

Star BUSINESS

Eateries have been dealt a double whammy by the fallout from the Bailey Road fire and the usual slump in sales during Ramadan



Story on B4

Financial account deficit balloons

STAR BUSINESS REPORT

Bangladesh's financial account deficit has kept widening, signaling that the pressure on the foreign exchange regime will persist in the upcoming days.

In July to February of the current fiscal year, the financial account of the balance of payments (BoP) showed a deficit of \$8.36 billion, up from \$2.32 billion in the same period of 2022-23, as per the latest data from the Bangladesh Bank.

It stood at a deficit of \$7.78 billion in July-January of FY24.

The financial account covers claims or liabilities to non-residents concerning financial assets. Its components include foreign direct investment, medium and long-term loans, trade credit, net aid flows, portfolio investments, and reserve assets.

Industry insiders said that reduced short-term foreign borrowing by the private sector and declining balances in nostro accounts maintained by commercial banks with foreign banks were to blame for the ballooning deficit.

The financial account deficit persisted from July to February largely because the 'other investment (net)' segment of the BoP stood at \$9.40 billion in the negative. It was \$3.37 billion in the negative in the same period a year earlier.

In contrast, the gross flow of foreign direct investment rose only 1.55 percent to \$3.14 billion. The net portfolio investment was \$77 million in the negative in the first eight months of FY24, up from \$47 million in the negative in the same period last year.

Fahmida Khatun, executive director of the Centre for Policy Dialogue, said since payments outpaced earnings, the financial account was still in negative territory.



"Foreign loans to the private sector have continued to fall. This indicates that investment is stagnant. This is a worrying sign because it has an impact on employment."

The current account deficit narrowed in FY23 and showed a surplus in the first seven months of FY24, driven by import suppression measures.

However, the financial account deficit persisted due to increasing outflows of trade credit and other short-term loans, said a recent World Bank report.

The trade deficit, which takes place when the value of imports surpasses that of exports, narrowed to \$4.62 billion in July-February. It stood at \$13.35 billion a year prior.

In the eight-month period, exports were up 3.76 percent year-on-year while imports dropped 15.36 percent.

Import payments have fallen mainly due to austerity measures put in place by the government and the central bank to stop the depletion of the forex reserves, which declined by 25 percent last year.

The current account balance returned to positive territory and climbed to \$4.76 billion in the eight months after standing at negative \$3.45 billion in the same period of FY23.

The country's overall balance was \$4.43 billion in the negative between July and February, against \$7.94 billion in the negative in the identical period of the previous year, BB data showed.

Next budget to see marginal hike as austerity measures stay put

BY THE NUMBERS: Draft budget for FY25

- Budget size: Tk 797,000 cr
- Revenue target: Tk 540,000 cr
- Average inflation target: 6.5%
- GDP growth target: 6.5%



Budget and revised budget

In crore taka; SOURCE: FINANCE DIVISION

■ Budget ■ Revised budget

REJAUL KARIM BYRON

The government may cut the size of the budget for the ongoing fiscal year while the upcoming one is expected to see a marginal spike as the country's spending capacity has remained under stress.

The austerity stance, driven by the widening gap between incomes and expenses, is set to persist since the government continues to struggle to rein in inflation and reduce pressure on foreign currency reserves.

A meeting of the Fiscal Coordination Council, to be chaired by Finance Minister Abul Hassan Mahmood Ali, will discuss the draft outlays for the revised budget for 2023-24 and the new budget for 2024-25 today.

This will be the first meeting of the council since the new government took office after the January 7 parliamentary elections. Thus, it is the maiden meeting for the new finance minister on the budget and the overall macroeconomic situation.

The meeting will also make key decisions, including setting the new economic growth and inflation targets.

The next budget, which begins its journey on July 1, will focus on

controlling elevated consumer prices, expanding social safety net programmes, and reducing subsidy expenditures in various sectors except for agriculture and food, said an official of the finance ministry.

In Bangladesh, inflation has stayed over 9.5 percent in the first eight months of 2023-24 after a 12-year high of 9.02 percent in the previous financial year, meaning many in the low-income nation are finding it difficult to keep their head above the water owing to the dragging cost of living crisis.

The FY24 budget will be slashed mainly for two reasons: revenue receipts have not gone up while the International Monetary Fund (IMF) recommended fiscal and monetary policies tightening under its \$4.7 billion loan programme.

The government may cut the FY24 budget by 6.16 percent, or Tk 47,000 crore, to Tk 714,785 crore in the revised budget. The size of the original budget is Tk 761,785 crore.

Bangladesh managed to spend Tk 1,94,898 crore in the first six months of the fiscal year, which accounted for 25 percent of the total outlay.

The expenditure was Tk 1,84,525 crore during the same period of FY23, representing 27 percent of the allocation.

Amid slower progress, the government has already cut the annual development programme (ADP) by Tk 18,000 to Tk 2,45,000 crore. Besides, it will reduce the revenue budget by Tk 29,000 crore.

The revised revenue budget might see reduced expenditures, except for interest payments.

At present, the allocation for the interest payments against loans stands at Tk 94,376 crore. It may cross Tk 100,000 crore by the end of FY24 since 53 percent of the original allocation has already been spent because the cost of borrowing has gone up.

The government may reduce subsidies.

Currently, the allocation for the segment is Tk 84,002 crore. Of the sum, Tk 15,934 crore could be used in July-December, which is 19 percent of the allocated fund. On the other hand, the spending stood at 42 percent in the first half of FY23.

The finance ministry official said the subsidy expenditure will increase by the end of FY24 but the amount will not cross the initial target.

He said the next budget will not be much bigger than the outgoing one.

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High inflation likely pushed 5 lakh people into extreme poverty: WB

STAR BUSINESS REPORT

Around 5 lakh people in Bangladesh likely fell into extreme poverty between the fiscal years 2022-23 and 2023-2024 due to the erosion of the purchasing power, said the World Bank.

"Weak private consumption growth and high inflation have halted poverty reduction. Higher food prices particularly impacted poor households, which allocate over half of their budget towards food expenditures," it said.



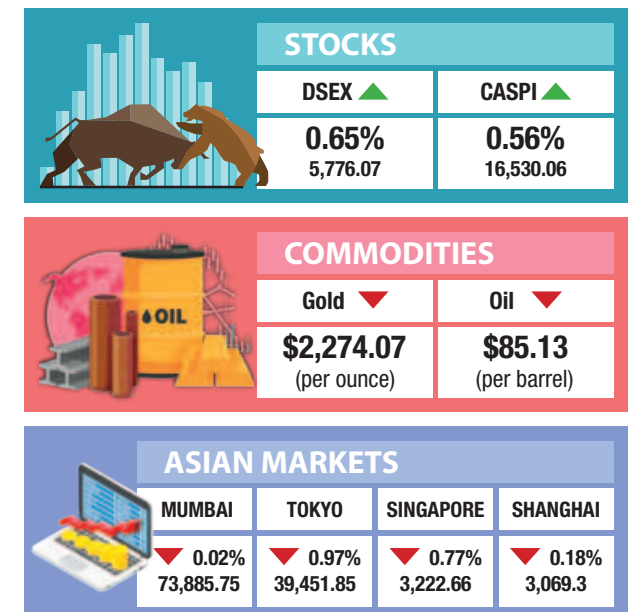
In addition, 8.4 lakh people are projected to join the ranks of the moderately poor, who earn \$3.65 a day in purchasing power parity (PPP), said the bank in its Poverty Macro Update on Bangladesh.

PPP is a measure that compares the relative value of currencies by examining the prices of a fixed basket of goods and services in different countries.

The World Bank defines extreme poverty based on an international poverty income of \$2.15 a day. According to the definition, Bangladesh's extreme poverty rate is forecasted to rise to 5.1 percent in FY24 from 4.9 percent the previous year.

The rate of moderate poverty is expected to increase to 29.4 percent at the end of FY24, up from 29.3 percent a year ago.

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Inflation over 9% a concern: BB

STAR BUSINESS REPORT

Inflation staying persistently high at over 9 percent poses a concern and reducing it to a tolerable level may necessitate continued monetary tightening for an extended period, said one of Bangladesh Bank's (BB) quarterly publications yesterday.

The central bank's observation comes against the backdrop of high consumer prices continuing to erode buying power of people and weigh heavily on private consumption.

International organisations predict that the high prices would continue to prevail at least for the current fiscal year.

On April 2, the World Bank forecast that inflation in Bangladesh might stay elevated at 9.6 percent in fiscal year (FY) 2023-24 before moderating to 8.6 percent in FY 2024-25.

"However, the inflation trajectory depends crucially on the extent of transmission of BB's contractionary monetary policy and the government's fiscal policy stance," it said in a Bangladesh Development Update.

In "Bangladesh Bank Quarterly" for the October-December period 2023, the central bank said it has placed the topmost priority on the containment of inflation.

On January 21, this year, the BB raised the policy interest rate again by 25 basis points to 8 percent to curb inflation

and anchor inflation expectations while ensuring adequate funding to productive sectors of the economy to support desired growth.

The central bank will continue monetary tightening in the rest of the quarters of FY 2023-24 until inflation reaches the desired level.

Amid high consumer prices, the government earlier revised upward its target to 7.5 percent for the current fiscal year ending in June. Until February average inflation was 9.66 percent.

The BB said in collaboration with the government, it is constantly calibrating efforts to combat inflation.

"BB maintained its restrictive monetary stance and adopted a unified exchange rate policy to manage inflationary pressure. The government is also taking steps to remove supply constraints by addressing issues such as syndication, hoarding, and other unethical practices."

"These collective initiatives are anticipated to influence the inflation outlook in the days ahead positively," said the central bank in its quarterly.

However, there are concerns. The BB said it was crucial to recognise potential challenges on the horizon, such as escalating geopolitical tensions and a possible slowdown in economic activities in the trading partners of Bangladesh.

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WB criticises tax provision on legalising black money

STAR BUSINESS REPORT

World Bank has criticised an existing government scope for legalising undisclosed wealth through investments, saying such policies demotivate honest and regular taxpayers and encourage tax evaders to continue with their misdeeds.

"Also, these policies have failed to earn a significant amount of revenue," said the Washington-based lender in its Bangladesh Development Update published yesterday.

At present, taxpayers show their undisclosed assets in their tax returns through investment in apartments, buildings and economic zones and high-tech parks.

Taxpayers have to pay a fixed amount of tax per square metre depending on the location of the flats and buildings, and 10 percent tax on the invested amount of black money in economic zones and high-tech parks.

As per the income tax law, any such investment "will be considered as ones which have already gone through the process of their source being explained" with field officials of the tax administration.

The government provided the opportunity to legalise black money without question in the fiscal year (FY) 2020-21.

The NBR got Tk 2,064 crore in tax, the highest on record in a year, with 11,859 taxpayers showing their undeclared assets in their tax returns.

The tax authority discontinued the provision in the FY 2021-22 and imposed rules that taxpayers will have to pay a 25 percent tax on the undisclosed amount and a 5 percent penalty on the payable tax. It got a lukewarm response.

WB observations

- Bolstering domestic revenue generation is critical to finance diverse investment needs
- Low revenue collection significantly limits fiscal space
- Taxpayers get demoralised with recurring opportunities to legalise undisclosed money
- Illicit capital flows to offshore accounts have been on the rise
- Most of the money laundering in Bangladesh occurs through trade mis-invoicing

In the publication, the WB ran a section with special focus on the importance of increased domestic resource mobilisation to meet the needs and development aspirations of Bangladesh, which has one of the lowest tax-to-GDP ratios.

The amount of tax collected by the country's National Board of Revenue (NBR) is significantly below its regional and aspirational peers.

The tax-to-GDP ratio declined from 9.1 percent in FY 2011-12 to 8.2 percent in FY23. Bolstering domestic revenue generation is critical to finance diverse investment needs in the long term, said the WB.

"The low revenue collection significantly limits the fiscal space necessary for critical

THE WORLD BANK
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REASONS BEHIND LOWER REVENUE

- Exemptions
- Rebate and reduced rates
- Poor compliance
- Resistance against reform
- Manual tax system
- Trust deficit in tax collection authorities

public investments in sectors such as energy, transportation, municipal infrastructure, human capital development, and social sector spending to support vulnerable sections of the population."

In its analysis on the reasons behind lower than potential revenue collection, the WB identified a number of issues.

These include exemptions, rebates and reduced rates, poor compliance, resistance against reform among revenue officials and businesses, manual taxation systems and a deficit of trust on the tax collection authorities.

Gaining the trust of honest taxpayers and those who are willing to pay their fair share could support revenue mobilisation, said the WB.

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