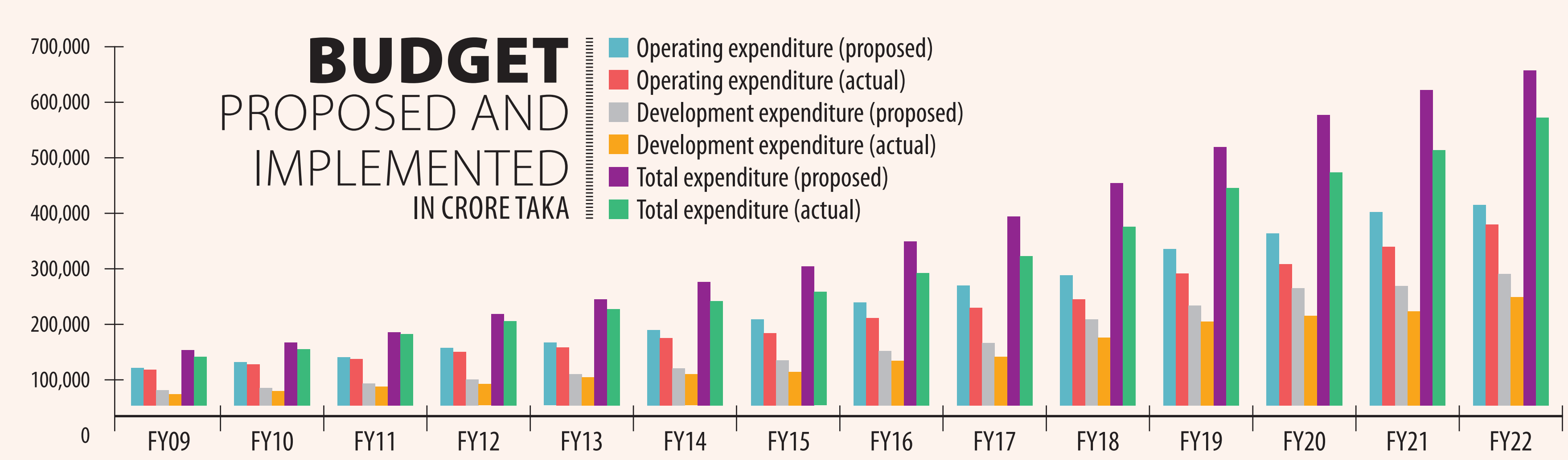
Star BUSINESS

BUDGET SPECIAL



KEEP SPENDING ON TIGHT LEASH

Economists urge government

AHSAN HABIB

The national budget for the fiscal year of 2024-25 is going to be presented in parliament on Thursday with monumental tasks ahead for the government to collect more revenues and contain stubbornly high inflation.

Amid the tight fiscal situation, economists are calling for cutting public spending, especially in mega projects, and reining in corruption in budget implementation. They, however, recommend widening the social safety net to help the lower-income groups and the poor keep their head above water amid the worst cost-of-living crisis in recent times.

The government has no other alternative but to accelerate tax collections with a view to reducing its reliance on commercial borrowing since the interest rate on bank loans has gone past 14 percent while the yield of treasury bills and bonds has surged to 12 percent.

The elevated borrowing, which is needed to run the country and carry out development work, may appear as a major cause of concern for Bangladesh as interest expenses are ballooning.

The main challenge for the new budget will be to deliver some respite to the people since prices show no signs of cooling while incomes have either stagnated or declined.

Industrialists and entrepreneurs will look for relief from the rising cost of production emanating from a spike in interest and exchange rates and the lingering gas crisis.

The government will have to rein in its willingness to maintain generosity when it comes to providing subsidies and tax exemptions as it is already in a tight spot fiscally and is implementing a programme of the International Monetary Fund (IMF), which has called for cutting tax expenditures.

The government should not spend money on projects in a way that will not give an expected return compared to a spike in debts, said MA Taslim, a former chairman of the economics department at the University of Dhaka.

As of September, the government's outstanding debt stock was Tk 16,55,156 crore.

The government's spending is rising whereas foreign exchange reserves are on the decline. Now, the government is trying to raise tax revenue.

"However, it should curb corruption first because without curtailing grafts, a higher tax will only add to the suffering of the people where the tax revenue growth will not pick up. The solution lies in controlling corruption," said Prof Taslim.

If the government gets the amount that people are already paying in the form of bribes, and the proper tax can be collected from taxpayers, the receipts will be much higher, he added.

MA Razzaque, research director of Policy Research Institute, thinks the next six to nine months will be critical for Bangladesh when the government will need to work intensively to stabilise the economy.

WHAT GOVT NEEDS TO DO IN FY25

- Collect adequate revenues
- Widen safety net schemes
- Contain high inflation
- Cut subsidies
- Reduce public spending
- Boost export and remittance
- Rein in corruption
- Ensure value for public money

"If the government can do it effectively, a soft landing will be easier."

He said the government will have to control public spending, otherwise, the policy aimed at stabilising the economy will be undermined.

If the government can't limit public spending, it might have to borrow from either commercial banks or the central bank. The problem is the loans from the central bank fuel inflation.

Razzaque said the central bank has adopted a contractionary monetary policy. Now, the fiscal policy will have to be aligned with it, in order to bring down consumer prices.

"Without taming inflation, other macroeconomic indicators can't be put back on track."

In 2022-23, the average inflation rate was 9.02 percent, far higher than the average of 6 percent in recent years. The Consumer Price Index grew by an average 9.73 percent in the first 10 months of FY24, which was 8.64 percent during the identical period a year prior, data from the Bangladesh Bureau of Statistics showed.

"At present, higher inflation is the main challenge facing the country. Therefore, the poor and the fixed-income people are suffering. The government should address this in the budget," said MK Mujeri, executive director of the Institute for Inclusive Finance and Development.

He also called for a supportive contractionary fiscal policy to contain inflation and reduce non-productive costs.

The former chief economist of the central bank advised the government to allocate more resources for social protection programmes owing to higher price levels.

The National Board of Revenue will have to find innovative ways to generate revenue without impacting low-income and middle-income groups, Mujeri said.

"Bringing macroeconomic stability, raising foreign exchange reserves, and boosting export and remittance receipts should be a priority."

Prof Taslim said the loan-driven development policy has made the macroeconomic situation complex and the cost-push inflation has fuelled it.

"Due to this development policy, the debt burden has widened, and the interest payment has gone up. So, the fiscal space has been squeezed, forcing the government to borrow from the central bank."

Finance ministry data showed that interest payments rose 26 percent year-on-year to Tk 60,555 crore in July-January of FY24. The payments on the domestic front were up 15 percent while it climbed three-fold against foreign loans.

"The cost-push inflation has compelled the central bank to limit imports and curb the money supply. This negatively affected production and caused the supply of goods to shrink, stoking inflation. It takes time to overcome this type of situation."

Razzaque suggested cutting development expenditures except for high-priority projects.

Yesterday, the Centre for Policy Dialogue said the political economy dynamics of Bangladesh have frequently impeded substantial reforms, even when the stakeholders have acknowledged their needs.

For example, political economy factors have played a significant role in the postponement, cancellation, and reversal of revenue mobilisation-related reforms and automation.

In addition, the government must review public expenditure and devise a strategy to ensure value for public money, the think-tank said.

Budget expands, goals are never met

SOHEL PARVEZ

The government is expanding the size of the national budget every year. However, it has fallen short of attaining its targets over the years, be that in terms of revenue collection or development expenditure.

Since fiscal year 2008-09, the government has been giving an account of real spending against the proposed budgets.

But none of the proposed budgets have been implemented fully. The average implementation rate is 85 percent thanks to operating expenditure being higher than development spending.

This phenomenon raises questions about the credibility of the fiscal framework as it leads to the inefficient allocation and use of resources, said economists.

"This is a Bangladeshi way of making the budget, which does not necessarily conform to the best practices of the world," said Debapriya Bhattacharya, distinguished fellow of the Centre for Policy Dialogue.

He said the continuous failure to fully implement the proposed budgets raises questions about the credibility of the fiscal targets.

"The first implication of this is the fiscal governance. As a result of setting higher targets, the credibility of the fiscal targets becomes questionable," he said.

"This leads to inefficient allocation and inefficient use of resources. As a result, the market and consumer get mixed signals," he said.

Data from the finance ministry showed that Bangladesh recorded the highest implementation rate of its budget in fiscal year 2010-11. During that year, 97 percent of planned allocation was used.

It was mainly because of the high execution rate of operating expenditure, which includes pay and allowances, purchase of goods and services, interest payments for domestic and foreign loans, and subsidies and incentives.

The execution of development projects as seen in the ratio of expenditure was 86 percent in that year. The lowest implementation rate was 79 percent recorded in fiscal year 2016-17, when operating and development expenditure was 81 percent and 78 percent of the allocation respectively, according to the finance ministry data.

Available data of actual expenditure showed that the government could spend 86 percent of its total budget in fiscal year 2021-22, the highest in nine years.

And the government has already revised down the size of the budgets for fiscal year 2022-23 and the current fiscal year of 2023-24, which means that the budgets for these two years will remain unimplemented.

MA Taslim, a professor of economics at Independent University, Bangladesh, said budgets do not see full execution because of a lack of capacity of the government.

"Our efficiency level is low because we do not have adequate quality manpower. We need investment in building adequate human capital," he said.

"But we have not invested enough in education, health and social sectors to build human capital, which is why we have to hire a lot of human resources from abroad," he said.

Taslim said policymakers have spoken a lot about the demographic dividend, but added that increased investment in building human capital was needed to reap the dividend.

"Had that been done, the economy would have registered a double-digit growth. East Asian countries and Europe invested to reap the benefit of their demographic dividend when the time came," he said.

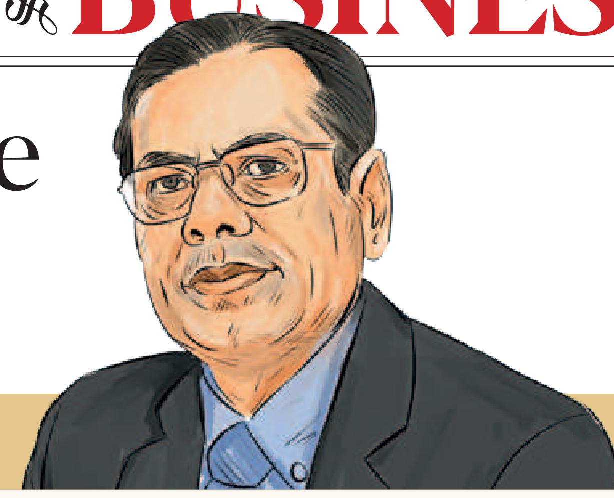
He said a lot of infrastructure has been built over the past years. "Infrastructure is necessary. But it is not the only thing we need," he said, stressing on investing in education.

However, there is a silver lining.

Taslim said the good side of non-implementation is that the budget deficit remains low, and this has reduced dependence on borrowing.

"Even after a lack of implementation, we see wastages of resources," he added.

Govt not using full strength to restore macroeconomic stability



Mustafizur Rahman, distinguished fellow of CPD

REJAUL KARIM BYRON *and* **MD FAZLUR RAHMAN**

The government is not moving at full throttle in bringing discipline to the banking sector, implementing reforms wholeheartedly, taking measures against syndication, and bringing money launderers under the rule of law, said a top economist.

Mustafizur Rahman, a distinguished fellow at the Centre for Policy Dialogue (CPD), said the government is taking various steps and embracing reforms to mitigate challenges in the economy and lower inflation.

"My concern is that they are not going at full strength. They are going one step forward, two steps backward," he added.

"I see half-hearted initiatives, but taking the steps to its logical conclusion is not there because that will hurt a number of people. Whether it will harm those people is at the end of the day a political decision."

According to Rahman, macroeconomic management, good governance, reforms, and zero tolerance to all forms of anomalies will be required if the upcoming budget is to achieve its objective of macroeconomic stability and bringing down inflation.

The former professor of accounting said the budget should look at the pressure heaped on marginalised groups, fixed-income groups and low-income people, and how they can be helped through budgetary allocations, fiscal policies and fiscal incentives.

He requested the government go a bit slow on transport infrastructure. However, the priority should be to complete ongoing projects rather than taking up new ones.

In rural areas, the family card programme needs to be expanded and entitlements should be strengthened. In urban areas, the government should think about introducing urban rationing for workers.

Since children are becoming a major victim of the ongoing macroeconomic problems, Prof Rahman called for launching a midday meal at schools to strengthen their nutrition intake.

Also, there should be renewed effort to enhance the country's revenue-GDP ratio, which is one of the lowest in the world.

He thinks digitalisation of the taxation system could be a major initiative that this budget could take and allocate money for both human resource development and technological upgradation of the National Board of Revenue.

He said almost the entire annual development programme is being financed from borrowed money. The burden of debt servicing is increasing.

"As a result, we are ending up in a situation where we are borrowing in order to pay the borrowed money. This is unsustainable."

The government should not take much money from the banking sector to meet the budget deficit as it could crowd out the private sector. A large part of it should be financed through external sources.

This is because in the case of borrowing from domestic sources, the interest payments have gone up quite significantly, from 9 percent to 14 percent.

Prof Rahman also says there might be natural contraction in demand for investable resources by the private sector because the costs have gone up. If the private sector demand for credit comes down, it will have a knock-on effect on private sector investment.

In Bangladesh, private sector investments have stagnated at 23 percent to 24 percent of the GDP over the last few years.

Prof Rahman said the interest rate is only one component of the cost of an entrepreneur. There are many other components, including the transport cost, cost of doing business and interaction with various government institutions.

If these cannot be strengthened and the costs decreased, obviously entrepreneurs, both domestic-oriented and export-oriented, will lose their competitiveness.

The good side is that because of the significant depreciation of the taka, the export sector has regained some competitiveness. If a conducive business environment is not there, the depreciation advantage will not translate into a competitive advantage.

He said the management of the supply chains is very weak and many of these supply chains have been overtaken by various corporate houses. And many of the inputs are controlled by only a few.

The government needs to see whether there are barriers to entry for import of rice or anything, he said.

He said in other countries, institutions like the commerce ministry, the consumer rights department, and the competition commission do the monitoring, surveillance and market control.

Sometimes, the supply from the government will stop in order to stabilise the market and sometimes they will go for open market sale.

"All of these should be done in an evidence-based manner and in a forward-looking manner. Imports should be done in a foreign-looking manner," the economist said.

The banking sector has been facing major problems and the measures aimed at bringing them down seem to be taking it one step forward, two steps backward.

"Good governance is essential in terms of not only ensuring value for money but also tackling the current challenges."

"At the end of the day, these are political decisions."

"Often, we hear about zero tolerance against this type of anomalies. But on the other hand, we also see contradictory steps: people are not paying taxes and taking money outside. But in the budget, they are given various incentives."

He said some are paying 30 percent in income tax while others are not paying anything and then they are allowed to whiten the money at 7 percent.

"So, this type of contradictory signal is not good for the economy."

He said it is time now to gradually phase out the 2.5 percent incentive given to remitters since the taka has depreciated by more than 35 percent in the past two years.

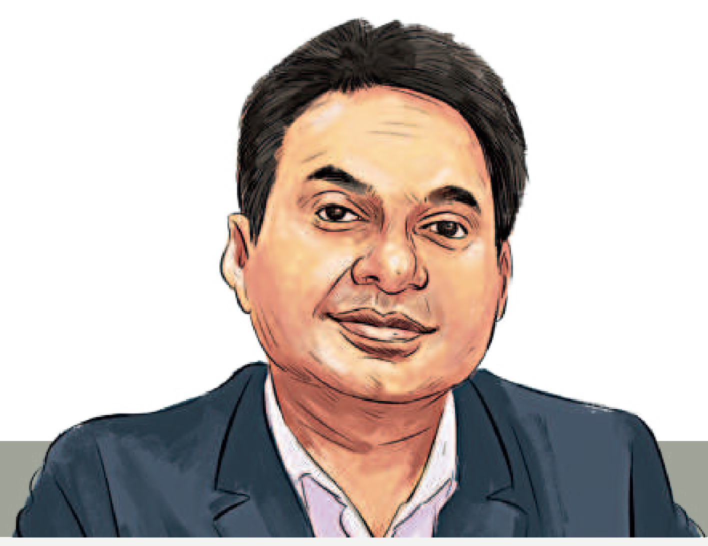
He said predictability should be given to entrepreneurs so they know how long they would continue to enjoy it and when it will be discontinued.

Imports are being made at Tk 117 per USD against Tk 86 two years ago.

Obviously, this will have a knock-on effect on investment, employment and the purchasing power of the common people, he said.

"It remains to be seen how to bring back money that has been laundered and break the syndication in the supply chain," he added.

INFLATION BATTLE must be at the centre of budget



Selim Raihan, executive director of Sanem

REJAUL KARIM BYRON *and* **MD FAZLUR RAHMAN**

Fighting raging inflation and putting the economy back on track have not been taken seriously as evidenced from the government's delayed response, which set the scene for one of the worst economic crises in its history and an unprecedented prolonged period of higher consumer prices, said an economist.

Selim Raihan, executive director of the South Asian Network on Economic Modeling (Sanem), a think-tank, said the measures that were taken to curb inflation and put the economy back on track have failed because either the steps were not right or they were not taken on time. Therefore, their effectiveness weakened.

He said raising the interest rate to make funds costlier was the only tool or one of the most vital tools available to the central bank. But by the time the Bangladesh Bank started increasing the interest rate, some new complications had already surfaced.

Another wrong policy of the government was borrowing from the central bank since it did nothing but inject new money in the market system, he said.

"And it was done at a time when there was high inflationary pressure. This means the government did not understand the gravity of the situation. This fuelled inflation."

"Inflation should be at the centre point of the budget," he said during an interview with The Daily Star recently.

Selim Raihan, a professor of economics at the University of Dhaka, said there was a solid economic foundation in the decade leading up to the Covid-19 pandemic, which hit the world in early 2020. The economy has moved off track, and the foundation is getting weaker.

Currently, Bangladesh is passing through a difficult time owing to multiple factors such as the lingering impact of the coronavirus pandemic and the Russia-Ukraine war. The ongoing geopolitical tension in the Middle East has added more uncertainty.

"Therefore, it remains to be seen whether the budget can address the difficult issues and take appropriate measures."

The new budget should concentrate on expanding social safety net programmes as much as possible for the next year or so, he said.

Bangladesh has one of the lowest spending for social programmes in terms of GDP compared to many countries. Additionally, there are allegations of wrong targeting and corruption.

Bangladesh also has one of the lowest tax-to-GDP ratios in the world. Still, it has been able to limit the budget deficit to less than 5 percent year after year. It was possible by cutting important spending on health, education, and social protection.

Prof Raihan said: "The very success story of macroeconomic stability came at a very high cost and it didn't really help human capital formation."

He also touched upon the challenges facing the banking sector. "What we are witnessing is the accumulated result of the past failures."

The government has begun phasing out direct subsidies, but Prof Raihan thinks the move should have been initiated when the going was good.

He said the latest hike of the exchange rate will again add fuel to inflation. "But there was no alternative to doing that because the reserves are falling."

Now, the problem is with the current reserve position, he said.

"Even if the country wants to attract more FDI, foreign investors will not feel safe coming to Bangladesh because they will fear that if they come and want to repatriate their profits, banks will not be able to do so owing to the forex crisis."

He said the shift from a fixed interest rate to a flexible interest rate and from a fixed exchange rate regime to a more flexible exchange rate regime proves that there are some realisations among the policymakers, albeit belatedly.

The borrowing would increase as the government will face more pressure since the reserves are not going up.

"If there is indiscriminate borrowing and it is not really based on proper feasibility studies, what will happen is that you shift the burden from the present to the future," he warned.

Thanks to the International Monetary Fund (IMF) conditionalities linked to the reforms in the financial sector and taxation, there is a realisation that these sectors need to be reformed.

But there is a serious vested interest in these sectors. There is a coalition comprising a segment of businessmen, bureaucracy and political elites that do not really want any reforms because they are the beneficiaries of the current system, he said.

He said because of the IMF's pressure, the government is trying to lift tax exemptions. But imposing some taxes on people or sectors will be a cosmetic kind of change and will not really bring a structural shift in revenue collection.

"We need to widen tax coverage. For that, reforms in the NBR's are needed."

Prof Raihan said the decade of macroeconomic stability unfortunately was a lost decade of human capital formation.

"There are many mega projects to build physical infrastructure. But we never heard of mega projects for social infrastructure. No country in the world will be able to show that they achieved a high level of income and development without investing heavily on education."

Prof Raihan said unfortunately, in Bangladesh, any major reform efforts actually stem from external pressure.

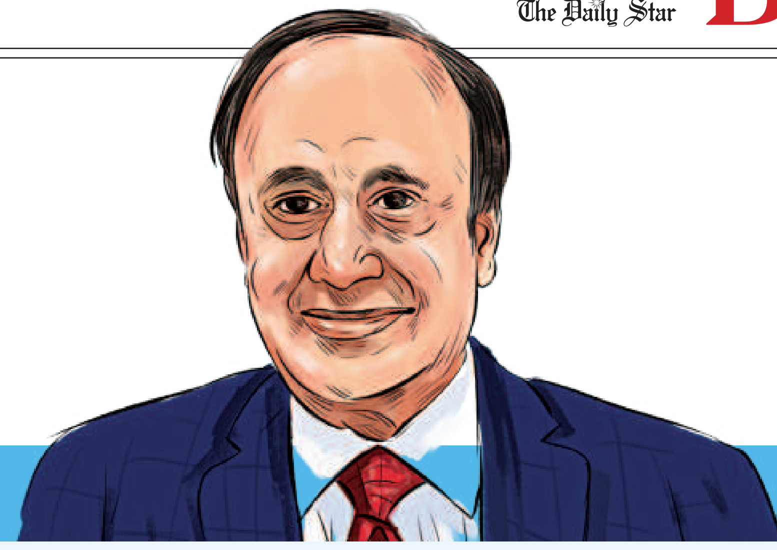
He cited the example of the VAT reforms in the early 1990s and the trade policy reform in the 1980s and 1990s that came through the World Bank and IMF programmes.

When the government feels external pressure, it initiates reforms. However, in certain cases, the government does it half-heartedly because it doesn't own the reform programme.

"When you don't own the reform programme, you fill it out just to meet the conditionality. That makes me anxious."

"When you have a decision-making process like this, policymakers sometimes are unable to understand the reality, don't take the right measures at the right time, and when they don't own the programme, then what you see is very hodgepodge kind of stuff."

It's time to correct FISCAL STANCE



Sadiq Ahmed, vice-chairman of PRI

REJAUL KARIM BYRON *and* MD FAZLUR RAHMAN

The government has not addressed the stability issue through its fiscal policy for two years in a row although the economy is in turmoil owing to both external and internal pressures. A noted economist, however, thinks it can bring the situation under better control through the budget in the next fiscal year beginning on July 1.

Sadiq Ahmed, vice-chairman of the Policy Research Institute of Bangladesh (PRI), a Dhaka-based think-tank, said he does not think the government can compromise on stabilisation at this stage.

"In the last two to three years, they did not use the budget for that. And that was a mistake. The government has done the monetary correction and the exchange rate correction, and now it will have to correct the fiscal stance."

For the past two years, Bangladesh has been facing serious macroeconomic instability reflected in higher inflation, depletion of foreign currency reserves, strain on the exchange rate, a decline in capital inflows, and pressure on the budget.

In response, the government has devalued the currency, imposed import controls, tightened public spending, and very recently allowed interest rates to go up.

But Ahmed thinks the full range of demand management policies necessary to reduce demand and stabilise the economy has not been made yet. "Consequently, macroeconomic imbalances continue to persist."

While the flexibility of the interest rate has already reduced the demand for credits and lowered the demand pressure on foreign exchange, the impact on the reduction in the inflation rate has been less visible.

This is partly because of the time lag, but also because the demand pressure, emanating from fiscal deficits, has not been addressed, the former senior official of the World Bank said.

Despite significant cutbacks in annual development spending, the budget deficit remains stubbornly high at around 5 percent of gross domestic product (GDP) owing to subsidies and shortfalls in revenue mobilisation.

"While a fiscal deficit of 5 percent of GDP may not appear high in a normal year, in the present context of high inflation and pressure on the balance of payments, there is a need to contain it to 2-3 percent."

Ahmed said the main elements of the budget strategy should be to reduce fiscal deficit significantly to lower aggregate demand. This demand reduction should be achieved in a way that it does not compromise the future growth prospect or hurt equity.

For this to happen, the strategy will involve raising tax revenues through effective tax reforms, increasing the profitability of state-run enterprises (SoEs) through corporate governance and pricing reforms, reducing subsidies, and raising spending on human development and social protection.

The PRI has carried out considerable research on the tax reform agenda. Hence, he said, the main elements of the tax reform are well-known and have been presented in public forums and shared with the government many times.

These include separating tax planning and tax policy from tax collection; strengthening both units with autonomy, professional management and quality staffing; digitalising tax assessment and collection thereby eliminating the interface between taxpayers and the tax collector; simplifying tax filing by eliminating the income, expenditure and wealth reconciliation; selective and productive audits done by professional auditors; implementing the 2012 VAT law; and introducing a modern property tax system.

For the past two years, Bangladesh has been facing serious macroeconomic instability reflected in higher inflation, depletion of foreign currency reserves, strain on the exchange rate, a decline in capital inflows, and pressure on the budget

"While the full implementation of the tax modernisation plan will take two to three years, an early start can be made in the FY25 national budget and these can have substantial positive revenue effects," Ahmed said.

He said there is no shortcut to digitalisation of the tax system and there is no reason this cannot be done within the next twelve to eighteen months.

"I am confident if the government implements the above measures and the VAT law, you will get revenue equal to 1.2 percent of GDP in nine months to one year."

The economist said the government has invested heavily in SoEs and most of them suffer from operating losses. As a result, as against a book value of total non-financial SoE assets of 17 percent of GDP in FY2021, profits were a mere 0.6 percent of GDP.

"A 10-12 percent financial rate of return should yield profits equivalent to 1.8-2 percent of GDP. It is conservatively assumed that the government can raise an additional surplus of 0.3 percent of GDP from SoEs in FY25."

He said the government can't afford to neglect the fiscal adjustment agenda anymore. "I know bringing about fiscal reforms is politically difficult. But all reforms are politically difficult."

To control inflation, the government has finally agreed that the interest rate will be market-based. Ahmed said: "That's a very good policy and a forward-looking one. It's better late than never."

In recent months there were multiple exchange rates from as low as Tk 110 to as high as Tk 127 per USD, he said. Nevertheless, it was clear that very few transactions were happening at Tk 110.

Ahmed's recommendation is to go for full flexibility to manage the exchange rate and he called the crawling peg as not a meaningful concept. "The central bank can't keep the exchange rate at any fixed number or even a narrow band as it does not have the reserve cover to back it up. It can, however, influence the market rate by using monetary and fiscal policy instruments."

Cutting down the annual development programme (ADP) to a large extent will not be desirable as this will compromise the development agenda. The fiscal adjustment has to be addressed through some meaningful reforms, he said.

"Frankly speaking, there is not much scope to cut public expenditure. The only area where spending can be adjusted is to reduce subsidies on energy, exports and remittances," Ahmed said.

With a market based exchange rate, there is no need for export and remittance subsidies. Regarding energy subsidies, the government does not have the fiscal space to carry those subsidies. A subsidy on fossil fuel consumption is also inconsistent with the carbon reduction agenda. But, by and large, in order to meet the development objectives of growth acceleration and poverty reduction, the government will have to raise more resources.

The problem with Bangladesh is that it relies heavily on indirect taxes, especially import taxes. On the contrary, all developed countries raise 70 to 80 percent of the taxes through income taxes.

In Bangladesh, the capacity to pay has grown tremendously compared to the early 1990s when per capita income was $300 against $2,800 currently.

"Then why is the personal income tax to GDP ratio only 1.3 percent, one of the lowest in the world?" questioned Ahmed.

"This is because the rich don't pay taxes. The system functions in such a way that they can skip the taxes or reach negotiated settlements. The tax system has to be overhauled."

Reduce cost of doing business to facilitate investment

Businesspeople urge govt to ensure conducive ecosystem

Global FDI amounted to $1.3 trillion in 2022, with nearly half being made in Asia. South Asia saw an overall 7 percent increase, but Bangladesh witnessed a decline

SUKANTA HALDER

Businesspeople in Bangladesh have called for improving the ease of doing business and reducing the cost of production to establish a conducive trade and investment ecosystem.

If these issues are addressed, more foreign direct investment (FDI) will flow into the country and local entrepreneurs will get the opportunity to grow further, they said.

The major challenges for the national budget for the fiscal year 2024-25 will be controlling inflation, increasing the foreign exchange reserves, exports, and the tax-GDP ratio, and bringing reforms in the banking sector.

Along with that, there are also challenges related to reforming fiscal policy.

Experts said the allocation for the government's open market sales programme should go up, and Bangladeshi expatriates should be incentivised to invest in the country, not only in real estate but also in stocks and banks.

"Additionally, the customs, tax and VAT systems have to be automated and if the National Logistics Development Policy is implemented, it will help cut the cost of doing business," said Mahbubul Alam, president of the Federation of Bangladesh Chambers of Commerce and Industry.

Emphasis should also be placed so that the interest rate of bank loans does not go up. This is because if the interest rate climbs, industrialisation and investment in the country will be hampered.

"It is also necessary to reduce the advance income tax rate in phases to reduce the cost of doing business," Alam added.

The top business leader in Bangladesh said the central bank will have to monitor all banks to ensure their compliance with the new exchange rate system.

He suggested that there should be instructions or plans in the budget for ensuring uninterrupted and quality gas and electricity supply. Also, it is important to bring down inflation, which has stayed above 9 percent for nearly two years.

Zaved Akhtar, president of the Foreign Investors' Chamber of Commerce and Industry, said FDI contribution to the country's GDP is inadequate and should be improved.

"We are getting significantly below our fair share, whether we are comparing with global benchmarks or even just South Asia. We must ensure that we build Bangladesh as a preferred destination for investment."

According to the latest United Nations Trade and Development report, global FDI amounted to $1.3 trillion in 2022, with nearly half being made in Asia. South Asia saw an overall 7 percent increase, but Bangladesh saw a decline.

FDI in Bangladesh amounted to just 0.4 percent of the country's GDP in 2022 while the ratio was 1.5 percent in India and 4.4 percent in Vietnam.

In 2023, FDI to Bangladesh snapped its rising trend. Central bank data showed last week that the country received $3 billion in FDI last year, a decrease of 14 percent from $3.5 billion in 2022.

Akhter said multiple factors work against the country when it comes to attracting FDI. This is because it is difficult to onboard investors as setting up their ventures entails securing 150 approvals from 23 departments while the country's uncompetitive and complicated tax structure is also discouraging.

Additionally, Bangladesh has an underdeveloped legal system that fails to respect alternative dispute resolution and international arbitration outcomes.

Predictability and planning of future tax rates are fundamental components of any long-term business planning, especially for foreign investment, he said while adding that improving tax predictability and facilitating effective tax planning is essential for implementing tax rates on a forward-looking basis.

"Moreover, a few provisions in the current tax regime are creating an unfair tax burden on businesses. Such rules are adversely impacting the growth of investment and FDI," Akhter said.

This can be best illustrated by how treating disregarded expenses as separate taxable income imposes an unjust additional tax liability on businesses, thereby raising their operational costs, he added.

Ashraf Ahmed, president of the Dhaka Chamber of Commerce and Industry, said first, Bangladesh may have issues with crop harvests and a lower production may require increased imports, for which it must pay in foreign currencies.

Second, if inflation remains high, a portion of the marginal poor slides below the poverty line and can no longer afford sufficient food.

As a solution to the first case, Ahmed said Bangladesh needs to maintain an adequate food supply, which it already does. "But these need to be released into the market in a timely manner to maintain supply and prices."

He said allowing the market to determine the foreign exchange rate is vital to stabilise the foreign exchange market.

Deen Islam, associate professor of the economics department at the University of Dhaka, said though the Bangladesh Bank recently announced a crawling peg to set the exchange rate, it has been observed that the central bank has failed to follow through with its announced policies in the past.

If the BB continues to tightly manage the exchange rate, a speculative bubble will form, leading to greater uncertainty, which could have serious negative consequences on private investment.

Therefore, the government could provide additional incentives to Bangladesh expatriates to invest in the country, not only in real estate but also in the stock market and banks.

"For this, it is important to ensure good governance in both the banking sector and the stock market."

Due to higher inflation for the past two years, people's real purchasing power has been falling, said Mohammad Abdur Razzaque, chairman of the Research and Policy Integration for Development.

Interest rates are rising. As a result, trading activities will shrink, and employment will be affected. And the decrease in the income of ordinary people means that food insecurity will be created, he added.

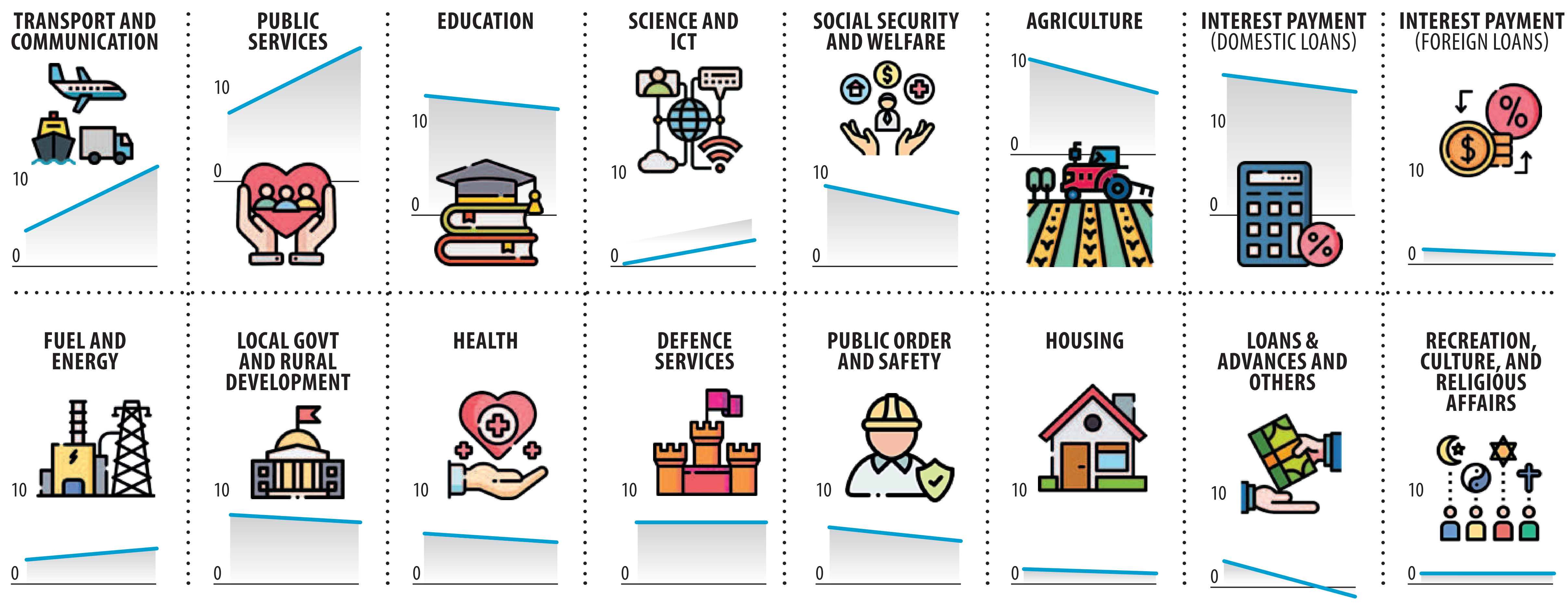
"Therefore, under the circumstances, the allocation for open market sales should be increased."

Besides, the expansion of the annual development programme should be carefully considered as some cost reductions could be made from mega projects, Razzaque said.

ACTUAL BUDGETARY EXPENDITURE

WHICH SECTORS HAVE GOT HIGHEST PRIORITY? (FY09 TO FY22)

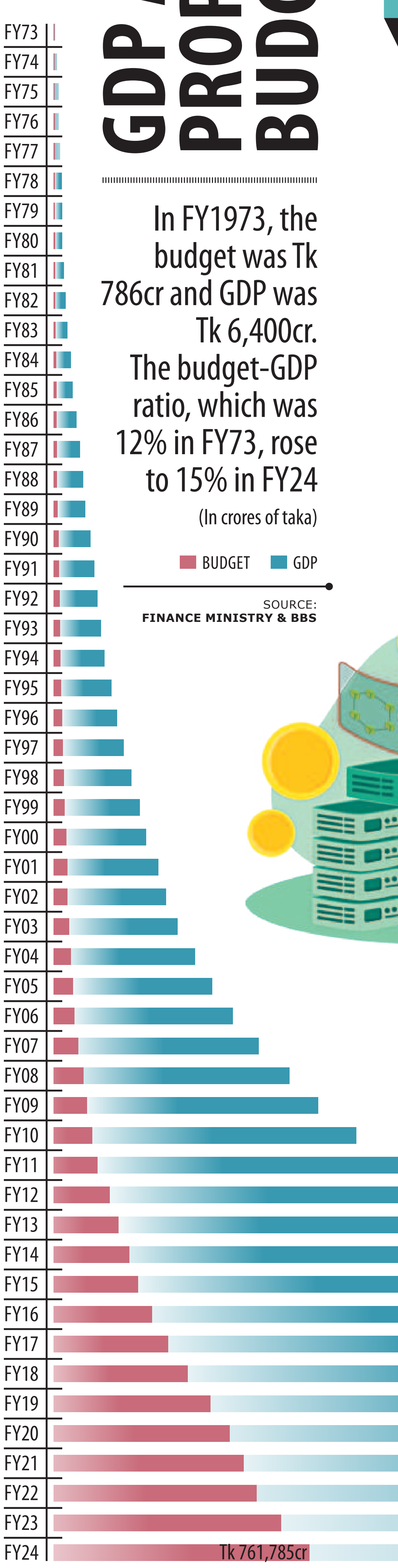
In % of total spending



GDP AND PROPOSED BUDGET

In FY1973, the budget was Tk 786cr and GDP was Tk 6,400cr. The budget-GDP ratio, which was 12% in FY73, rose to 15% in FY24

(In crores of taka)



SOURCE: FINANCE MINISTRY & BBS

BIG NUMBERS

ECONOMIC GROWTH

- FY24: 5.82% (PROVISIONAL) ↑
- FY23: 5.78%

REMITTANCES

(July-April period)

- FY24: $19.11bn ↑
- FY23: $17.71bn

ANNUAL AVERAGE INFLATION

- April 2024: 9.73% ↑
- April 2023: 8.64%

EXPORT (July-April period)

- FY24: $47.47bn ↑
- FY23: $45.67bn

IMPORT

(July-March period)

- FY24: $45.6bn ↓
- FY23: $53.9bn

FOREX RESERVES

- $18.72bn ↓
  as per the IMF calculation method (May 29, 2024)
- $23.56bn
  (July 12, 2023 when BB adopted IMF formula)

TAX COLLECTION

(July-April period)

- FY24: Tk 2.89 lakh crore ↑
- FY23: Tk 2.5 lakh crore

BUDGETARY INDICATORS

AS % OF GDP