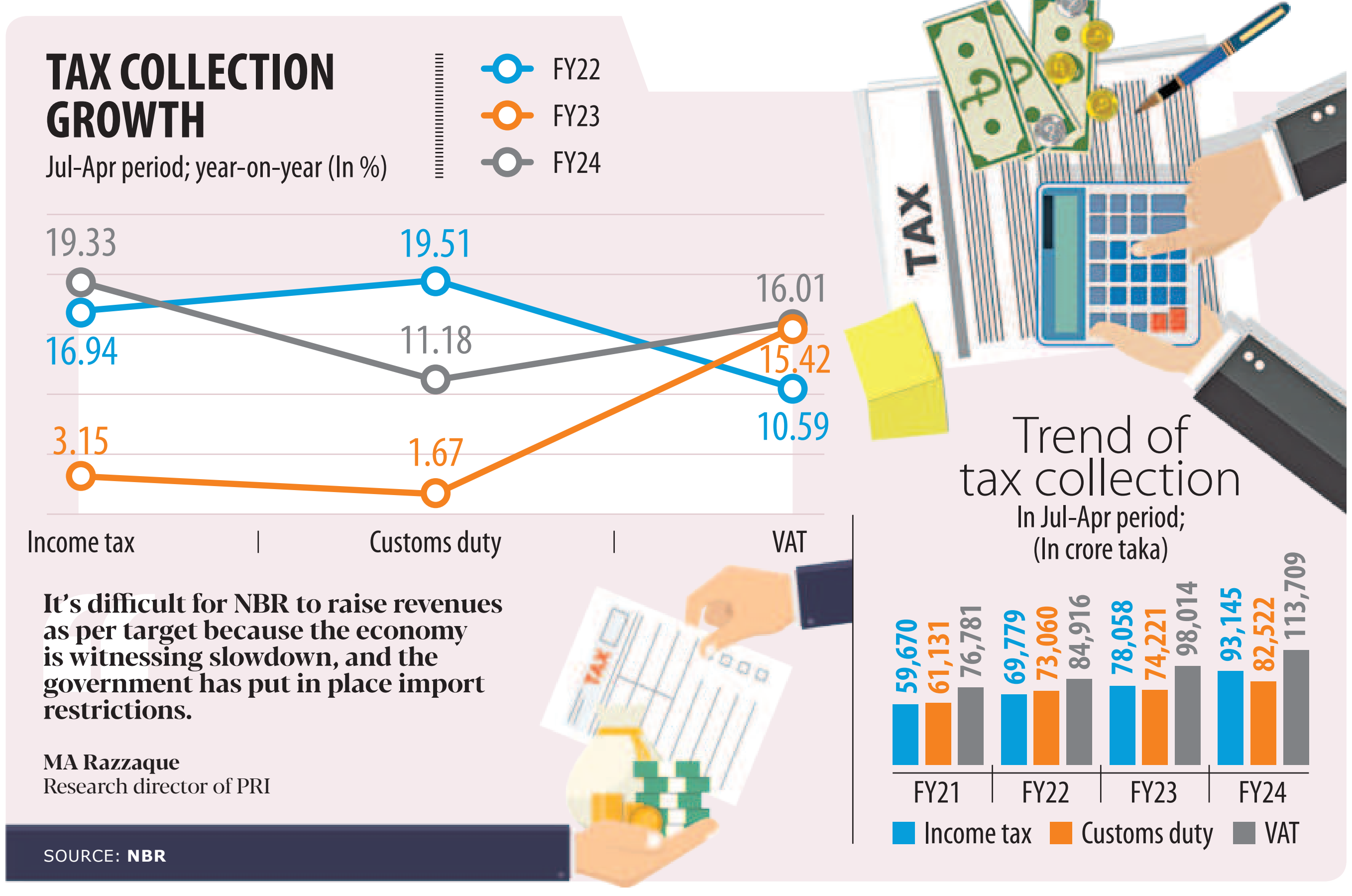
Star BUSINESS

Bangladesh should consider emerging markets that are growing at a healthy clip and offer growth opportunities to drive up exports, says HSBC's chief Asia economist

Interview on B4

Tax receipts grow at healthy clip, still NBR likely to miss target



It's difficult for NBR to raise revenues as per target because the economy is witnessing slowdown, and the government has put in place import restrictions.

MA Razzaque
Research director of PRI

SOURCE: NBR

MD ASADUZ ZAMAN

The National Board of Revenue (NBR) posted about 16 percent year-on-year growth in tax collections in the first 10 months of the current fiscal year. Still, it might be tougher for it to attain the government's goal of raising Tk 410,000 crore by the end of 2023-24, which ends on June 30.

Two research agencies also said the target, which many have described as ambitious at the beginning of the year, would once again remain unachieved.

If economists' projection turns into reality, it would be the 12th consecutive year that the NBR would miss the revenue generation goal.

The revenue administration raised Tk 289,376 crore in July-April of 2023-24, which represented 70 percent of the revised target for the financial year, according to the provisional data of the NBR.

This means taxmen will have to collect Tk 120,624 crore in the remaining two months of FY24.

"It looks like there will be a major shortfall by the end of June," said Prof Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue, a private think-tank.

Although a large chunk of revenue is deposited in the state coffer towards the end of a fiscal year, there might be a big gap between the revised target and the actual collection.

"The tax collection target is likely to be missed," said MA Razzaque, research director of the Policy Research Institute of Bangladesh, also a think-tank.

"It's difficult for the NBR to raise revenues as per target because the economy is witnessing slowdown, and the government has put in place import restrictions."

NBR data showed that tax collection from international trade grew 11.18 percent year-on-year to Tk 82,522 crore in July-April owing to falling imports as the government has put in place curbs to save dollars amid the protracted foreign exchange reserve crisis.

Income tax receipts rose 19.33 percent to Tk 93,145 crore, while the collection of value-added tax, the biggest source of revenue, grew 16.01 percent to Tk 113,709 crore.

Still, there are many businesses that don't deposit the VAT they collect while selling goods, said Wahiduddin Mahmud, a former adviser to a caretaker government, on Saturday.

If the NBR, which mobilises more than 85 percent of the state's revenue, misses the goal, the country's fiscal space will squeeze further and will face deeper problems in the coming days.

This is because the government won't be able to spend on development programme and repay the interest of both domestic and foreign loans, according to Razzaque.

"If we need loans again to repay loans, the country may fall into a vicious cycle."

In Bangladesh, the tax-GDP ratio remained among the lowest in the world at an estimated 7.38 percent in 2022-23.

But Bangladesh has the potential to raise more taxes.

According to a recent study of the PRI, Bangladesh would receive an additional Tk 65,000 crore in taxes if collections can be increased by two percentage points through the expansion of the tax net and compliance with regard to personal income. This may raise the tax-to-GDP ratio to 10.4 percent.

If the government invests the additional revenue, it will increase the GDP growth by 0.2 percent, the PRI said.

CPD's Rahman said the lower revenue

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Foreign loan repayment surges 44% in Jul-Apr

STAR BUSINESS REPORT

Bangladesh's foreign debt servicing surged 44 percent year-on-year to $2.81 billion in July-April of 2023-24 because of higher interest payments, which are spiralling thanks to rising borrowing from high-interest sources and increasing use of foreign loans.

It was $1.95 billion in the same period of the previous year, according to the data released yesterday by the Economic Relations Division (ERD).

During the 10-month period, around $1.15 billion was returned as interest, up from $569 million in the identical period of 2022-23. The principal amount repayment rose 20 percent to $1.66 billion.

In the local currency, the government had to pay Tk 30,923 crore, which included around Tk 12,626 crore as principal, in July-April. It was Tk 19,248 crore in the same period of FY23.

The government's foreign aid use was up 6 percent year-on-year to $6.28 billion.

Japan gave the highest $1.66 billion while $1.5 billion came from the Asian Development Bank, $1.05 billion from the World Bank, $857 million from Russia, $361 million from China, and $242 million from India.

In July-April of 2023-24, the government paid $2.81 billion as principal and interests, which was $1.95 billion in the same period a year ago

Foreign aid commitments increased by 36 percent to $7.6 billion. The ADB has pledged to lend $2.69 billion, Japan has committed $2.04 billion, and the World Bank has said it would provide $1.42 billion.

According to an ERD report, the country now has to borrow at the costlier market-based rates to cover the development spending.

The interest rate risk is high when the debt portfolio is dominated by market-based rates because the volume of the payment is based on the vagaries of the global economy.

The cost of foreign loans has been on the rise as interest rates have shot up globally. The rates for market-based loans have also increased significantly, an ERD official said.

In the next few years, debt servicing will be a major issue, and Bangladesh should be careful in managing the debt repayment and try its best to earn more through export and remittance, according to analysts.

Besides, the government needs to demonstrate zero tolerance on capital flight, which often takes place through hundi.

Next budget to be slightly expansionary

Finance minister says

STAR BUSINESS REPORT

Finance Minister Abul Hassan Mahmood Ali yesterday said the government would transition from a tight fiscal policy to a slightly expansionary one in the next budget.

"Over the past few years, we have been formulating tight budgets. But now we are thinking of how we can move away from that," he told reporters after a meeting with visiting International Monetary Fund (IMF) Executive Director Krishnamurthy Venkata Subramanian at the secretariat.

He added that the government was trying to see how an expansionary budget could be made and would start implementing it from the next fiscal year.

However, the minister did not respond when journalists asked how the budget could be expansionary when it will increase by only four percent compared to the current budget.

He said the priorities for the next budget would be bringing the country's economy back on track and ensuring that prices of essentials remain within people's purchasing capacity.

Ali added that the highest priority would also be given to improving the foreign currency reserves, containing inflation, and increasing revenue earnings.

There are challenges in those areas, but they have to be overcome, he added.

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STOCKS

DSEX ▼	CASPI ▼
1.15%	1.1%
5,250.84	15,232.96

COMMODITIES (AS OF FRIDAY)

Gold ▲	Oil ▲
$2,334.2	$77.80
(per ounce)	(per barrel)

ASIAN MARKETS (FRIDAY CLOSINGS)

MUMBAI	TOKYO	SINGAPORE	SHANGHAI
▼ 0.01%	▼ 1.17%	▼ 0.18%	▼ 0.88%
75,410.37	38,646.11	3,316.56	3,088.87

NBR may cut source tax on essential food supplies

STAR BUSINESS REPORT

The government may reduce source tax on incomes from the supply of essential food commodities to contain spiralling inflation.

Officials said suppliers of essential food commodities such as rice, wheat, potato, onion, maize, edible oil, salt and sugar face a two percent source tax on the proceeds from the supply of the commodities.

The rate of source tax, also known as Tax Deducted at Source (TDS), may be reduced to one percent from fiscal year 2024-25, beginning in July, said a finance ministry official.

The National Board of Revenue (NBR) may propose a reduction as a part of its tax-related proposals for the next fiscal year to be placed along with other budgetary measures.

The move comes as inflation continues to persist unabated, upending measures taken by Bangladesh Bank and the government to rein in runaway prices.

In April, food inflation hit double digits to 10.22 percent, a five-month high, further diminishing the purchasing capacity of the low-income segment of the population.

Although overall inflation eased in April month-on-month, annual average consumer prices rose to 9.73 percent until April from 9.69 percent a month ago.

Average inflation in April last year was 8.64 percent, according to the official data.

To contain prices, the Federation of Bangladesh Chambers of Commerce and Industry, in its proposal for tax measures for the next fiscal year, suggested that the government withdraw TDS on the proceeds from the supply of essential commodities, reasoning that it fuels prices.

Also, the NBR may reduce the source tax rate to 5 percent on a number of items from 7 percent next fiscal year.

Bangladesh hardly utilising regional trade potential

Finds a study conducted by former BB governor Atiur Rahman

STAR BUSINESS REPORT

Bangladesh is hardly utilising its regional trade potential as less than 5 percent of the country's total exports go to India and China -- two major economies of Asia -- and countries that are members of the Association of Southeast Asian Nations (ASEAN), a study found.

Global exports to China and India stood at $4,050 billion in 2020, but even in 2022 Bangladesh could export only $2.64 billion worth of goods and services to the two countries, the study said.

Bangladesh's total exports in 2022 stood at nearly $60 billion, of which India and China accounted for only 4.5 percent, indicating poor trade flow to the regional economic giants, it added.

Atiur Rahman, a former governor of the Bangladesh Bank, conducted the study, titled "Post-LDC graduation: Opportunities, Challenges, and the Way Forward".

In the study, he cited Bangladesh's low exports to Asian countries like India, China, South Korea and Japan.

Rahman, also an emeritus professor at the University of Dhaka, said around 40-60 percent of Bangladesh's export potential to Southeast Asia and ASEAN nations remains untapped.

He presented the findings of the study at a regular luncheon meeting of the American Chamber of Commerce (AmCham) in Bangladesh at the Sheraton Dhaka Hotel.

KEY POINTS

- Bangladesh can now hardly enjoy the full benefit of regional trade
- The amount of total import of China and India was $**4,048**b in 2020
- Bangladesh could export only $**2.64**b to China and India in 2022
- About **40-60**% of export potential of Bangladesh in ASEAN countries remains untapped
- Bangladesh may face **7-14**% baseline export reduction after LDC graduation

RECOMMENDATIONS

- Continue cash incentive for exports
- If possible, increase the amount of cash incentive for exports
- Stabilise exchange rate and contain inflation
- Promote export diversification (products and destinations)
- Strengthen financial sector governance
- Bolster overall business confidence
- Ensure consistency in capital market
- Prioritise human capital development

In November 2026, Bangladesh will graduate from the category of least developed countries (LDCs) and lose its most-favoured nation (MFN) tariffs and duty-free market access to partner countries, which may cut the country's baseline exports by 7-14 percent, he said.

Moreover, Bangladesh will also face stringent 'Rules of Origin' for exports and the pharmaceutical sector, for example, will have to comply with trade-related intellectual property rights (TRIPS) obligations, he said in the study.

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