

# LET'S TALK BUDGET

The proposal for the annual budget of FY2024-25 was tabled at parliament on Thursday. This budget came at a time when our economy is struggling with a myriad challenges, including persistent inflation and a growing debt burden. Does the new budget address these macroeconomic concerns?

Four experts share their analyses with *The Daily Star*

## Don't shrink social safety net even during austerity



Hossain Zillur Rahman is an economist and political sociologist, and executive chairman of Power and Participation Research Centre (PPRC).

HOSSAIN ZILLUR RAHMAN

Once again, there is an issue about the accuracy of the social safety net portfolio accounting. Here, items like civil servants' pensions have been included, which inflate the social protection portfolio more than what it actually is. This misleading accounting problem should be resolved.

Second, we are in a tight budget environment, in which the distributional issue is very important. Who should receive the load of the tight budget? The general people, or those who can bear the load more? Or should efficiency improvement be the goal, which means reducing the allocation from inefficient or relatively less prioritised expenditure items so that we can allocate more for the general population?

When I am deciding to reduce the budget, where shall I make the cut? Social safety net allocation should not be reduced, and here I am not talking about new resources. I am talking about either cutting expenses or making insignificant expansion. Where would that amount come from? Even in this period of austerity, we have seen that neither the focus on megaprojects have gone down, nor have the non-priority expenditures—such as cars for district commissioners—been curtailed.

So, in the decision about on whom the austerity burden should be imposed, if the size of the social safety net allocation does not increase, or decreases, it is saying that the government is either inattentive or going against the interest of the general people.

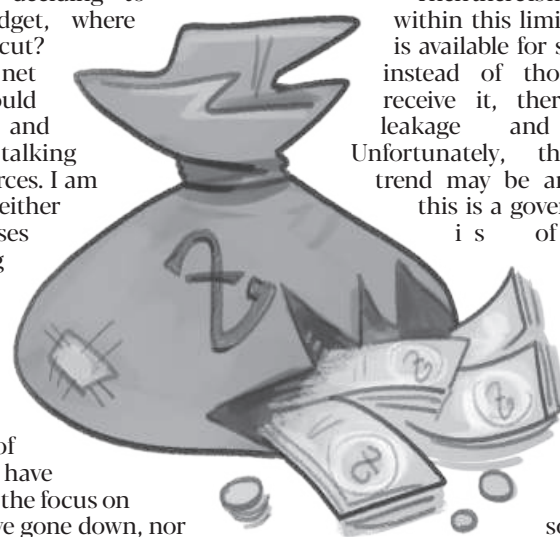
Third, a review of the social safety net portfolio is necessary. Not just taking out

pension, there are many items that can be re-prioritised with the idea that there are two large missing groups in the current portfolio. One of them is the urban poor, who are inadequately addressed. The other is marginal and excluded population groups. I call them poverty's third frontier because they are like an excluded group within the extreme poor, like tea workers, fishermen, municipal workers, etc. There is an opportunity to increase the allocation for this group. So, when the budget is tight, you can make sure that distributional efficiency is ensured for the people, which does not seem to be happening here. The other thing you can do is ensure efficiency in the reforms. That way, the urgent groups who are left out can get the allocation.

Then there is mistargeting. Even within this limited amount that is available for social protection, instead of those who should receive it, there is significant leakage and mistargeting. Unfortunately, the mistargeting trend may be an upward trend; this is a governance issue and is of great concern. In recent times, due to governance shortfall, this mistargeting rate may have gone up. This needs to be looked into.

Finally, the social safety net is an important sector, particularly for the poor people. No matter how tight the budget is, the social safety net sector has to be given its due importance, which means the government needs to stop misleading the accounting, improve efficiency, reduce mistargeting, and address the unaddressed groups.

As told to Tamanna Khan of *The Daily Star*.



## The direction of the budget is correct



Dr. Ashikur Rahman is principal economist at the Policy Research Institute of Bangladesh (PRI).

ASHIKUR RAHMAN

If we start from the beginning, the inflation rate was triggered by a sharp decline in the exchange rate depreciation in 2022. This happened because the current account experienced a deficit of more than \$30 billion. Moreover, had we supported the taka and mitigated the growing import pressure through a decisive hike in interest rate, the depreciation would not have been as strong. This was then complemented by energy price adjustments. Exchange rate depreciation and energy price adjustments were the first two triggers for the inflationary spike.

Till date, inflation is around 10 percent, which is still much lower compared to countries like Pakistan and Turkey. However, we must remain very cautious about not letting inflation run wild. Interest rates must be kept high, the central bank cannot undertake financing of the budget, and easy money under a 8.5 percent policy rate cannot be given to commercial banks. High powered money creation cannot become a routine phenomenon.

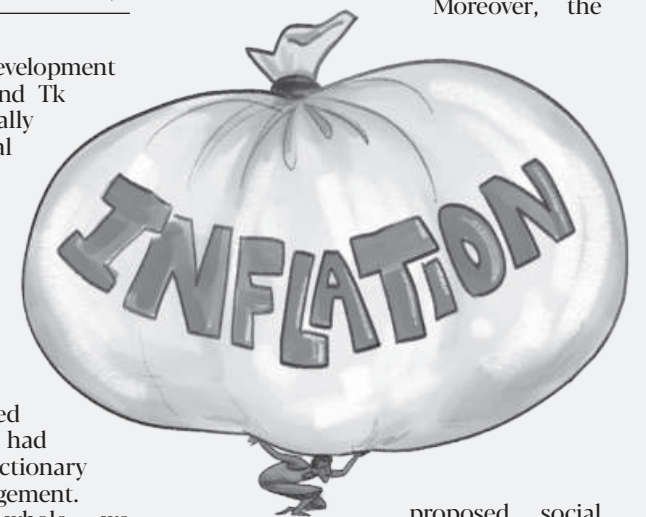
The policymakers have identified the three key problems facing the economy. The first problem is inflation, the second problem is we have lost around \$20 billion of forex reserves over the last 24 months, and therefore we have to take measures to stabilise our balance of payments. The third is that we don't want to increase the debt burden through any expansionary fiscal policy. In

the last budget, our Annual Development Programme (ADP) was around Tk 2 lakh crore, and it was totally financed through international and domestic borrowing. Our entire revenue is exhausted by the wage bill, subsidy bill, and interest payments. This basically means that every penny we spend in our development budget is a penny that we have borrowed. To address these three issues, this budget needed a correct strategic shift, and had to prioritise contractionary demand management.

On the whole, we needed this budget to prioritise economic stabilisation over economic growth. In other words, attention had to be paid to inflation, balance of payment, domestic resource mobilisation, cutting down expenditure, increasing the role of government revenue in financing development and reducing borrowing from the private sector to finance the budget. The government had to target inflation, forex reserve management, and managing the growing debt burden to stabilise the economy over the next 12-16 months.

It is promising that the budget deficit has been kept at 4.6 percent. It is the lowest budget deficit in 10 years, so that is indicative of a contractionary fiscal policy that supports the contractionary monetary policy of the central bank. The broad strategic direction is correct.

One point of concern is that the proposed budget outlines borrowing Tk 1,37,500 crore from the domestic banking sector. With the projected deposit growth of Tk 1,60,000 crore in the banking sector, a structural obligation of borrowing such a large sum may drive the Bangladesh Bank to step into budget financing, which will not be desirable. Moreover, the



proposed social security spending is 17 percent of the budget, which could have been higher. When interest rates are raised, when public expenditure is reduced, then under a high inflationary climate, poor people or people living on a fixed income must be supported.

The fundamental challenge facing policymakers in implementing a contractionary budget will be patience. The central bank has been of late somewhat aggressive in trying to bring down inflation, but inflation is stubborn. Even after a lot of measures, inflation could still not be brought down to the seven percent threshold. The political challenge of trying to stabilise the economy is that the benefits come in the medium run, but the costs are incurred in the short run. In the short run, people feel the tighter budget, people feel the pain of a higher interest rate regime, but when the economy ultimately stabilises over a year, growth will bounce back, and people will also experience and see the broader benefits of the stabilisation policies undertaken.

As told to Azmin Azran of *The Daily Star*.



## Invest more in the new curriculum



Prof. Siddiqur Rahman is former director of the Institute of Education and Research at the University of Dhaka.

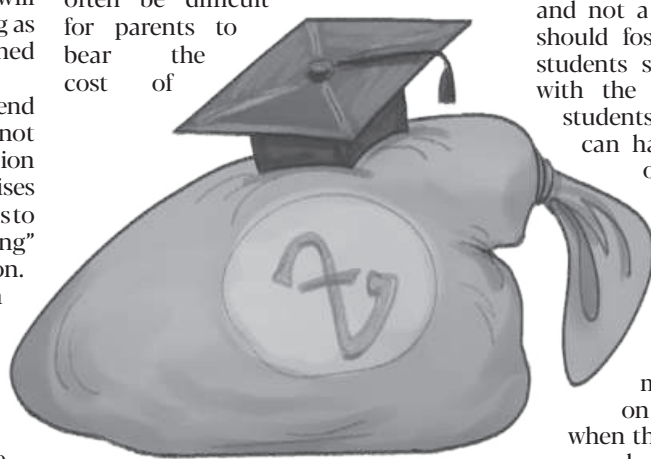
SIDDIQUR RAHMAN

I am not a proponent of a sudden increase in education spending. Rather, I believe it is more viable to opt for an incremental increase over several years. A high increase in the amount allocated to education will result in a mismanagement of spending as there is a lack of capacity in the concerned bodies; it will not be productive.

It is important to know where to spend the money, as the same increase cannot happen across every part of the education sector. The new curriculum emphasises experiential learning. Hence, there needs to be greater spending on "learning by doing" instead of the typical rote memorisation. In addition, we must also pay attention to classroom size. A class should not have 60-70 students, but rather approximately 25 students. The solution is, of course, to increase not only the number of classrooms, but teachers too. It is imperative that we work on training teachers well, pay them a higher salary, and provide them with more opportunities. Many issues continue to exist in this aspect. Even when teachers are trained, many are unable to implement it in the classroom. We need capable teachers.

As for the new curriculum, its focus on experiential learning may mean there is a

greater need for spending on educational resources. This may have to be covered by parents, the school, or the government. In the case of students in rural areas, it may often be difficult for parents to bear the cost of



educational supplies.

Attention must also be paid to the recent spate of heatwaves across the nation. While there seems to be greater emphasis on physical facilities, we need to also consider the health of students. If the health services are poor, students will

suffer and their performance and learning will be hampered. If not an AC, then at the very least fans should be ensured in every school. It could also be that schools have health screenings so that if there is a minor issue, the medical professional in school may treat it, while if it is a major issue, the school can refer the student to a medical institution with the capacity for treatment. However, with the high number of students, this can be difficult to accomplish.

Lastly, the matter of mental health must be considered, particularly considering its link to student suicides. There should be teacher-student rapport, and not a fearful relationship. Teachers should foster a close relationship with students so the latter feel comfortable with the former. Harsh treatment of students, such as corporal punishment, can have highly detrimental effects on students, discouraging them from coming to school and even making them associate learning itself with negative feelings. While some may propose having a school psychologist in every institution, it may be much more feasible to train teachers on the subject of child psychology when they are receiving their training, as psychologists may not be able to sufficiently pay attention to the high number of students and their needs in the appropriate way.

Increasing the allocations for education and health remains vital, as they impact the human capacity of the nation.

As told to Aliza Rahman of *The Daily Star*.

## Offering tax amnesty sends a wrong signal



Dr. Mustafizur Rahman is distinguished fellow at the Centre for Policy Dialogue (CPD).

MUSTAFIZUR RAHMAN

The tax structure in Bangladesh is very much dependent on indirect taxes. This ends up weighing heavily on regular consumers. Especially at a time when income, wealth and asset disparity is increasing, this reliance on indirect tax increases the gap further. What we need is to increase our reliance on direct taxes. The disparity in income in the first stage will come down after tax is imposed so that people with higher income pay higher tax.

In the new budget, we had hoped to see some initiatives about increasing NBR's powers, digitalisation of NBR, and tagging expenditure with income. The highest tax slab has been raised to 30 percent again from 25 percent. This is a positive step. This will ensure that later on if the wealth surcharge taxes are implemented, even if the rate doesn't increase, the surcharge collection will increase. These are the things that we should focus on.

Bank defaulters or tax evaders receive amnesty and benefits to whiten black money. So, the focus in the new budget should have been on bringing them back under the tax system, instead of giving them

an opportunity to legalise their undeclared money by paying a lower tax rate.

One way of increasing the tax collections is to increase the rate of taxation. The other is to increase the tax base. Then there are also those who are evading tax. The NBR chairman himself has said during a presentation that around one crore people should be under the tax bracket, whereas only 35 lakh people submitted tax return last year. So, instead of harassing those who are already paying taxes properly, taking legal action against tax evaders would warn others from doing the same.

A wrong signal is being sent in terms of morality, economics and politics by offering different types of tax amnesty. It could have been acceptable if tax evaders had to pay a 7-10 percent penalty on top of their tax amount. It is not acceptable that taxpayers on the highest tax bracket should pay 30 percent of income tax, but those who don't pay tax at all can hide their money and then pay a 15 percent tax to legalise their money.

As told to Monorom Polok of *The Daily Star*.

