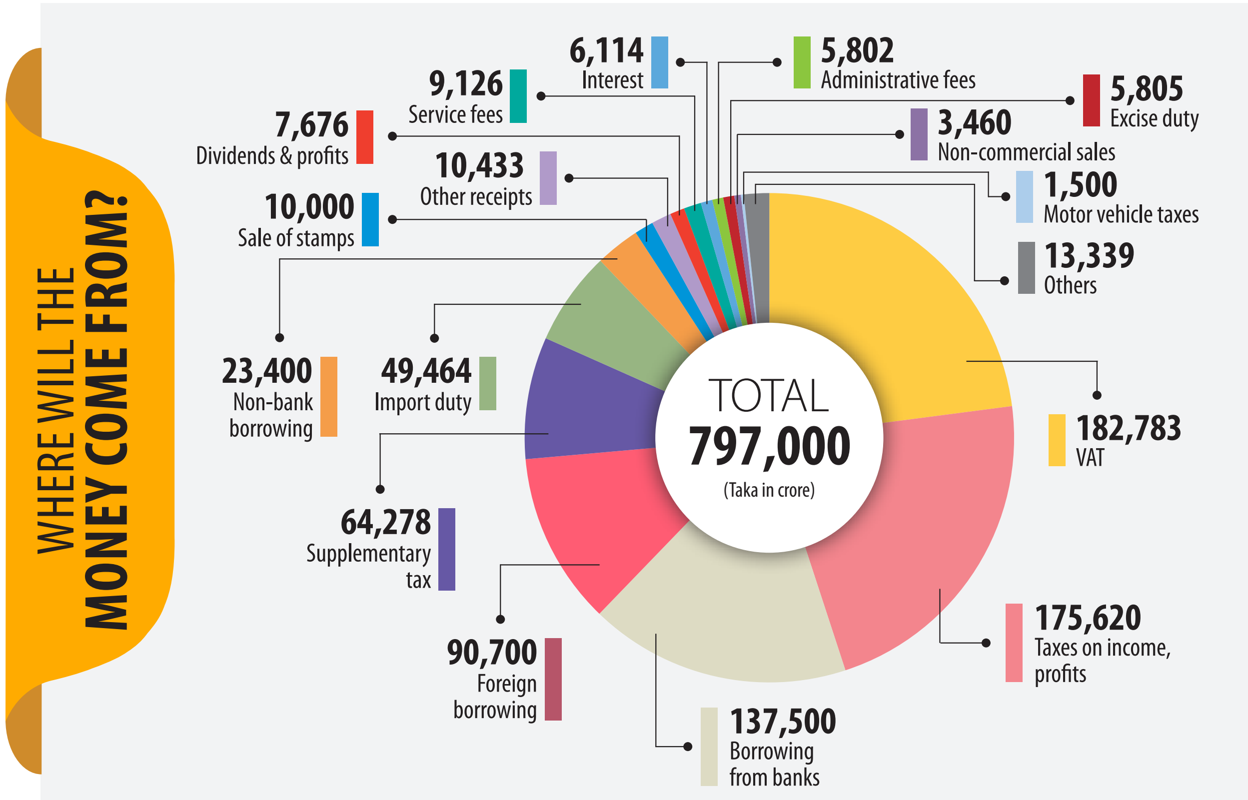
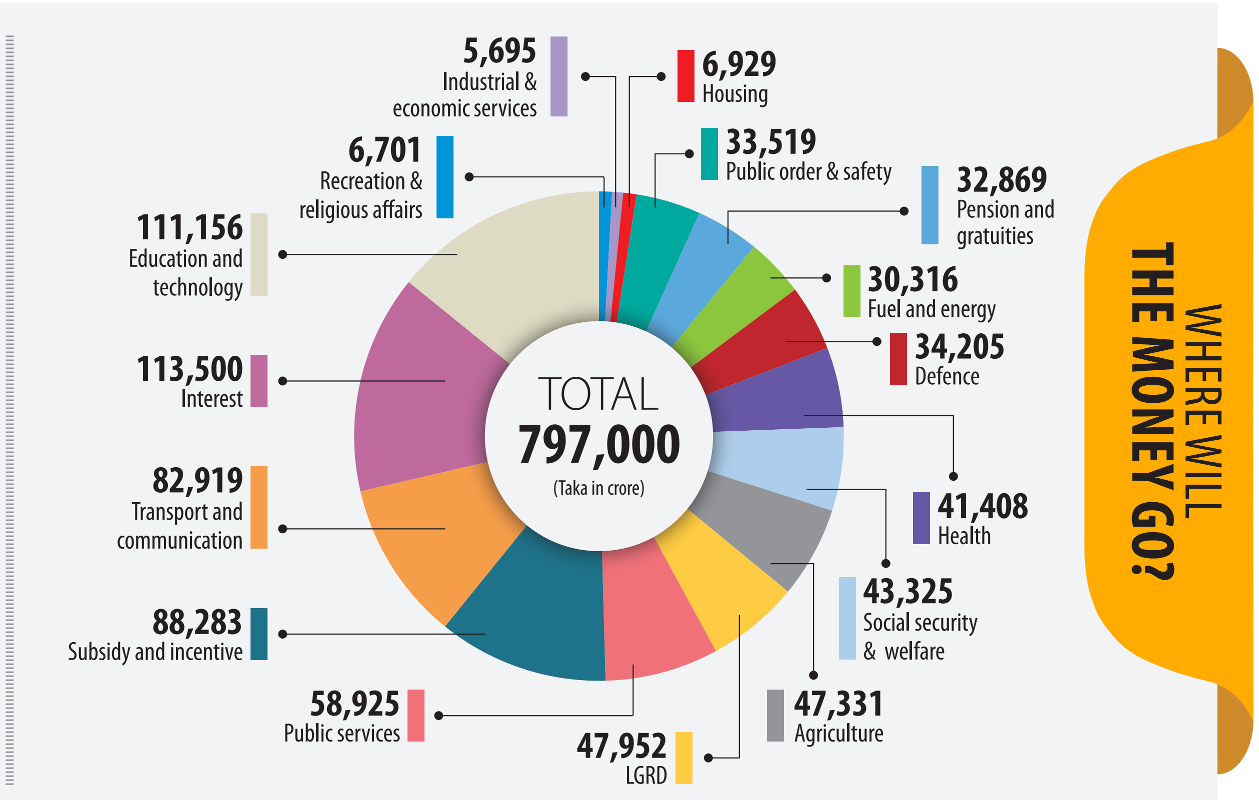
2024-25 BUDGET IN FOCUS





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.

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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

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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

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Allocation for transport, energy drops slightly

REJAUL KARIM BYRON *and* **DWAIPAYAN BARUA**

Unlike in the previous budgets, the government yesterday proposed reducing the allocations for communications and energy sectors and increasing, albeit slightly, the money for education, healthcare, and social security.

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

The expenditure on communications and power and energy had been growing for more than a decade. The government in FY09 spent 7.67 percent of its budget on communications and energy. The spending swelled to 16 percent in the FY22.

At least 16 percent of the outgoing fiscal year's budget went to the communications and energy sectors, but next year it will be 14 percent.

The sectors got Tk 1,22,448 crore in the original budget for FY24. The finance minister yesterday proposed Tk 1,13,235 for the sectors in FY25.

The cuts in allocation actually started in the revised budget for the current fiscal year -- Tk 1,03,558 crore.

However, several mega projects in the communications 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 the allocation.

Amid shrinking foreign currency reserves and an economic downtrend, the policymakers are preferring to go slow on the 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.

The actual spending on education, healthcare, and social security had been declining over the years.

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Energy sector overlooked: experts

ASIFUR RAHMAN

The proposed increase of Tk 93 crore for the energy and mineral resources division in the budget is not enough for the explorations needed to discover domestic gas and other mineral resources, said experts.

In their instant reactions, they, citing the volatile fuel market, said the budget allocation predominantly focused on importing fuel to cover needs when sourcing primary energy like gas and coal from the domestic front was needed.

They also said the huge difference in allocation between the energy and the power division would further add to the price burden on consumers.

The allocation for the Ministry of Power, Energy and Mineral Resources declined 13 percent to Tk 30,317 crore. It was Tk 34,819 crore in the outgoing fiscal year.

The power division is expected to get Tk 29,230 crore, a reduction of Tk 4,595 crore. The energy and mineral resources division is set to receive Tk 1,087 crore, which is Tk 93 crore more than in FY24.

In the budget speech, Finance Minister Abul Hassan Mahmood Ali said BAPEX plans to drill and overhaul 48 wells between January 2023 and December 2025 to explore and extract gas or oil onshore. The budget has a target to drill at least 12 wells this fiscal.

Prof Mohammad Tamim, a former adviser to a caretaker government, said the finance minister's speech doesn't reflect the allocation.

"In the current context, it is clear that local gas exploration and extraction is more important than the import of high-cost LNG and other fuels. But the allocation is miniscule for the energy division."

Prof M Shamsul Alam, energy adviser of the Consumers Association of Bangladesh, echoed Prof Tamim.

He, however, said more allocation to the power sector will ultimately result in increasing the production cost.

"Those who prepare the budget, I guess, don't realise that."

He said the discrimination between the two divisions reflects that they are increasing power generation capacity only without having secured the energy supply chain.

The finance minister said the government has plans to expand the power transmission lines to 24,000 circuit kilometres from 15,246 circuit kilometres now by modernising the grid.

The minister also proposed a special allocation of Tk 100 crore to encourage the development and use of renewable energy. Besides, another Tk 100 crore was proposed to allocate against the blue economy research.

Shafiqul Alam, lead analyst of Bangladesh at the Institute for Energy Economics and Financial Analysis, appreciated the move.

"It's just a start, but it reflects the government's focus on renewables. We hope they will increase it further," he said, adding that there were demands from many groups involved with this sector to reduce the VAT from solar products but there is no mention of this in the budget.

Mobile internet, talktime to be costlier

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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.

Govt officials to come under new pension

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Soon, we will introduce this system from July 1, 2025, for new recruits of other government institutions," said the finance minister.

He claimed it would be one of the most attractive pension schemes in the world as the government bears the fund management costs and the investment profits are among the depositors.

"If we can bring all citizens above 18 years of age under the Universal Pension Scheme, all will be covered by a well-organised social security structure, which would ensure their security in the future," said Mahmood Ali.

The Universal Pension has 4 schemes. The government has already launched "Prabash" for Bangladeshis working abroad, "Pragati" for private sector employees, "Suraksha" for self-employed citizens and "Samata" for citizens living below the poverty line.

Besides, employees of autonomous, state-owned, and other statutory organisations, along with their subordinates recruited after July 1 this year will be included in the Prottoy scheme, the minister added.

As per the prevailing system, government employees deposit money in the general provident fund (GPF) and those of autonomous and state-run corporations in a contributory provident fund (CPF), with interest rates ranging from 11 to 13 percent.

Court appoints administrators

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investigating Benazir had set the date.

On May 28, the commission requested Benazir to attend the hearing that was supposed to take place yesterday and his wife and daughters on June 9.

When a reporter asked whether the latter hearings would take place, the ACC secretary said, "Let June 9 come. Then we will see."

Speculation is rife that Benazir and his family members had left the country.

Bad loans hit historic high

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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

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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 the 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.