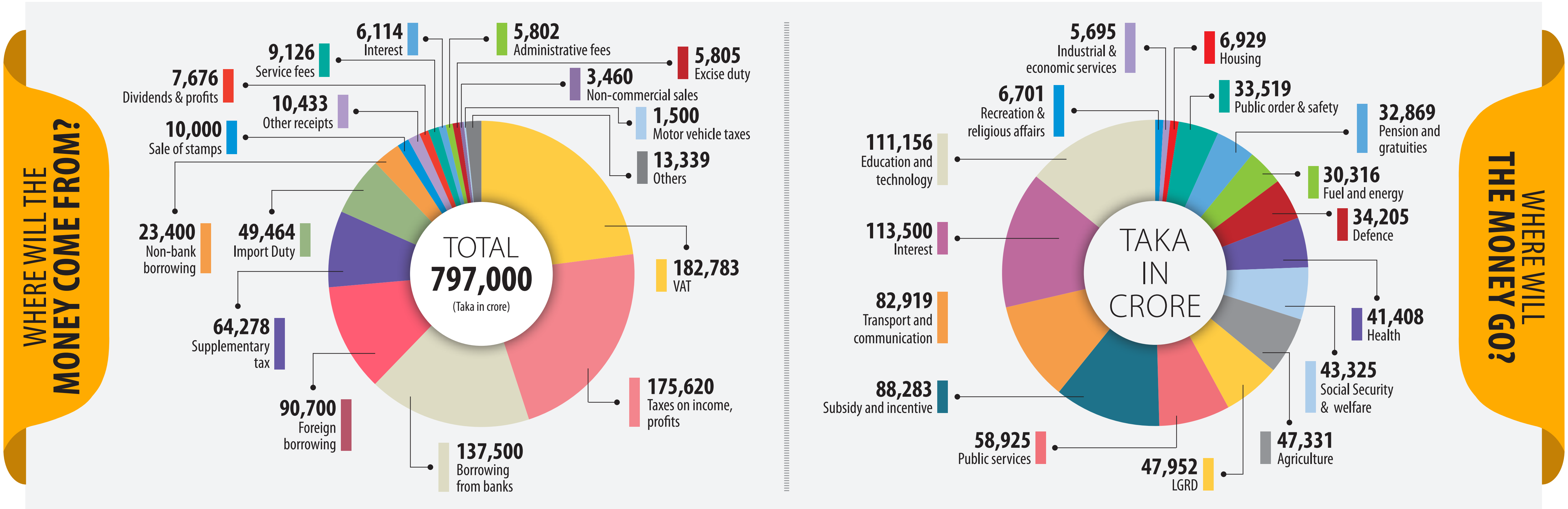

Budget embraces correct strategic direction

ASHIKUR RAHMAN

The proposed national budget for FY25 has remained a widely speculated topic for the people of this country. Bangladesh has been navigating a precarious global economy over the last 24 months, and the economic aftereffects of Covid-19 and the Ukraine-Russia have not only complicated macroeconomic management but created widespread concerns across both domestic and international actors.

This has manifested in international agencies downgrading Bangladesh's credit ratings. For instance, Fitch Ratings recently downgraded Bangladesh's long-term foreign-currency issuer default rating to "B+" from "BB-" owing to the lingering weakening of the country's foreign reserve buffers.

SEE PAGE 13 COL 1

Budget deficit may stoke inflation

MD DEEN ISLAM

The budget for fiscal 2024-25 proposes a total expenditure of Tk 797,000 crore with a total tax revenue of Tk 541,000 crore, resulting in a deficit of Tk 256,000 crore.

While several initiatives in the proposed budget are commendable, there are areas where further improvements could align better with the identified priorities.

The most important challenge highlighted in the budget is inflation, and several policies have been proposed to address it in the coming year. Notably, the size of the proposed budget is realistic rather than ambitious.

The budget deficit is approximately 4.6 percent of the country's gross domestic product (GDP) while it was 4.7 percent, or Tk

SEE PAGE 13 COL 1

No ray of hope for taxpayers

JASIM UDDIN RASEL

While the cost of living remains high, with the inflation rate hovering at over 9 percent throughout the year, no ray of hope came for the common people in the budget declared yesterday. This is upsetting for the low and middle-income groups of society.

Individual taxpayers expected the budget to reduce their tax burden, but the minimum tax-free limit remains the same as that of last year. Moreover, one must pay a minimum tax of Tk 5,000. What can the government do to ease the high inflationary pressure?

On May 14, Treasurer Jim Chalmers in Australia also presented the budget for fiscal year 2024-25. The cost of living is also high there and the first priority was to reduce living

SEE PAGE 13 COL 4

Allocation for transport, energy drops slightly

DWAIPAYAN BARUA, *Ctg*

The government has slightly reduced the allocations for transport and power and energy compared to the outgoing fiscal year.

The sectors had received high priorities in budgets since the Awami League-led alliance assumed power in 2009.

They were allocated Tk 1,22,448 crore in the original budget for FY24. The finance minister yesterday proposed Tk 1,13,235 crore for the sectors, which is 7.5 percent less than this year's allocation.

The dip, however, started a bit earlier. The total allocation for the sectors in the revised budget for FY24 decreased to Tk 1,03,558 crore.

Allocation for the transport sector had not decreased in the previous five years. According to finance ministry data, in FY09, the government spent Tk 4,205 crore on transport and communication. In FY22, it spent Tk 60,200 crore.

However, several mega projects in the transport sector, including Padma Bridge, Bangabandhu Tunnel, Padma Bridge Rail Link, and the elevated expressway in Chattogram were either complete or close to completion. And this could have contributed to the government reducing allocation.

Reducing allocation may reflect the government's intent to cut costs and curb inflation as well.

Prime Minister Sheikh Hasina last month directed the finance ministry to formulate a contractionary budget for the upcoming fiscal year to control inflation.

Amidst shrinking foreign currency reserves and an economic downtrend, the policymakers are preferring a go-slow policy with mega spending on transport and power and energy.

Economists have also been urging public spending cuts, especially on mega projects, and spending more on widening the social safety net programmes to help people cope in these tough times.

Praising the government for reducing allocation for energy and transport sectors, Muinul Islam, former president of Bangladesh Economic Association,

SEE PAGE 13 COL 6

ECB makes first rate cut since 2019 but sees 'bumpy road'

AFP, *Frankfurt*

The European Central Bank cut interest rates for the first time since 2019 on Thursday as eurozone inflation gradually eases, but president Christine Lagarde said the path ahead was unclear and warned of a "bumpy road".

The key deposit rate was lowered a quarter point to 3.75 percent, bringing it down from a record high.

Following an unprecedented streak of eurozone rate hikes beginning in mid-2022 to tame runaway energy and food costs, inflation has been slowly coming down towards the ECB's two-percent target.

Thursday's cut, the first since September 2019, came after the central bank kept rates on hold since October and will provide a much-needed boost for the beleaguered eurozone economy.

The move marks the ECB diverging from the US Federal Reserve, which has also hiked rates aggressively but is not expected to start cutting for months due to stronger-than-expected data.

All eyes are on what happens next but the path ahead has been complicated by recent stronger-than-expected inflation and growth data, which has lowered the chances of a rapid easing cycle.

At a press conference following the rate decision, Lagarde insisted that the Frankfurt-based institution was not "pre-committing to any particular rate path".

"What is very uncertain is the speed at which we travel and the time that it will take," she said. "We know its going to be a bumpy road."

The ECB's updated forecasts released Thursday highlighted the challenges.

The central bank hiked its inflation projections for this year and next, saying it no longer expects the indicator to hit the two-percent target in 2025, as previously anticipated, but rather to come in at 2.2 percent.

It also raised its growth forecast for 2024, although lowered it slightly for next year.

It came after data released last week showed inflation in the 20 countries that use the euro rose in May, and faster than expected -- to 2.6 percent on year.

The eurozone economy also expanded faster than expected in the first quarter as it emerged from recession.

While inflation has eased, Lagarde noted that it still remained high, pointing to the fact that "wages are still rising at an elevated pace, making up for the past inflation surge."

But she also said that some indicators suggested that wage growth would ease over the course of the year.

The eurozone economy is expected to continue recovering, Lagarde said.

Mobile internet, services to be costlier

FROM PAGE 2

This measure threatens to escalate the cost burden on consumers and service providers alike, hindering accessibility to mobile services and impeding digital inclusion efforts, according to experts.

"The National Board of Revenue's [NBR's] decision to extend tax exemption by another 3 years for 19 digital services, including the software sector, was commendable," said Fahim Mashroor, a former president of the Bangladesh Association of Software and Information Services (BASIS).

"However, I think imposing 5 percent extra supplementary duty on mobile internet is contradictory with the Smart Bangladesh vision," he said.

"It will further widen the digital divide. Use of smartphones and data by low-income people will be affected. So, the government should reconsider. Supplementary duty can only be imposed on talk time, but not data purchase," he added.

The mobile telecommunication sector is already burdened with high taxes, said Shahed Alam, chief corporate and regulatory officer at Robi Axiata.

An additional increase in the supplementary duty of various services in the mobile telecommunication sector will have an adverse impact on customers as well as the overall consumption of mobile internet services, he said.

Especially when the number of mobile internet users has been declining for the past few quarters, the increased tax burden will further accelerate the negative trend.

"We think that the overall objective of increasing the tax rate will not be attained as it will reduce the amount of total mobile consumer spending," Alam said.

"We must remember that in the journey towards building a Smart Bangladesh, 41 percent of the country's population still remains unconnected to telecommunications services," he added.

Besides, compared to neighbouring countries, data usage in Bangladesh at the consumer level is significantly low. So, there is a huge opportunity to increase revenue from this sector by increasing the number of users, Alam said.

Bangladesh had 19.37 crore active mobile phone connections as of April this year, according to data of the Bangladesh Telecommunication Regulatory Commission.

The Association of Mobile Telecom Operators of Bangladesh, said in a statement that additional supplementary duty on mobile services would further burden the telecom industry and mobile subscribers.

This increase will raise the cost of voice and internet services, putting financial pressure on users, particularly those from marginalised communities, and potentially lead to decreased mobile service usage.

"This reduction in usage will negatively impact businesses and reduce government revenue," it said.

Amtob also said the higher VAT on SIM cards will discourage new users, slowing the growth of mobile connections in the country.

"These moves will result in slowing down the overall digitalisation of the country, which will not only have an impact on GDP growth, but also contradict the Smart Bangladesh vision," it said.

"So, we urge the government to reconsider these duties and take into account budget recommendations the telecom sector provided earlier," the association added.

US trade gap widens to largest in 18 months

AFP, *Washington*

The US trade deficit expanded slightly less than analysts expected in April, to the widest since late 2022, as imports rose more quickly than exports, according to government data released Thursday.

The overall gap was $74.6 billion, growing from March's revised $68.6 billion figure, said the Commerce Department.

This was the largest deficit since October 2022, according to official data. US consumption has been more resilient than anticipated even as the central bank rapidly hiked interest rates to dampen demand -- and this has helped to support imports.

But with weaker global demand, there have been concerns that export growth would not be able to keep up. Investors are also watching the Federal Reserve for the outcome of its policy meeting next week, looking for hints on when it might start cutting interest rates.

"The early data are pointing to a drag from trade in the second quarter," said Rubeela Farooqi, chief US economist at High Frequency Economics.

In April, imports grew by 2.4 percent to $338.2 billion, while exports rose by 0.8 percent to $263.7 billion, said the Commerce Department. The jump in imports was largely due to an increase in goods such as automotive vehicles, the report added.

Goods exports, meanwhile, also picked up but by a smaller degree, with a rise seen in products like pharmaceutical preparations and electric apparatus, data showed.

"Imports have been supported by strong domestic demand and lean inventories," said Matthew Martin, US economist at Oxford Economics.

"Exports have contended with a weaker global backdrop and a strong dollar which makes domestic goods relatively more expensive abroad," he added.

The goods deficit with China, a point of contention in US-China competition, dropped by $2.5 billion to $22.1 billion in April. This was mainly due to a decrease in imports.

Bad loans hit historic high

FROM PAGE 4

of their Tk 1,221,166 crore in disbursed loans.

Default loans at foreign commercial banks stood at 5.20 percent of their disbursed loans and it was at 13.88 percent at specialised banks, central bank data showed.

Moinul Islam said the default loans issue has become a major problem now.

"The government is not taking adequate action against loan defaulters, and that is why their numbers are continuously rising."

Stressed assets, including written-off and rescheduled loans, stood at Tk 377,922 crore till December 2022, central bank data showed.

NPLs have risen at a time when the government has fixed a target to reduce the volume of bad loans as prescribed by the IMF with its $4.7 billion credit programme.

As per the government's direction, the BB has fixed a target to reduce bad loans at the state-run banks to 10 percent by 2026. The target for private commercial banks is 5 percent.

NO REFORM PROGRAMME

The finance minister yesterday did not mention any specific reform agenda for the banking sector, which is struggling with a high NPL ratio, stressed assets, weak financial health, liquidity challenges and weak regulations of the central bank.

In his budget speech for FY20, former finance minister AHM Mustafa Kamal hinted that the government was taking a number of reforms to bring about discipline in the banking sector.

He would go on to refer to such reforms while announcing the next four budgets, but only a few were ever implemented, leading to the sector becoming even more undisciplined.

On January 10, 2019, Kamal said: "NPL becomes a matter of grave concern, but it is still in a manageable position. From today, NPL will not increase."

His predecessor Abul Maal Abdul Muhith also hinted at forming the country's first banking commission in his budget speech for FY16. However, there was no further discussion regarding that topic after FY20.

Fahmida Khatun, executive director of the Centre for Policy Dialogue, recently said an independent banking commission is needed to ensure good governance in the banking sector.

She added that a goal-specific, time-bound, inclusive, transparent, unbiased and independent citizen's commission on banking should be set up to bring transparency.

A fresh blow to stock

FROM PAGE 4

investors for having been on a bear run for a long time.

The DSEX, the benchmark index of the DSE, dropped by around 1,000 points, or 16 percent, in the last three months.

Against this backdrop, this new tax will not only prompt more investors to leave the market but also discourage large investors from coming to invest.

Although the chief of the Bangladesh Securities and Exchange Commission (BSEC) had earlier assured investors that he had spoken to the National Board of Revenue to keep the tax from coming into effect, this has not happened yet.

Saiful Islam, president of the DSE Brokers Association of Bangladesh, called for reviewing the plan on capital gains tax as the market was now passing through tough times.

"We are not against the capital gains tax, but the time is not appropriate," he said.

Moreover, he welcomed the move to attract listed companies to offload more shares in the stock market in exchange of getting a corporate tax rate cut.

The finance minister yesterday proposed that listed companies which will offload at least 10 percent of their shares in the stock market and abide by a condition on bank transfers will be able to avail an income tax reduction from 22.5 percent to 20 percent.

The condition is that all types of income, receipts, single transactions of over Tk 5 lakh and all annual expenses and investments exceeding Tk 36 lakh must come about through bank transfers.

If the share offloading is less than 10 percent, the company has to pay income tax at a rate of 25 percent.

However, if this company abides by the bank transfer condition, the income tax rate will be 22.5 percent. Other analysts pointed out that these conditions result in the difference in tax payable by listed and non-listed companies to 2.5 percentage points, but it should have been higher to make it more lucrative to get listed.

Islam also lauded the finance bill allowing black money into the stock market and barring the questioning of investors in this regard, saying it would have a positive impact on the stock market.