In a country of 160 million, about 35 percent are now living in poverty, according to a recent study of the Centre for Policy Dialogue. This begs the question, given the uncertainty over how severe the impact may become, was the increase in social safety net adequate?

Agriculture was another sector that deserved greater focus, as the nation must be fed. But it was increased by just 4.68 percent from the current fiscal year.

The education budget needed to be augmented seeing that about 4 crore students would not be getting back to the classrooms anytime soon.

Lessons would have to move to the virtual space and for that equipment need to be bought at both ends. And even if classes start physically, there needs to be more sessions to give the same lesson to maintain the social distancing rule.

In short, massive investment is needed, but the education budget was increased about 8 percent.

There were so many areas where the expenditure could have been scaled back to make room for a bigger budget for the four overheads. When austerity was needed, he chose to be profligate.

The allocation for public services was increased by a staggering 54.70 percent.

What was more baffling was that he has earmarked Tk 16,148 crore for the upkeep of state-owned enterprises when Tk 1,499 crore had sufficed for the purpose in the revised budget for this fiscal year.

The amount is 61.5 percent more than the lump sum amount set aside to fight the rogue virus during the course of fiscal 2020-21.

Energy and power took up 4.7 per cent of the budget. Unless a vaccine is widely available for COVID-19, which would not be until 2021 at least, neither the factories would be roaring nor the businesses would be bustling. So what is the need for so much energy?

Then comes the trivial matter of where the money would come from to fund the Tk 568,000 crore-expenditure plan, and the pocket calculator was found missing.

But Kamal did a first-rate job of sounding confident and in control while jettisoning the years-long goal of keeping the budget deficit to within 5 percent of GDP.

He has tasked the National Board of Revenue to collect Tk 330,000 crore, up 9.82 percent from the current fiscal year's revised budget.

In a letter last month to Finance Secretary Abdur Rouf Talukder, NBR Chairman Abu Hena Md Rahmatul Muneem said the tax collectors would be able to manage Tk 250,000 crore at best next fiscal year.

And yet, Kamal chose to have his blinkers on and set the highest revenue target in the country's history, when the economic growth would possibly amongst the worst.

What would have helped in this challenging time was a definitive move towards automation to stop evasion and leakages. But, he was found dithering.

Whatever he said about automation in his budget speech was a regurgitation of what he had penned last year too -- and we all know how much we have achieved on that front in fiscal 2019-20. Not much.

The only new move towards automation and digitalisation of the tax administration is the rebate of Tk 2,000 to all taxpayers who will file their income tax returns online for the first time.

And then there is his naïve hope of generating revenue by giving full amnesty to black money when past moves have flopped spectacularly.

The move to slap 50 percent tax on the proven amount of over- or under-invoicing, or on the proven amount of false declaration of investment looks promising on paper. But, there were no specifics on how that would be enforced.

While it is laudable that he has given relief to individual taxpayers by raising the tax-free threshold of income and reducing the tax rate, his move to also bring down the rate for those who earn in the highest slab is a proper head-scratching one.

The wealthy do not need any tax relief. And when all avenues of revenue collection are narrowing, why would you extend aid to a faction that is not in need of one?

The increase in supplementary duty (SD) on mobile phone usage when it has become an absolutely essential service is a below-the-belt move.

The hikes in SD on chartered planes and helicopters, air-conditioned launch fares, cars and jeep registration and cosmetics and cigarettes and the 60 percent hike in excise duty on the account balance of Tk 5 crore are welcome though.

And so is his proposal to impose a small rate of customs duty on onion import to encourage cultivation, cut dependency imports.

The value-added tax has been asked to shoulder most of the revenue collection target -- when most consumers would be confined to their homes or cutting back on spending given the looming threats of job losses or pay cuts. Yet another unwise move by the finance minister.

The fact that the NBR would fail to power the budget is a foregone conclusion. That means, the finance minister would be relying more on external financing, bank borrowing and printing money.

The latter two are risky propositions -- one could crowd out private sector investment and the other would escalate inflation -- as they can go on to pose stability risks at the faintest signs of economic recovery.

Ah, economic recovery! The elephant in the budget. Beyond a few small measures, there was no reassuring demonstration that the government was determined to push for an upturn.

Kamal said that next fiscal year, which begins on July 1, would see the prioritisation of "government spending that creates jobs". But, as has become a habit by now, specifics have become notable by their absence. Was this fiscal plan drafted entirely without any exercise in econometrics?

All in all, he did not portray an image of calm competence to navigate the economy during this extraordinary time, but one crossing his fingers and hoping for the best. Bit of a gamble, that.