Ambitious budget causes high debt: NBR chairman

STAR BUSINESS REPORT

The National Board of Revenue (NBR) has set tax collection targets year after year based on the national budget's ambitious spending goals rather than using scientific methods or considering current realities, NBR Chairman Abdur Rahman Khan said yesterday.

As a result, the tax authority is never able to meet the target, and the government has to borrow continuously to cover spending, increasing the country's debt burden, he said.

Khan was addressing a seminar on domestic revenue mobilisation organised by the Economic Reporters' Forum (ERF) and Research and Policy Integration for Development (RAPID).

"Historically, the government has relied on high tax collection targets to finance ambitious spending plans, often exceeding the realistic revenue-generating capacity of the economy," he said.

He further explained that reliance on foreign loans meant the country had to abide by stringent conditions, some of which were challenging to fulfil.

This, Khan warned, is "a side effect" of creating oversized budgets year after year without aligning them with the economy's actual strength.

Although the tax policy is "aggressive," its implementation remains inadequate, Khan said, admitting that there is no scope to introduce harsher tax measures.

Instead, the tax regime needs to be more business-friendly to attract higher investments from both local and foreign entrepreneurs, he said.

"We want higher investment to create more jobs. For this, the tax system should be competitive. The upcoming budget will be business-friendly and focused on people's welfare," Khan assured.

Addressing concerns over indirect taxation, the NBR chairman highlighted that indirect tax collection remains significantly higher than direct taxes.

NBR Chairman Abdur Rahman Khan also stated his intention to eliminate the provision allowing black money to be whitened through the next budget. If the provision remains, the tax rate for such disclosures will be significantly increased, he said

This indicates governance issues, as the burden falls disproportionately on the poor, who pay taxes unknowingly through daily transactions, he said. "This is not a sign of a civilised tax system," he remarked.

He also stated his intention to eliminate the provision allowing black money to be whitened through the next budget.

However, if the provision remains, the tax rate for such disclosures will be significantly increased, he said.

Over the past decade, the number of registered taxpayers in the country has surged from 15 lakh to over 1.14 crore. Despite this increase, the number of tax returns filed remains disproportionately low, Khan said.

Last fiscal year, only 45 lakh individuals and entities submitted tax returns, revealing a glaring gap in compliance. A significant portion reported incomes below the taxable threshold, meaning they did not contribute to revenue collection, he said.

This raises questions about the effectiveness of the government's tax net expansion efforts and whether they are translating into actual revenue generation, he added.

The issue is compounded by the burden placed on compliant taxpayers, who face increasing pressure, while those operating outside the tax system remain largely unchecked, Khan said.

Business communities have expressed frustration over what they perceive as "disproportionate scrutiny" on compliant entities, while tax evaders continue to exploit loopholes with little consequence, he said.

The lack of strict enforcement mechanisms has only exacerbated the problem, with authorities struggling to ensure widespread compliance, he added.

The NBR initially introduced electronic fiscal devices (EFDs) to monitor transactions and curb tax evasion, Khan said.

However, these devices remain largely ineffective, with reports indicating that many businesses either do not use them or keep them non-functional. "EFDs have not been effective in increasing tax compliance," he admitted.

Int'l Financial Reporting Standards to widen access to finance for SMEs

DCCI president says

STAR BUSINESS REPORT

The adoption of International Financial Reporting Standards (IFRS) for small and medium enterprises (SMEs) provides a structured framework that enhances financial transparency, said Taskeen Ahmed, president of the Dhaka Chamber of Commerce and Industry (DCCI).

He also said that IFRS would strengthen access to finance and investment, boost global competitiveness, and reduce the risks of financial misreporting.

Ahmed made these comments at a discussion on "Implementation of IFRS for SMEs" held at the DCCI office yesterday.

He further said that IFRS would significantly impact tax collection by improving compliance, minimising tax evasion, and bringing more businesses under the tax net.

However, limited financial capacity, shortages of skilled manpower, and compliance costs are creating barriers to adopting IFRS for SMEs, he added.

Moreover, Ahmed stressed the need for investment in training and regulatory alignment.

Mohammad Abu Yusuf, acting chairman of the Financial Reporting Council, said IFRS is very important for SMEs to comply with international standards, but its implementation is still challenging for local SMEs due to a lack of knowledge, a skilled workforce, easy procedures, and awareness.

He opined that there is no alternative to enhancing the capacity of SMEs to make them interested in implementing IFRS.

Besides, SMEs need to focus more on IFRS implementation to increase tax compliance, access to funds from the capital market, and sign international trade agreements.

Amir Uddin, executive director of Bangladesh Bank, said the implementation of IFRS should focus on improving the image of local SME entrepreneurs in the global arena, but it is necessary to provide training to improve their skills.

They should also be well aware of the benefits of implementing IFRS, he added.

Mohammad Jahangir Hossain, general manager of the SME Foundation, said they provided accounting software to a few SME entrepreneurs, but it was not implemented in many cases due to a lack of skills and interest.

Against this backdrop, he proposed developing customised accounting software for the SME sector to facilitate adoption. Also, Hossain emphasised the need for facilitation and training for further IFRS implementation.

Sk Md Tarikul Islam, a partner of Hoda Vasi Chowdhury and Co, said that capacity building, training for accountants and auditors, and initial transition costs are some of the challenges in implementing IFRS.

Half of Japanese

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Investing in workforce development, Ando suggested, would significantly improve the investment climate and increase the competitiveness of the local industry.

A key area where Bangladesh struggles is in local procurement, which remains significantly lower than in other regional economies.

Only 23.3 percent of materials and parts used by Japanese companies are sourced locally, compared to higher rates in Vietnam, Indonesia, and India.

"The lack of reliable suppliers meeting international quality and technical standards remains a major obstacle," Ando noted.

The survey found that 79.3 percent of Japanese companies in Bangladesh faced difficulties in finding suppliers who met their quality requirements while 55.2 percent reported challenges in securing necessary raw materials.

To mitigate this, Japanese businesses are calling for more investment in the backward linkage industries and increased government support to strengthen local supply chains.

"Improving the local supplier ecosystem is critical to reducing dependency on imports and ensuring cost efficiency in production," Ando emphasised.

Additionally, logistical inefficiencies, such as delays at ports and high transportation costs, further complicate supply chain operations.

Japanese firms have called for streamlined customs procedures and improved transport infrastructure to ensure a more seamless movement of goods, which would reduce costs and enhance profitability.

Despite these obstacles, Japanese firms see long-term potential in Bangladesh, given its growing consumer base and strategic location.

The Jetro report suggests that expansion of business activities in Bangladesh remains a priority, particularly in sectors such as high-value manufacturing, consumer goods, and technology.

Ando emphasised that while Bangladesh presents numerous investment opportunities, addressing regulatory transparency and policy consistency would be essential in sustaining investor confidence.

"A stable and predictable business environment is crucial for attracting more Japanese investments," he noted.

One promising development is an increase in economic cooperation between Japan and Bangladesh.

Large-scale infrastructure projects supported by Japanese investment, such as the ongoing construction of the Matarbari deep-sea port and various road and energy projects, demonstrate Japan's commitment to enhancing Bangladesh's business environment.

These improvements could alleviate some of the logistical constraints currently affecting foreign businesses.

With Japan being one of Bangladesh's largest development partners, continued collaboration between the two nations could help overcome these challenges and pave the way for stronger economic ties.

Experts believe that a combination of government policy reforms, infrastructure advancements, and skilled workforce development will be key to ensuring long-term success for Japanese investors in Bangladesh.

While risks persist, the overall sentiment remains one of cautious optimism as Bangladesh works towards becoming a more favourable investment destination.

If the country can successfully address its regulatory and infrastructure shortcomings, it has the potential to emerge as a premier hub for Japanese investment in South Asia.

BBS to form

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He also noted that Planning Adviser Wahiduddin Mahmud has provided guidance on this initiative.

Allegations of 'data manipulation' dismissed

Asked about allegations of data manipulation and external pressure, Rahman dismissed them as baseless.

"These claims stem from personal perceptions rather than facts. I have been with BBS for one and a half years, and during this time, no data has been manipulated," he asserted.

"There has been absolutely no pressure to manipulate data. We report the information exactly as we receive it."

Regarding the white paper and its claims, he stated, "We will act on the report only if the government issues a directive for implementation. However, no such directive has been given so far."

Rahman also attempted to look into previous allegations of data interference.

"I tried to investigate allegations against planning minister AHM Mustafa Kamal, who was in office between 2009 and 2013," he said.

"During that time, Kamal used to interfere slightly. When data was prepared and presented to him, he would ask to review it and suggest some modifications. However, he never directly instructed anyone to change, for example, a five to a six. There is no record of such instructions.

"If there were any complaints, they might be related to that period. But in subsequent periods, such as when Minister MA Mannan was in office, he did not interfere with data in any way."

Asked whether data from the period when Mustafa Kamal requested revisions has been reviewed, Rahman said, "No. No review has been undertaken."

Challenges and limitations

Rahman also acknowledged certain limitations in data production that contribute to credibility concerns.

"When various accusations are made against BBS, I try to analyse what our challenges and shortcomings are," he said.

"One key issue is that GDP estimates, inflation data, and other statistics are still generated manually. We have not yet automated this process, which is a major limitation."

Additionally, BBS continues to rely on survey data, but it cannot always conduct regular surveys due to resource constraints, particularly budget limitations.

"Because of these challenges and our reliance on manual processes, automation would allow us to present data in a more refined and transparent manner," Rahman noted.

Furthermore, he pointed out that 80 percent of BBS data, particularly for GDP calculations, comes from secondary sources.

"If there are issues with the data we receive from these sources, there is little we can do about it," he admitted.

Approval process for data release

When asked whether BBS data reports still need approval from advisers or ministers before release, Rahman clarified that while there is no longer pressure from advisers, the existing process requires presenting data to the Planning Adviser for approval.

"The adviser does not review the data. He simply states, 'I will not check the data; you can proceed with it as it is.' However, since this has been the longstanding practice, we still seek approval at the ministerial level," he explained.

"Once the expert committees are finalised, this step will no longer be necessary. The BBS DG will act as the head of these expert committees, and under his leadership, the committee will approve the data.

"The BBS DG will release the data directly, without sending it elsewhere—not even to the Statistics Division or the minister," Rahman concluded.

Depositors to get

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In the case of a fund deficit, the BB will have the authority to collect special premiums from member institutions, seek unconditional financial assistance from the government or other sources, or secure government loans.

Besides, the central bank will establish a separate fund for depositors of non-bank financial institutions.

The draft ordinance says that, regardless of the Income Tax Act, 2023, the Business Profits Act, 1947, or any other existing tax laws, no income tax, surtax, or business profits tax shall be applicable to the income, profits, or receipts of the Deposit Protection Fund.

Moreover, if a member institution fails to pay the prescribed premium within the stipulated timeframe, the BB will deduct the corresponding amount from the institution's current account and deposit it into the relevant account of the Deposit Protection Fund.

The central bank may also impose a penalty on overdue premiums, applying an interest rate equivalent to the higher of Bangladesh Government Treasury Bonds or Treasury Bills.

Oil prices rise for second consecutive week

REUTERS, *New York*

Oil prices settled higher on Friday and recorded a second consecutive weekly gain as fresh US sanctions on Iran and the latest output plan from the Opec+ producer group raised expectations of tighter supply.

Brent crude futures rose 16 cents, or 0.2 percent, to settle at $72.16 a barrel. US West Texas Intermediate crude futures rose 21 cents, or 0.3 percent, to $68.28.

On a weekly basis, Brent rose 2.1 percent and WTI about 1.6 percent, their biggest gains since the first week of the year.

On Thursday, the US Treasury announced new Iran-related sanctions, which for the first time targeted an independent Chinese refiner among other entities and vessels involved in supplying Iranian crude oil to China.

That probably sent a message to the market that Chinese companies, the largest buyers of Iranian oil, are not immune to sanctions pressure from the US, said Scott Shelton, energy analyst at TP ICAP.

Bangladesh must prepare

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"But we are not taking adequate preparation."

To stay competitive, Bangladesh must enhance enterprise-level productivity, streamline trade facilitation, and improve compliance.

To stay competitive, Bangladesh must enhance enterprise-level productivity, streamline trade facilitation, and improve compliance.

"As we graduate from the LDC category, our priority should shift from preference-based competition to efficiency-driven competition."

Exporters' costs rise if trade facilitation and logistics are not up to the mark, so steps must be taken to reduce these costs.

Bangladesh must also improve labour and environmental standards. As an LDC, buyers and consumers in developed nations have overlooked these issues. Once the country graduates, international buyers will emphasise them.

"So, it is high time to start focusing on these issues," said Rahman.

After graduation, Bangladesh will have to comply with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) regulations, which may create difficulties for the pharmaceutical sector in exporting products.

"So, we should prepare for these situations."

Meanwhile, Donald Trump has shaken global trade by imposing tariffs. Many believe countries like Bangladesh will benefit from the tariff barriers imposed on China, Canada and Mexico.

"I have a slightly different view," said Rahman. "I don't think we should rely heavily on this."

When Trump imposed a 25 percent tariff on China in 2016, Biden maintained it. During this period, Bangladesh had the opportunity to expand its ready-made garment (RMG) exports to the US, but it didn't see significant gains.

In fact, exports have slightly declined in recent years, said Rahman, who was awarded the Ibrahim Memorial Gold Medal by the University of Dhaka in 1999 for the best research work in economics.

China primarily exports non-cotton textiles, which make up around 80 percent of its total RMG exports, while Bangladesh focuses on cotton-based garments, creating market segmentation. Increased tariffs on China might benefit competitors in synthetic fibres but not Bangladesh, the economist clarified.

Moreover, such tariffs may negatively impact US economic growth and inflation, which, in turn, could affect global trade.

Instead of relying on geopolitical shifts, Bangladesh should enhance its competitiveness by reducing business costs, improving logistics, and increasing productivity.

Regarding free trade agreements (FTAs), the economist said Vietnam has 52 bilateral and multilateral free trade agreements, whereas Bangladesh has only one FTA with Bhutan.

This may be because signing FTAs requires offering lower import duties, a tough proposition considering that a significant portion of Bangladesh's revenue comes from duties.

Moreover, industrial and environmental standards will have to improve in factories, as FTAs operate on a reciprocal basis.

Since Bangladesh is set to graduate, there is no other option but to raise standards across all sectors, according to Prof Rahman.

Regarding economic stability, Rahman said several accumulated challenges existed when the interim government took power, and expectations were high.

"In the first and second quarters of the current fiscal year, economic pressure was intensifying. However, in the third quarter, some positive trends have emerged in certain indicators."

For example, Rahman said inflation remains high, but its rate has slightly declined. The availability of winter vegetables in the market during the third quarter has had a positive impact.

Besides, the adoption of a contractionary monetary policy, adjustments in revenue policies, and reductions in certain tariff rates were aimed at balancing fiscal and monetary policies. These measures seem to be having some effect, said the economist.

Another key factor is the external sector — exports have seen double-digit growth, and remittances have recently experienced their highest growth in years.

As a result, the depletion of foreign currency reserves has halted, stabilising the exchange rate at around Tk 122 per dollar. The difference between the kerb market and the official exchange rate has also narrowed to about Tk 1.5 to Tk 2.

Consequently, imported inflation has somewhat decreased, positively impacting overall inflation, he said. However, inflation remains high, with both food and non-food inflation around 9 percent.

"This has continued to erode people's purchasing power, as wage growth has not kept pace with inflation.

"I believe there is still room for action in market mechanisms. One approach is to increase the number of active market players. Previously, a small group dominated imports, but as some have exited, new importers have entered the market," he commented.

"With greater competition, prices have stabilised to some extent."

He added that another persistent issue is extortion in certain areas. This must be addressed with a zero-tolerance policy.

Moreover, maintaining sufficient stock levels of key commodities and timely open market sales can help stabilise prices, he said.

Historically, poor data management has led to inaccurate decisions regarding production, import volumes, and stock releases. Addressing this issue can lead to more effective market interventions, the economist said.

The biggest concern is now investment. Since Bangladesh adopted a contractionary monetary policy to control inflation, interest rates have risen.

Besides, the banking sector is burdened by the significant accumulation of non-performing loans (NPLs), making it difficult to lower interest rates.

One of the major challenges is how to generate employment and how to reinvigorate investment so that entrepreneurs can actively engage.

Rahman said many investors are likely awaiting elections, hoping political uncertainty will subside afterwards, as investment decisions are usually made with a medium-term outlook.

Regarding the recovery of stolen money, Rahman, who was a member of the white paper formulation committee, said some initiatives have been undertaken.

The Bangladesh Bank has formed a special task force, and the Bangladesh Financial Intelligence Unit (BFIU) and the Anti-Corruption Commission (ACC) are also showing some activity.

However, this process needs to be expedited. Special prosecutions should be pursued where necessary. Recovering laundered money requires legal validation and the establishment of a paper trail to identify ultimate beneficiaries.

"The country must invest in this."

If other nations can recover laundered money, so can Bangladesh. Taking action now will also send a strong message that financial crimes will not go unpunished, he added.

Price of liquid milk rises again

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Meanwhile, inflation eased in February but has remained above the 9 percent mark for the 24th straight month as rising prices of goods and services continue to erode consumers' purchasing power.

Jahidul Islam, managing director of Milkvita, told The Daily Star that for the past four to five months, each litre of milk was being sold at a loss of about Tk 8.

"We increased the price for farmers several times, but we could not raise it at the retail level," he said.

A proposal to increase the price was sent to the ministry three to four months ago and it was reviewed several times and finally approved last Thursday, he said.

Milkvita's competitors had already raised the price to Tk 100 per litre in November last year by increasing it by Tk 10 per litre, he added.

Milkvita sold 130,000 litres of milk yesterday, whereas during this time they usually sell around 225,000 litres daily, he mentioned.

Farmers can sell milk in the local market at a price higher than what Milkvita pays at the farm level. As a result, their collection volume has decreased, Islam added.

Aarong raised its prices in November 2024, with an increase of Tk 10 per litre and Tk 5 per half litre.

Mohammad Anisur Rahman, senior director of BRAC Enterprises, explained that the price hike was necessary due to rising costs, including a substantial increase in the price of livestock feed, which has significantly impacted milk production costs of farmers.

BRAC Dairy has been adjusting the prices of its products since July 2022, he said.

Over the past two years, raw material costs such as packaging, cartons, and spare parts have increased by 20 percent to 40 percent, he added.

Kamruzzaman Kamal, marketing director of Pran-RFL Group, said due to the increase in production costs for farmers, the price of milk has risen. As a result, the price has also increased at the retail level.

The country's annual domestic milk production stands at 9.9 million tonnes, while the demand reaches 15 million tonnes, according to data from the Department of Livestock Services.

The country also imports between 0.12 to 0.14 million tonnes of powdered milk.