B A N G L A D E S H

National Budget 2007-08

20 June 2007

A budget with ample import liberalization leading to risking local production and viscous circle of inflation

The indicators

- **Budget size** **Tk871.37b** **↑ 30.37%**
- **Revenue collection target** **Tk573.01b** **↑ 15.83%**
- **Current expenditure** **Tk529.00b** **↑ 18.87%**
- **Annual Development Plan** **Tk265.00b** **↑ 22.69%**
- **Local contribution to ADP** **60.15%** **5.90 % points**
- **Total budget deficit** **5.6% of GDP** **↑ 1.9 % point**
- **Projected GDP growth** **7.0%** **↑ 0.49 % point**

Budget FY2006-07: to wield on or woo inflation

With the dramatic change of guards amid a perplexing political chaos and intrigue, when a new Caretaker Government (CTG) took office, second time in about a couple of months, some telling developments had begun to take shape in the country's social, economic and political spheres. A fresher team of 10 Advisors, apparently backed by the military, defined the new course with two clear agenda in mind: massive political reform to cleanse the polity of unscrupulous people-turned-rulers and widespread corruption across the polity and state machinery, and streamline the economy by restoring order, pursuing pro-people policies and motivating citizens to rebuild a corruption-free, service oriented regulatory regime in all key areas. The team soon nabbed a number of bigwig politicians, bureaucrats and businessmen, who took the entire country as a free zone for making spoils out of the national assets, and charged them for crimes of corruption, began to reform political institutions, the anticorruption commission (ACC), the police force, and in a quick blow improved the law and order situation. CTG also focused on major economic issues like the galloping inflation, unbridled import, supply of essential commodities, and port management.

The Advisor for Ministry of Finance & Planning proposed the national budget for the entire FY2007-08, instead of an interim period usual for a CTG. Despite constitutional provisions for a period of 90 days, CTG is likely to stay in power for another one and a half years till the national election takes place sometime at the end of 2008. Thus the budget bears a clear responsibility, CTG has to implement it itself. This also hints that the proposed budget is not designed to intrigue voters, but meant to resolve the ongoing economic crises.

The country is now more integrated with the world economy than any time before. Since a large part of the industrial goods, essential commodities, especially food, and petroleum fuels are dependent on import, the turmoil in the world economy creates ripples in the domestic market as well. Inflation is thus learnt to have been an outcome of hikes in prices of such goods in the international market, along with local trade paradigm ,allegedly syndicated by unscrupulous businessmen.

The present CTG has two advantages to start with. First, it does not need to chalk out any politically motivated project, which are usually with remotest possibility of implementation and used to be an unavoidable certainty for all political governments. And second, it does not need to woo disgruntled voters, and hence can prioritize its programs according to its own discretion and social responsibility. Though some economic indicators for the year are fairly enviable by any political government, CTG would indeed have to face a tough time ahead. With a nearly double-digit inflation portentously clambering up, a flagging revenue, a tapering foreign aid inflow, a habitually fumbling power situation, a slowing agriculture and the weak implementation capability of the government would haunt the new office bearers for the days to come.

The budget jettisoned provisions for laundering black money by investing in nonproductive sectors like apartment, land and vehicle; rationalized the tax net on import related duties and value added tax (VAT), and offered some incentives for the capital market. Though failure to use the ever waning foreign assistance and poor implementation of Annual Development Program (ADP) was marked during the year, both have been enhanced in the proposed budget with bloated hope.

Budget snapshot

Tk in billion

	Budget	*Budget 2006-07*	
	2007-08	*Revised*	*Original*
Revenue			
NBR tax	438.50	374.79	410.55
Non-NBR tax	19.88	17.68	18.60
Non-tax	114.63	102.25	96.27
Total revenue	**573.01**	**494.71**	**525.42**
Expenditure			
Non-development rev. exp.	483.89	421.57	395.36
Non-development cap. exp	45.11	23.47	27.50
ADP	265.00	216.00	260.00
Net outlay for food operations	3.00	3.88	2.02
Structural adjustment	3.00	0.29	0.00
Employment generation prog.	15.58	15.77	19.82
Non-ADP FFW	4.64	2.83	4.81
Net loans & advances	51.15	(15.45)	(12.11)
Total Expenditure	**871.37**	**668.36**	**697.40**
Net deficit	298.36	173.64	171.98
Deficit as % of GDP	5.6%	3.7%	3.7%
Deficit financing			
Foreign grants	42.55	21.50	25.08
Net foreign borrowing	63.06	51.83	58.56
Domestic borrowing	192.75	100.31	88.34

Though there was a poor revenue collection against the target set, the government continues to augment revenue from every possible source. It targets a revenue collection of Tk573.01b, some 15.83% more than the revised target of FY2006-07 to finance yet another overfed ADP, continuously losing state-owned enterprises (SoEs), especially Bangladesh Petroleum Corporation (BPC), and combat the helpless rise in revenue expenses, while the economy still remains ruinously indebted to both domestic and foreign sources.

GDP in the outgoing year fetched 6.5% growth, slightly down from a record 6.62% in the last fiscal, with a relatively lower contribution from agriculture, and a slightly higher share from industry and services.

Inflation remains the single most gnawing issue for the CTG at this moment. Though it expects inflation to be around 6.5% at the yearend, actual rate might not come below 8%, as the market still feels hot. Last April it was calculated at 8.28% on point-to-point basis. Local currency for the first time gained a little against US dollar, but lost against a burgeoning euro.

However, for the first time the proposed budget is free from perennial anxiety of some extra-economic risks. The political friction between the two large belligerent parties is now buried under emergency rule, while deterioration of law and order has been halted with the wielding rod, the endemically percolating corruption has been put to a guarded check, the deficiency in government services delivery has been improved a little under duress.

However, poor infrastructure, especially the errant power and cramped city roads, remains a formidable problem to sincere endeavor for development. And the fierce competition in the international market, growing prices of food grains, edible oil and petroleum fuels, a narrow export market, inability of the small and medium enterprises (SoEs) to weather an adverse climate, etc also stand tall against a durable growth. Some of these have been addressed in the budget with adequate vision and recognition.

Revenue target denies past failures

The proposed budget sets a target to mobilize Tk573.01b, or 10.8% of GDP, as revenue for FY2007-08, 2.02% up from the last year's revised budget of Tk494.72b, which was 10.5% of GDP. Of the amount, Tk458.38b (or 80% of the total) would come from income tax, VAT and customs duty. Collection of tax revenue fell short of target this year, although it improved in the last year. During the first 10 months of the current fiscal year, only Tk284.88b have been collected, plunging the target coverage to 69%, instead of an expected 85%. Last year revenue target was set at Tk410.55b. However, the collection marks a 9.06% growth over the same period last year. Target for non-NBR tax has been fixed at Tk19.88b, keeping non-tax revenue set at Tk114.63b.

Despite such a poor implementation, the government has set yet another ambitious revenue target that suggests a wider tax net. The proposed budget brings incomes of the lawyers, immigration advisors, specialized doctors, dental clinics, private medical and engineering colleges, private universities, English medium schools, coaching centers, air-conditioned bus, photo lab, and courier services, etc under the VAT net. Taxable limit has also been raised and the rebates enhanced to encourage more disclosures in self-assessment.

ADP as hefty as before despite poorer implementation

Despite it was expected that the CTG would table a rather conservative ADP, mainly because of a poor implementation record, the proposed ADP size remained as handsome as it used to be in that of the political governments. The last year's proposed ADP was Tk260.0b, which later, as usual, has been trimmed to Tk216.0b amid a listless pace of implementation. The original ADP comprised of local resources to the tune of Tk146.82b and foreign resources of Tk113.18b. After reviewing the performance of the first 9 months, share of local resources has been cut down by 22% to Tk114.80b, while that of foreign resources by 11% to Tk101.20b, of which Tk20.7b is expected to be available from the development support credit (DSC) by World Bank. During the first 8 months of the year, ADP could not be implemented more than a mere 32% of the proposed size, and it would not be possible to implement the rest of the revised budget within the next few weeks.

This year the government has tabled a Tk265.0b ADP, 22.7% larger than the revised one, with fewer projects, but more of high-priority, keeping in mind the massive physical and social infrastructure like power, communications, education, health-care, and vocational training services. The table below depicts the implementation scenario for past decade: (figures in bTk)

FY	Original allocation	Revised allocation	Actual spent	Implem. rate
1997-98	128.00	122.00	110.37	90.5%
1998-99	136.00	140.00	125.09	89.4%
1999-00	155.00	165.00	154.71	93.8%
2000-01	175.00	182.00	162.40	89.2%
2001-02	190.00	160.00	140.90	88.1%
2002-03	192.00	171.00	154.34	90.3%
2003-04	203.00	190.00	168.17	88.5%
2004-05	220.00	205.00	187.71	91.6%
2005-06	245.00	215.00	172.00	80.0%
2006-07	260.00	216.00	80.00	37.0%

Source: Economic Survey 2005-06, Ministry of Finance

** Till February 2007*

Due to political turmoil, performance of both winning foreign assistance and utilizing the disbursed money has been found disappointing that forced the last government expect less than usual foreign assistance from the traditional lenders. But the current CTG expects more disbursements in the next year, as its stern stance on combating corruption and streamlining the economy has earned considerable support from the lenders. This has been manifest in the proposed budget where foreign assistance has been shown bloated from that of the previous year. ADP foreign sources in the budget constitute 37.0%.

In the proposed budget the highest allocation of Tk197.01b or 25% of the total size has been allocated for human resources development, of which 15.2% is for education sector as single largest allocation, and 6.9% for health. Some Tk70.51 (8.09% of the total) has been earmarked for defense, while Tk38.32b (4.38%) has been proposed for energy sector development.

Internal resource in ADP financing

The last political government resorted mostly on the internal resources for implementation of ADP, though forced by a cool response from the foreign lenders, the proposed budget goes back to the old days of massive dependence on foreign loans and grants. The proposed ADP has a local share of resources of 60.15%, compared to 66.05% in the last year's revised budget. This again generates apprehension that such rise in dependency on foreign assistance would beckon more social distance, misuse of resources, seepage of foreign currency, and burden of debt, which would eventually push the cost of

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living to grow. It may also pave the way for corruption, which the bilateral donors use to wield specific political and strategic influence on the ruling coterie. It would invite more unpleasant intervention in policies and forced acceptance of redundant project equipment at a preposterous donor's price, which will end up in eroding the foreign exchange reserve. The following table shows the gradual improvement in using local resources in the ADP:

Year	ADP	Internal Resource	% of ADP
1998-99	Tk140.00b	Tk58.12b	41.51%
1999-00	Tk165.00b	Tk82.26b	49.85%
2000-01	Tk182.00b	Tk95.30b	52.36%
2001-02	Tk160.00b	Tk77.85b	48.66%
2002-03	Tk171.00b	Tk88.59b	51.81%
2003-04	Tk190.00b	Tk95.90b	50.47%
2004-05	Tk205.00b	Tk100.70b	49.12%
2005-06	Tk245.00b	Tk126.43b	51.60%
2006-07	Tk216.00b	Tk142.67b	66.05%
2007-08p	Tk265.00b	Tk159.40b	60.15%

Source: Economic Survey 2005-06, Ministry of Finance

Usually increase in dependency on foreign assistance leads to lower domestic borrowing, but since the proposed deficit is too large, the likely domestic borrowing would not dwindle to the proportion of rise in foreign assistance, rather would rise. The local borrowing of Tk192.76b from the banking and non-banking sources would simply enhance operating costs, and eventually trigger inflation. Moreover, the issue of bond worth Tk75.23b to pay off BPC would also have long term negative impact on the economy.

The apparent rise in dependency does not augur well, since it allows multilateral and bilateral lending agencies more room for playing with their own interests in the country's arena. This simply leaves the country more vulnerable to their increasing pressure for trade liberalization, privatization, and decreasing role of the state in economic affairs, all zeroed in favor of the lending agencies and countries, especially large corporations that finance these agencies. The country has in fact fallen in a loan cycle of these lending agencies, whose assistance hardly come to the country's rescue from its severe problems due to the stringent and often remotely related conditions tied in the offered assistance.

Government's net borrowing from the banking system surged over 127% more during the first 9 months of the fiscal year over the same period last year in the face of dwindling foreign aid. It borrowed Tk72.58b during the period against Tk32.01b in the same period last year. Of this, Tk40.03b was borrowed from the banking sources, compared to last year's Tk7.83b, making an astounding 411% rise, while the rest was collected from the nonbanking sources like government bonds, which rose by nearly 35%, from Tk24.17b to Tk32.54b. Net foreign aid has dipped by 6.74% to $544m during the period against $583m in the same period last year.

GDP continues to grow moderately

Growth of gross domestic product (GDP) has been estimated to be around 6.51% on current market price for the outgoing fiscal year of 2006-07, against a forecast of around 6.0-6.5% made earlier by International Monetary Fund ((IMF) and Asian Development Bank (ADB). The estimate is 0.12 percentage point lower than that of the last year, mostly because of poor performance of the agriculture sector and shortage of power, claims Bangladesh Bureau of Statistics (BBS). However, per capita income is expected to rise by a record 10% reaching $520 from the last year's $476. BBS also reset GDP growth rate for FY2005-06 at 6.63% from the provisionally calculated 6.71%. However, economists cast doubt on the service sector output for the period. BBS sets the growth of agriculture and forestry sector, which represents 17% of the GDP basket, at 2.95% this year, against 5.23% in FY2005-06. In FY2005-06 agriculture production suffered from floods, but in FY2006-07 it was auspicious. But since rice production was hampered in the current year, the overall agriculture growth might go down compared to that of the last year. BB estimates that aus and amon production in the current fiscal would decline to 12.4m tons from the last year's 12.5m tons, while boro would grow from 13.9m to 14.5m tons. But if the production of boro shrinks, the overall agricultural growth in the current year would further decline. The manufacturing sector performed well during the year, which is quite evident from the import volume of capital machinery and industrial raw materials.

The manufacturing sector, which accounts for 17.79% of the GDP, grew 11.19% during the year, against 10.77% in the last year. Meanwhile, the power sector growth declined to 4.52%, compared to last year's growth of 7.45%, while construction sector (with 9.16% share in GDP) grew by 7.05%, compared to last year's 8.31%. Fishery (4.73% of GDP) grew by 3.99% compared to 3.91% in FY2005-06. The transport, storage and communications sector (10.21% of GDP) grew 8.24% against 7.98%, wholesale and retail trade (14.17% of GDP) grew 7.44% against last year's 6.75%. Real estate, renting and business activities (7.65% of the GDP) marked a 3.77% growth, against 3.69% in FY2005-06, community, social and personal services (7.09% of GDP) grew by 4.51% compared to last year's 4.09%.

The final estimate of BBS puts the growth of agriculture and forestry sector in FY2005-06 at 5.23%, up from the provisional estimation of 4.67%, while in manufacturing set at 9.23%, from 8.73%, and construction sector at 8.31% down from 8.37% in provisional estimate. Wholesale and retail growth was projected at 7.26%, but actually grew by 6.75%. GDP growth in FY2005-06 was down mainly due to poor output from the service sector.

The growth is, however, smaller than other emerging regional economies like India that has a rate of 9.2%, China of 10.4%, Vietnam 8.0%, and both Pakistan and Sri Lanka of 7.0% in the contemporary fiscal year.

Budget deficit soars high

The proposed budget has chalked out a larger budget deficit than ever before. Foreign assistance counted out, the deficit has been kept at 4.82% of GDP. Out of a total Tk255.81b deficit some 75% would be financed by the money mobilized from the domestic credits, which is likely to trigger more inflation. BB has adopted, and would continue, a contractional monetary policy to combat the inflationary pressure. This would create a crevice in, if not an outright clash between, revenue and monetary policy. A lack of coordination would also be brewed up between these policies. A large budget deficit and concomitant plan to finance it from the domestic credits would simply help the inflationary pressure mount in the long run. The inflationary situation in fact has slipped out of hand at this moment.

To reduce poverty and create employment in a poor country like Bangladesh, the government must mobilize huge investment, but the central bank has adopted a contractional policy, which would reduce the flow of credit to the entrepreneurs. On the other hand, to combat the growing deficit the government must enhance the flow of credit, probably by supplying high-powered money, i.e. printed bills. This dilemma would simply deteriorate the inflationary situation in the coming days.

The government has taken over the liabilities of BPC, which it would pay off through the sale of bonds, claiming that such sale would have little impact on the economy. But the huge interest burden would of course have impact in the long run.

In order to adopt a contractional monetary policy, the central bank would have to enhance the interest rate in the near future. Already such rates have been in the rise. The statistics show that the weighted average interest of bank deposit was 11.0% in June 2004, which rose to 12.7% in May 2007. While interest of 5-years treasury bonds increased to 10.8% in April 2007 from 8.0% in June 2004, and interest of 10-years bonds reached at 12.34% from 9.77% in the same period of time. A further rise in these rates would simply shrink the credit opportunities in the private sector. Conversely, it would also discourage the private sector to go for credits. And the interest burden would force the government to depend more on the domestic loan, creating a new vicious cycle of domestic loan, which would prevail in the very long run. And it would obviously deteriorate the inflation situation.

Agriculture: subsidy after fuel made costlier

The proposed budget has earmarked Tk69.0b for agriculture, about 7.92% of the total budget, and 29.5% up from Tk53.29b in the revised budget of FY2006-07. It also proposed to raise agricultural subsidies to Tk22.50b from the current Tk11.0b. Along with fertilizer subsidy of Tk15.0b, the budget proposed Tk7.50b as diesel subsidy responding to the recent rise in fuel prices. But despite demand for providing fertilizer subsidies to the farmers directly through cards, CTG retains the prevailing system that seldom benefits the farmers. They by using power pumps receive a 20% rebate against electricity bills, but no subsidy for diesel-run irrigation. Currently more rice is being produced during the boro season, which is mainly dependent on irrigation. Some 3.3m hectares out of total 4.8m hectares of irrigated land are covered by diesel-powered pumps during the boro season. The proposed subsidy on diesel would sure benefit the farmers more. The budget increased the allocation for agricultural research to Tk3.5b, up from last year’s Tk2.0b.

The proposed budget has set a target to distribute Tk63.51b as agricultural credit through various development financial institutions (FDIs), Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, all 4 nationalized commercial banks (NCBs), Bangladesh Cooperative Bank, Bangladesh Rural Development Board (BRDB) etc. A special project of Tk200m has also been proposed to combat avian influenza and a fund of Tk1.0b for small farmers affected by disaster. It also remains focused on prevention of premature fishing and on quality control of fish and fishery-products. The later two measures have added to the budget an extra dimension in agriculture.

Inflation: pain in the neck

Inflation began its raging journey in 2001, when the BNP-led political government took office, and continued with added zeal. It gained pace as a result of lukewarm response from the government to check the unscrupulous traders who cashed in essential goods. Unholy nexus between the party bigwigs and trade syndicates are reportedly the major reason for the rising inflation during the past tenure of political government, which the present CTG could not bring fully to book.

The average rate of inflation stood at 8.28% during the first 10 months of the outgoing year, against 7.61% in the same period of the last year. Nonfood items saw higher inflation than food items, marking a significant change in the trend of inflation as during the earlier months prices of food items rose at higher rates than nonfood items. Inflation rate of food items surged by 0.45 percentage points reaching 8.45% in April over that of March, and nonfood by 1.59 points reaching 7.35%, against 5.76% in March, due to price hike of food items in both the domestic and international markets. The overall inflation rate continues to rise, with 0.85 percentage point in April, against 8.53% in March.

Inflation of food items in rural areas rose by 0.29 percentage point in April reaching 8.79% compared to the rate in March, whereas inflation of nonfood items rose by 1.9 percentage point to 7.83% in April. Overall inflation rate in urban areas increased by 0.74 percentage point reaching 7.86% in April compared to the rate in March. Inflation of food items in urban areas rose by 0.84 percentage point in April reaching 9.44% compared to the rate in March, whereas inflation of nonfood items increased by 0.62 percentage point to 6.09% in April.

CTG raised the prices of petroleum fuels by 21-33% in the recent past. And BBS apprehends that the inflation rate could reach 8-9% on point-to-point basis in June end, and on an average, inflation rate might finally stand at over 7%.

Inflation scenario in the region is also deteriorating due to the global surge in prices of petroleum and other essential goods. Consumer price index inflation in India and Pakistan were 7.6 and 7.7% respectively, in comparison to Bangladesh's 7.4%.

The deteriorating inflation situation seems to be driven more by costs rather than pulled by demand. Increases in prices of petroleum fuels seem to have worsened the situation. It was a sequel created by the last political regime, which was hoped to be mitigated during the takeover of the administration by the first CTG, but the political dilemma worked against it. It was aggravated when the military-backed second CTG, soon after taking office, began to hunt down the alleged syndicates of traders. CTG has taken a unique measure to combat the situation. It appointed the border guards, Bangladesh Rifles (BDR) to launch open market sales at an affordable and just price across the country to cool the inflationary heat. BDR has already expanded its operations and scope.

Governance gets priority

For the first time in the country's 36 years of history, a non-partisan government began to address issues of governance seriously enough to make visible efforts. Fully convinced that lack of good governance plunged the country into new abyss, the military-backed CTG began to seize the bigwigs allegedly involved in widespread corruption, pillage of national wealth, graft, extortion, and politicization of government machinery, etc, while in power for the past two decades. A large number of measures have been taken to combat corruption across the board in government agencies, and stern actions taken to put the responsible people behind the bar. Besides, CTG has also recovered substantial amount of the plundered money, over Tk6.0b, and are on the way to recover another Tk30.0b or so in a short time.

CTG also took measures to separate the Judiciary from the Executive, and to purge the bureaucracy of partisan loyalists. The Anticorruption Commission, Election Commission, Public Service Commission, etc have been restructured to create an independent and enabling environment for a sound, sustaining democratic polity in the country. There are reforms galore in the police force, political parties and trade bodies to purge off corruption and crimes. Drives against illegal occupation of public land, adulteration in foods and other consumer goods, crimes and terrorism, graft and extortion, etc have already begun to yield results. But some drives have also caused hike in prices of essential goods and harm to apartment business, especially due to digging out illegal sources of income, which were used to be invested in such businesses.

Poverty reduction remains to the core

Despite focused efforts on the poverty reduction taken as a policy, CTG could not devise any new coordinated program or drive to combat poverty. However, the proposed budget tried to continue the policies and programs taken by the previous governments by sheer expanding allocation of funds for them. And a medium term outlook has been announced to contain the inflation and poverty situation. It forecasts that economic growth would be around 7.0-7.2% during FY2008-10. This is expected to sustain by the measures being taken to address corruption and promote a more favorable, enabling business environment.

In the proposed budget, some 57% of the total budget and over 73% of ADP have been earmarked for poverty alleviation programs. Though such proportion does not change from that of the previous year's revised budget, some issues on gender equality are addressed, which were usually lacking in previous budgets.

Till last year some 44% of the total population, or around 62m people, have been living below the poverty line. Discrimination between the rich and poor has grown severely over the past few years, which in fact aggravated in FY2006-07. Though per capita income increased significantly, from $476 in FY2005-06 to $520 in the current year, with a record 10% growth, income of the lower social strata has dwindled massively mainly due to recent spate of inflationary onslaughts. A large part of the low-income people has been pauperized, almost pitting on the verge of perishing, while high-income people have amassed more wealth, widening the gap further. If the combating tools fail to contain inflation within a short period, famines might emerge in some pockets in the north, especially areas largely affected by floods and droughts. The medium term outlook is optimistic about bringing down inflation to as low as 5% by 2010. However, this largely depends on the global inflation scenario as well.

Social security continues

CTG has expanded the existing social protection and safety net programs for the under-privileged, poor, women, children and vulnerable groups such as elderly and disabled people, both in terms of coverage and the number of beneficiaries. The budget proposed allocations for employment generation in the rural areas and implementation of programs to ensure availability of food grains through imports and open market sales and keep prices within a tolerable limit. In the next year, the vulnerable group feeding program will be extended more to enhance the capacity of the marginalized section of society whose purchasing power has been eroded due to inflation. It allocated 0.4m tons of rice for 5.0m VGF recipients across the country to provide subsistence coverage for 8 months, and about 0.6m tons will be distributed through test relief, food for work and vulnerable group feeding programs.

A new package, maternity allowance, has been introduced for poor lactating mothers to ensure safe motherhood, a better healthcare and nutrition of hardcore poor mothers as well as safe birth and sound upbringing of their infants. Initially, some 45,000 expecting poor mothers of 3,000 unions will get Tk300 a month each under the program, for which Tk170m has been allocated. The budget proposed to raise share of allocations for the direct and indirect gender equality expenditure to 24% from 22% of the total budget, making it more gender-sensitive.

The rate of allowance for widowed and destitute women has been enhanced to Tk220 per month from the existing Tk200, and its beneficiary coverage extended to 0.75m from 0.65m. Vulnerable group development, stipend for female students, maternity voucher schemes, community-based nutrition, and vocational training for women has been proposed to extend further. Allocation of Tk200m microcredit has been proposed to generate employment opportunities for women, Tk100m for acid-burnt women and disabled people, Tk250m for welfare of readymade garments workers and Tk200m for their training. Employment opportunity for 24,000 destitute women in 387 unions will be created under a new program.

Subsistence allowance for children of orphanages has been enhanced from Tk1,000 to Tk1,200. Day-care centers are also being established for children of low-income families. The rate of allowance for disabled freedom fighters has been raised by 50%, and the monthly allowance for insolvent freedom fighters raised from Tk500 to Tk600. This takes the total allocation to Tk995m from Tk782m. Some Tk50m was made for education of retarded children and Tk528m for raising the allowance for people with disabilities, from Tk200 to Tk220 per person, and for expansion of beneficiaries coverage from 0.166m to 0.2m. It proposed enhancement in allowances for the senior citizens from Tk200 to Tk220, and extend beneficiary coverage from 1.6m to 1.7m. A program for construction of 15,000 flats on the state land in Dhaka has also been planned to rehabilitate dislocated people, slum dwellers and low-income families.

With a view to helping the marginalized poor suffering from geographical and natural constraints like monga, river erosion, etc, the budget proposed allocation of Tk5.5b for employment generation in such areas, apart from employment generation programs by the ministries. The total allocation for these credit programs and funds stands around 9% of the budget, which would create employment opportunities in the rural economy equivalent to 3 man-months for 9.5m families in the next fiscal year.

Education receives highest allocation

As usual, the education and technology sector receives most emphasis, and some 15.2% of total budget proposed for the FY2007-08, with Tk123.8b, up by 13.5% from Tk109.1b in the last year's revised budget, and remains as the single largest allocation in the budget.

During the past few years Bangladesh has finally achieved the target for removing all gender disparities in the schools, which is rivaled by only Sri Lanka in the region. CTG has prepared a national work plan for universal primary education. Under this plan, special initiatives have been taken to ensure distribution of books and other educational materials free of cost to the extremely poor and in remote regions of the country. It also chalks out that in FY2007-08 alone 15,000 primary teachers would be recruited, with 60% females, bringing the current student-teacher ratio to 46:1 from 55:1. Some 5.5m primary students will be given monthly stipend at the rate of Tk100. It would also take actions to bring back all dropouts in 11,000 schools. To improve teaching quality, some 10,000 teachers will be trained. As a part of the physical development, 18,186 classrooms will be built. And 0.65m people from among those who have attained literacy through mass education program would be provided with an income-generating training through continuous education. The mosque- and temple-based child and mass education would be strengthened.

Despite huge allocation for various projects designed to raise enrollment and reduce dropout rate, due to lack of adequate monitoring and pervading corruption, the desired results can hardly be achieved. It is reported that the stipend project of Tk33.12b for primary school students has failed to achieve its basic objectives due mainly to corruption and irregularities in selecting its primary beneficiaries. One of the main targets of the project was to raise completion rate of primary education, but the project evaluation report shows the average dropout rate at project beneficiary schools is still quite high at 24%. Moreover, the much-hyped free primary education is not so free in practice and most of the students from poor families are not getting the stipend due to nepotism and corruption by members of the school managing committees.

The government-funded 5-year project, launched in FY2002-03, was scheduled to end in December 2007. But its duration has been extended by another year to December 2008. Some 4.8m students of 58,000 schools in rural areas have been receiving the stipend every year. But because of local political pressure and corruption at the school management committee many deserving students are being deprived of the stipend.

Health sector gets substantial share

Despite a hefty allocation every year, health remains one of the less focused sectors in the budget. The proposed budget has an allocation of Tk47.84b, which is around 16% higher than the current year's revised budget. Though a long-term strategic investment plan for health, nutrition and population has been chalked out back in 2003 for the next decade with a robust budget of Tk324.5b, its implementation is still to be felt aloud. There was an increase in number of beds by 6,000, physicians by 10,000 and nurses 5,000 in the past 5 years. Some 29.0m people were brought under a nutritional service program through 23,000 social nutrition centers.

Infrastructure to get the prop

Almost 34.4% of the budget has been proposed for physical infrastructure development. Allocation for road, transport and telecommunication sectors has been proposed to be Tk70.0b, up by 17.6% from the lat year's Tk59.53b.

The country has much improved road links across the entire land. Almost all rivers have been bridged, though a few more are needed to reduce distance between the major cities in the southwestern region. CTG in defiance of the earlier political government's decision has agreed to connect the country with other neighboring countries like India, Myanmar and Thailand through the much talked about Asian Highway. Already a railway connection has been established between Kolkata and Dhaka, which is likely to start by July 2007. CTG also agreed to construct road link between Bangladesh and Myanmar at a southern corridor that would eventually form a part of the planned route of India-Bangladesh-Myanmar of the proposed highway.

Bangladesh has experienced a boom in telecommunications sector in recent years. The mobile telephone connection has taken a new shape, as it already crossed 2.0m subscribers, with over 4m by FY2006-07 alone. At present some 5 private companies are in the market to compete a potential 40m cell phone connections. They together cover almost 98% of the entire market. Total connections now take teledensity to a new high of 14%.

Power sector rejuvenated

Considered as the single major menace for both household and industrial consumers and the government itself, the power sector gets the top priority in the proposed budget. Till today only 38% of the population came under power grid, while per capita consumption of power still remains at 158kwh, one of the lowest in the world. Till end of 2006 total installed capacity was 5,025mw including 1,290mw from the private sector, of which the actual generation was 3,751mw including 1,269mw from the private sector. Actual generation capacity was 66.5% for the state-owned Power Development Board and 98.4% for the private sector.

The situation aggravated further when some plants at various corners became fully inoperable. At present the sector is able to generate only 3,200mw against rapidly soaring demand of 5,500mw. Since during the last political government emphasis was put on distribution of power instead of generation, only a tiny 80mw was added leaving the gap to yawn more.

In the proposed budget some Tk38.32b has been allocated for power sector, about 4.38% of the entire outlay, and around Tk2.50b more than the initial allocation of the current budget. Of this, Tk36.33b has been allocated for setting up 14 new power plants with a generating capacity of 1,050mw. Besides, CTG decided to reduce discrimination in regional allocation on power, and accordingly, allocation for Rajshahi division has been raised by 34% and for Khulna and Barisal by 42%.

CTG had set a target to generate sufficient electricity by 2010 to reach a level where there would be no load-shedding. It has planned to increase power generation over the next 3 years, by 345mw in FY2007-08, 900mw in FY2008-09 and 1,050mw in FY2009-10. However, there may still be load-shedding by 2010, as demand is likely to increase by 1,200mw to around 6,500mw in next 3 years, whereas the estimated increase in power generation would raise the actual capacity at best to 5,000mw in June 2010, leaving a telling gap of 1,500mw to be managed through load-shedding. Besides, the existing capacity may not remain intact due to likely collapse of some very old plants.

CTG decided to mitigate power crisis during the summer, by resorting to improved load management. It also formulated policies to buy electricity from the private sector captive power plants. In the past the issue of maintenance of power plants was neglected, which CTG prefers to remedy and expects to add up to 600mw to the national grid by the end of 2007. The government also provided Tk3.5b loan to Power Development Board to settle outstanding bills of independent power plants, and paid off arrears of Tk5.25b against different government and autonomous bodies up to December 2006.

Banks suffered in political chaos

The banking sector has been affected by the recent political turmoil. As since October the overall political situation became too volatile to encourage any major investment decision, most businessmen refrained from approaching banks for any loan. However, some were quite active, as they already learnt how to weather even such an uncertain situation.

The position of overdue industrial term loan, however, went up to Tk40.17b at the end of March 2007 compared to Tk38.34b at the same period in 2006. Overdue as percentage of term outstanding improved, decreasing from 14.70% to 13.01% in the said period. The total liquid assets of the scheduled banks stood higher at Tk404.88b in March 2007 against Tk351.47b in June 2006. Excess liquidity stood at Tk105.19b in March, up from Tk95.91b in June 2006.

However, the 8 leading NCBs and DFIs that usually disburse agriculture loans for production of crops, irrigation equipment, distribution of fertilizer, dairy, fishery, hoarding of crops, and poverty reduction sectors, have failed to achieve their target for disbursing agriculture credits. Out of a target for Tk63.51b, these institutions have disbursed Tk42.99b till April, against Tk46.60b in the same period last year, out of the target of Tk58.92b. Though the target has been increased, but actual disbursement was much less than that of the last year. The privatized commercial banks (PCBs) in particular have failed to make any distinct presence in the sector, as they disbursed only Tk1.86b during the period.

Foreign commercial banks (FCBs) have also little contribution to the growing needs of the agriculture sector. Although these have substantial share in the total banking assets, only 2.9% of it is used in agriculture credits. Compared Tk130.00b credit in agriculture (other than crops) by NCBs, FCBs disbursed only Tk3.56b in the last year. The recovery for agriculture and industrial credit jumped by 14 and 22% respectively in the first 9 months of FY2006-07. The position of overdue agriculture credit as percentage of the total outstanding deteriorated to 42.73% at the end of March 2007 from 40.45% in March 2006. Disbursement of industrial term loan during the period was higher at Tk82.84b, against Tk69.45b in the same period last fiscal.

Information on nonperforming loan (NPL) on recent days is not available. Ratio of nationalized commercial banks (NCBs) showed some improvement, but was at an unsustainably high in the first quarter of FY2006-07 due to lower recovery rate. Gross NPL ratio at July-September period was 25.04%, while in April-June period it was 31.38% and net NPL of NCBs was at 15.79%. NPL ratio of privatized commercial banks (PCBs) increased in the period, while for foreign commercial banks (FCBs) it remained at a negligible level. However, total gross NPL for the banking sector as a whole has declined to 14.3% in September from 16.6% in June. A recent Bangladesh Bank directive on loan write-off has in fact been a major contributing factor behind the said improvement.

During the year privatization of Rupali Bank has picked pace and its handover becomes imminent, since all paper work are nearly complete. Meanwhile, corporatization of the remaining 3 NCBs has also gathered momentum. All 3 banks already have become limited company. However, privatization is not a panacea for all problems that plagued NCBs during the past years. Better performance of NCBs is linked to development of a healthy banking sector in the country, which is yet to be flourished in the country.

NCBs will have to go for initial public offerings in the future to raise fund for overcoming their capital shortfall. BB recently proposed that banks should have paid-up capital of Tk2.0b or 10% risk weighted assets, which one is higher. Disclosure of accurate information of accounts, reduction in non-performing loans and strict compliance of central bank regulations are the main challenges for them. NCBs suffer from skill shortage as efficient people usually leave due to a poorer compensation package.

Privatization bids rejuvenated

The advisory council of CTG has endorsed a proposal placed by Privatization Commission (PC) to disinvest 17 state-owned enterprises (SoEs) within August 2007. PC decided to make valuation of assets and liabilities of these entities soon, before floating tenders to sell them outright. It also rescinded a 2003 decision by the cabinet committee to liquidate them instead of disinvesting. Of these, one became caught in legal tangles, 5 are now at the final stage of privatization and 16 others at different stages of disinvestment.

Privatization in Bangladesh remains a controversial issue, as it followed a policy of appeasing multilateral lending agencies rather than addressing national interests concerning industrial entities. For example, swallowing a lenders' recipe, the past political government guillotined the biggest jute mill, as it was unlikely to get a local investor for buying such a huge entity. Bangladesh had in fact had entered a lender-driven structural adjustment program, which eventually ended in destruction of many indigenous industrial entities. But it has also allowed the government to get rid of many chronically losing concerns that would have otherwise fed on national exchequer. However, since it would take few more years to measure the outcome of such radical decisions, the impact is yet to be felt.

Since its inception in 1993, PC disinvested through outright sale and by offloading shares a total of 69 SoEs for Tk6.98b. Some 12 of 17 SoEs now destined for privatization are under jute and textiles ministry, while the remaining 5 are under the industries ministry. PC is unlikely to complete disinvestment process of the just-listed SoEs, especially the large ones, in a short time at their due prices unless foreign bidders come forward to buy them, as a 'just offer' from the local bidders become illusory. It transpires that PC also lacks the capacity to handle so many enterprises simultaneously before putting them on sale.

Despite pressure from the multilateral lenders to expedite the disinvestment process, PC has not yet been able to hand over Rupali Bank to the highest bidder after more than 2 years of taking the decision to do so. The disinvestment process was disrupted by legal hassles, political turmoil and a deadlock in dispute settlement. Earlier the government backed out from a move to close down a number of enterprises fearing political repercussion before the general elections.

The government has approved the proposed amendments of the existing Privatization Rules of 2003 and the Privatization Policy 2001 to help streamline privatization of SoEs. A Small & Medium Enterprise (SME) Foundation has been set up to facilitate the sector. CTG has decided to decrease the rebate rate of SoE buyers to 20% from the previous 35% against full down payments in line with PC proposals for protecting the government's benefits from SoE privatization. And provisions regarding tender procedure for privatizing SoEs have also been changed. Meanwhile, the SME Foundation has already been endowed Tk1.05b from ADB.

Tax reforms continue

Tax reform remains one of the major steps for improvement in revenue collection. The process of enhancing the number of individual taxpayers is on, which is now around 2m. Besides, a step has been taken to enhance tax by the existing payers who are offered to pay tax on their undisclosed income at 5% penalty in addition to calculated tax. And the limit of taxable income has been raised to Tk0.15m from the existing Tk0.12m, which would increase the disposable income and ease the effect of inflation a little. Since the slabs remain unchanged, it may not reduce the overall revenue from this source, as both the level of incomes and number of new taxpayers are going to be enhanced. It has also proposed to introduce a universal self-assessment procedure to motivate taxpayers to pay tax voluntarily.

The proposed budget has withdrawn the debated provision of allowance for whitening money through purchase of vehicles, apartments, and land, and the exacting tax at source on credit cards. This would create a level playing field among the white and black money holders. To encourage the mobile telephone companies to enter the capital market, tax has been imposed on them at 45% until they are converted into publicly traded companies, when they will be charged only 35%.

The proposed changes in the duty structure are likely to affect the industrialization process. The lowest rung of duty structure has been raised from the existing 5% to 10%, and the middle one at 15% from 12%, though the top rung is left unchanged at 25%. Besides, the zero duty facility on 400 goods including industrial raw materials and capital machinery, considered not essential but important has also been lifted, which will make these goods costly. The proposed reduction in development duty on 2,600 imported goods would make them cheap, but not much benefit the poor. For example, reduction of duty on the imported vehicles, drinks, cosmetics, and pricey clothes would hardly benefit any poor.

The proposed lowest duty of 10% would affect some 1,200 imported goods, which includes industrial raw materials and plants and machinery for production. Especially the textiles and garments industries are going to be hit hard, since zero duty facility has been withdrawn from them. However, the 4% existing supplementary duty on all goods has been withdrawn.

The new duty structure would affect the local production hard, as cost would rise by 5-10%. At the same time, liberalized import would pave way for global competitors, which would further jeopardize the already weakened local industry. The latter would face a doubled-edged sword, which would shrink their local share of market and lose competitive edge in the global arena. The step would in fact benefit only the global corporations seeking unhindered entry into the least developed countries (LDCs). It would also shrink the already dwindling industrial base and turn the country into a heaven for trading.

However, the government has also drafted a 'safeguard tax' rules to protect the local industries by imposing tax on import of goods that directly threaten the industries. The Bangladesh Tariff Commission would form the safeguard authority by July 2007, which would identify the safeguard taxable goods, and examine whether import of these products really hurt interest of the local industries. This would mitigate the fear of losing market share by the local industries.

Exports continue to gallop

Since the past decade exports have been growing at a double digit, and during the year, may exceed $12.0b marking a new height. During the first 10 months of the year, exports fetched some $9,910m, marking growth of 18.5%, over $8.36b in the same period last year. As usual knitwear made the bulk of exports along with readymade garments. Export in the same period last year was $7,510m. The following table shows the export growth in past decade (figures in $m):

Year	Primary goods	Industrial goods	Total	Growth
1997-98	502	4,670	5,172	16.83%
1998-99	422	4,902	5,324	2.94%
1999-00	469	5,283	5,752	8.04%
2000-01	484	5,983	6,467	12.43%
2001-02	390	5,596	5,986	(7.44%)
2002-03	462	6,087	6,548	9.39%
2003-04	553	7,050	7,603	16.11%
2004-05	648	8,006	8,655	13.84%
2005-06	773	9,753	10,526	20.89%
2006-07*	680	9,230	9,910	18.50%

**Up to April 2007*

Recently CTG announced a 3-year Export Policy for FY2007-08 to FY2008-09, with a target to diversify the export basket, create employment and alleviate poverty. The policy included pharmaceutical products in the list of thrust sector and 9 more products identified as special development sector. Under this policy agro-products, agro-processing items, light engineering products including auto-parts and bicycles, shoes and leather products, software and ICT products, and home textile will be in the thrust sector. Finished leather, frozen fish, fresh flower and foliage, jute products, textile items by indigenous people and diamond polishing have drawn special attention, where handicrafts, electronics and herbal medicine and plants are already included. Cosmetics, toiletries, luggage and fashion products, CR coil, cards and calendar, stationery and rayon have been excluded from the special development list. The new policy exempted pre-shipment inspection requirements to ease export procedure and excluded bamboo, child shrimp and sweet-water shrimp from the negative list. It also offers incentives to get ISO certification, annual awards for women exporters, selection of women CIPs (Commercially Important Persons), and select a 'product of the year' awards to promote a product a year.

Imports' pace in tandem with exports'

During the first 10 months of FY2007-08 overall imports grew by 17.24% with intermediate goods marking the highest growth at 19.23% over the same period of the last fiscal. As per a BB statistics, intermediate goods worth $1,121m were imported during the period compared to $941m in the same period last year. Meanwhile, industrial production grew by 11.39% during July-February period of FY2006-07 over that of the last year. Letters of credit (LCs) against imports worth $13,281m were settled during the said period, compared to $11,327m in the same period last year. Import LCs worth $14,402m have been opened till April, against $12,644m in the last year. Import of capital machinery reached $1,295m, against $1,087m in the last year. However, import of petroleum products was recorded at $1,744m, compared to $1,521m in the last year. On the other hand, import of food grains and other consumer goods rose by 11.46% and 40.84% respectively over same period last year. Import of food grains was worth $401m, against $359m in the last year.

Cost of raw and intermediary goods has risen, as the budget proposed to increase their import tariffs to 10 and 15% from the existing 5 and 12%. Imports of most of the finished goods will be cheaper after withdrawal of 4% infrastructure development surcharge, and many items will enjoy 5% cut on supplementary duties that currently ranges between 25 and 65%. The import growth over past decade is as follows (figures in $m):

Year	Primary goods	Raw mats	Capital goods	Total*	Growth
1997-98	809	1,029	285	7,520	5.15%
1998-99	1,448	1,037	294	8,006	6.46%
1999-00	980	1,204	314	8,374	4.60%
2000-01	1,046	1,380	482	9,335	11.48%
2001-02	812	1,311	554	8,540	(8.52%)
2002-03	1,133	1,548	548	9,658	13.09%
2003-04	1,339	1,910	729	10,903	12.89%
2004-05	1,676	2,662	1,115	13,147	20.58%
2005-06	NA	NA	1,545	14,778	12.40%
2006-07	NA	NA	1,295 P	14,402P	13.90%

Source: Economic Survey 2005-06, Ministry of Finance
**Total includes other imports, P Figures up to April 2007*

Remittance stands tower

The remittances sent by the expatriate Bangladeshi workers have been growing at a galloping pace, partly due to the new world order that discourages the foreign workers to live in the host countries with relative ease, and partly due to the various steps taken by the government to remit salaries and wages through legal channels with comfort and confidence. During the first 11 months expatriate workers have remitted $5,460m through the legal channel that marks a resounding growth of 25% over $4,370m in the same period last year. At this pace, total remittances for the whole would exceed $6.0b mark. The following table shows the remittance performance for the past decade (figures in $m):

Year	No. of new workers	Amount	Growth
1997-98	243,000	1,525	3.39%
1998-99	270,000	1,706	11.87%
1999-00	248,000	1,949	14.24%
2000-01	213,000	1,882	(3.44%)
2001-02	195,000	2,501	32.89%
2002-03	251,000	3,062	22.43%
2003-04	277,000	3,372	10.12%
2004-05	250,000	3,848	14.12%
2005-06	291,000	4,819	25.23%
2006-07*	NA	5,460	25.00%

*Till May 2007

Foreign exchange reserve soars at new high

Foreign exchange reserve hit a new record, reaching $4.76b at the mid June, thanks to the increased flow of remittances, good export earning and deposit of World Bank's development support credit. BB is expecting the reserve to soar over $5.0b by the end of the month. It was $3.48b on June 30, 2006. The following table shows the foreign exchange situation in June in the past decade (figures in $m):

Year	Reserve	Growth	Equivalent import month
1997-98	1,739	1.16%	2.78
1998-99	1,523	(12.42%)	2.28
1999-00	1,602	5.19%	2.30
2000-01	1,307	(18.41%)	1.68
2001-02	1,583	21.12%	2.22
2002-03	2,470	56.03%	3.07
2003-04	2,705	9.51%	2.98
2004-05	2,930	8.32%	2.67
2005-06	3,040	3.75%	2.58
2006-07	4,760	56.58%	3.22

Source: Economic Survey 2005-06, Ministry of Finance

FDI wanes despite hefty proposals

Despite the year saw the largest ever volume of proposals on foreign direct investment (FDI), actual amount was quite low. FDI declined by 16.5% during the first 9 months (July-March) in FY2006-07 with net FDI of $385m against $505m over the same period last year. The devastating political turmoil during the second and third quarters of the fiscal year is the single major reason for the decline. Though the newly installed CTG has been welcome by the general investors in Bangladesh, it would take more time for foreign investors to gain confidence that assures FDI inflow into the country. Investment proposals in the pipeline include the following ones:

Investors	Country	Amount ($m)
Tata Group	India	3,000
Abu Dhabi Group	UAE	2,000
Global Oil & Energy	UK	2,900
Azimat Corporation	Malaysia	900
Contech	Bangladesh	900
Mittal Group	UK	2,900
NRBs	Bangladesh	2,000
Total		14,600

Capital market gets incentives

Unlike that in the last year, the proposed budget addressed the capital market with some incentives. First, it encouraged the mobile telephone companies to enter the capital market to avoid the 10% more tax by remaining unlisted with the stock exchanges. Second, it has exempted all zero-coupon bonds from income tax, which would encourage a bond market. But the 10% tax at source on trustee fee might affect the mutual funds a little, since these are formed in trust.

The withdrawal of laundering facility for undeclared income by investing in land, apartments and vehicles would also have positive impact on the capital market. These incomes are now likely to be poured in the capital market, since the government has tightened its noose on bank deposits and land, apartment and vehicle ownership to smell and identify the presence of illegally earned money. A massive arrest of top-notch political figures for their alleged buildup of wealth through plunder and embezzlement of state resources also sparked fears among the rapidly rising nouveau riche to refrain from making any new investment in the conspicuous assets like apartment, vehicle or land. These are the potential investors in the capital market, who can find it safer than in mere fixed deposits in the banks, which are also under strict surveillance by the state's anti-graft machinery.

The bourses witnessed a bullish trend during the last half of the year, mostly as a natural response to the assumption of power by a nonpartisan CTG at the mid January. Though the new government pursued a tight monetary policy to combat inflation, the market was able to draw good attention from the investors after a bearish run for a long year or so because of political turmoil. On June 18, 2007 the DSE General Index gained 707.7 points (52.8%) and closed at 2047.2 points from 1339.5 in June 30, 2006. While DSE-20, comprising the blue chips, gained by 505.2 points (38.5%) to stand at 1816.1 from 1310.9 points in June 2006. Throughout the year turnover in DSE increased by 229%, and the market gained a total capital of Tk163.4b. The surge, first noticed after the new CTG took office and continued till May and now settled at a moderate movement level. This also indicates strong confidence of the general investors in the CTG.

The market also saw a small number of securities entering the market like the previous years. Some 7 securities got listed with DSE having Tk4,307m issued capital during the last 11 months of the year, compared to 16 securities in the entire last fiscal year with Tk11,885m. During this period, some 10 new IPOs were launched in the market that raised Tk3,182m capital for the entrepreneurs, compared to the last year's 15 issues with Tk1,744m. As usual, these were overwhelmingly received by the investors, both by individual and institutional, which is manifest in the fact that they fetched oversubscription amount of Tk21,458m, by 6.9 times, compared to last year's Tk12,626m, by 7.24 times. The table below shows the capital market performance scenario for past 4 years:

	2003-04	**2004-05**	**2005-06**	**2006-07***
General index (DSE)	1299.98	1713.17	1320.51	2047.21
Total no of securities	267	277	297	278
Total no of cos.	248	239	254	259
Tot. issued cap (mTk)	46,304	66,392	77,624	84,186
Tot. mkt cap (mTk)	134,141	208,875	189,003	388,698
No of IPOs	10	5	16	10
Capital injected (mTk)	9,613	1,178	3,861	3,182
Trading volume (mTk)	20,308	75,225	45,995	151,384

**2006-07 figures are updated till 18 June 2007*

As usual, non- and poorly-performing companies have been under stringent watch during the year. During the period 16 such companies have been warned for violating rules, and 66 people from 11 companies were fined Tk10.2m as penalty for breaching rules.

The previous tax rates of 25, 37.5 and 45% for listed and non-listed companies and banks and nonbank financial institutions respectively have also remained unchanged in the proposed budget. Only a new rate of 35% has been introduced for the listed mobile telephone companies.

The table below shows the corporate tax rate scenario for the past 10 years:

Fiscal year	**Private**	**Public**		Listed Banks/FIs
		Listed	Nonlisted	
1997-98	40.0%	35.0%	40.0%	35.0%
1998-99	40.0%	35.0%	40.0%	40.0%
1999-00	40.0%	35.0%	40.0%	40.0%
2000-01	40.0%	35.0%	40.0%	40.0%
2001-02	40.0%	35.0%	40.0%	40.0%
2002-03	35.0%	30.0%	35.0%	40.0%
2003-04	37.5%	30.0%	37.5%	45.0%
2004-05	37.5%	30.0%	37.5%	45.0%
2005-06	37.5%	30.0%	37.5%	45.0%
2006-07	37.5%	30.0%	37.5%	45.0%
	45.0%	35.0%	45.0%	Mobile Companies

Items to be costlier

- Fare of CNG-run bus, as customs duty on CNG-run CBU bus has been increased to 15% from 5% to encourage assembling industry for CNG-run bus.
- Metal-framed furniture, as a 20% supplementary duty has been imposed.
- Imported auto disposable syringe, as customs duty has been raised from 5% to 15% on it to further promote local production.
- Mobile phone connection, as a 60% supplementary duty has been imposed on SIM card.
- Plastic products, as a 60% supplementary duty has been imposed.

- Imported sugar, as specific rate of duty on raw sugar has been re-fixed at Tk4,000 per ton from Tk2,250 to address problems facing about 0.5m sugarcane growers and local industries and to avoid misdeclaration by the importers of raw sugar.
- Fees of immigration adviser, coaching center, English medium school, private medical and engineering college, private university, charges of photo laboratory, courier service and fares of air-conditioned bus service, as these are brought under the VAT net.
- Computers and their accessories, as the existing zero-duty has been withdrawn on them, though the new duty has not yet been announced.
- Textiles machinery, as the existing zero-duty has been withdrawn on imported textile machinery, though the new duty has not yet been announced.
- Telecommunications equipment, as the existing exemption of duty has been withdrawn, and impose duty to bring them at par with the VoIP equipment, though the new duty has not yet been announced.
- Irrigation, as all types of pumps have been imposed a 10% duty.
- Goods preserved with formalin, as customs duty has been raised from 12% to 15% to prevent public health hazards.
- Luxury vehicles, as supplementary duty on motor vehicles ranging 3,550cc-4,549cc has been raised from 100% to 250% and over 4,500cc from 100% to 300%.
- Imported fluorescent bulbs, as duty has been raised from 10% to 60% except on energy saving bulbs.

Items to be cheaper

- Edible oil and lentils, as the existing customs duty has been withdrawn from crude edible oils and lentils to help their prices ease.
- Newspapers, as customs duty on newsprint import has been reduced from 25% to 15%, keeping newsprint raw materials duty-free.
- Insulin, first aid box, hearing aid, shadowless operation lamps and fire extinguishers, since these are exempted from VAT net.
- Motor vehicles, as the existing 25% dealer's commission discount rate on imported used reconditioned cars has been enhanced to 30%.
- Furniture made by boards, as the supplementary duty on all boards has been withdrawn.

Concluding thoughts

Despite the nonpartisan CTG was expected to table a budget that addresses public interests, since it has no party interest, and hence it would be the one that eases up the inflationary heat first. The proposed budget has in fact incorporated many such provisions to reduce the prices of essential goods. But it also at the same time puts the local production at stake, since import liberalization is likely to make the economy more trade oriented than production-friendly. It would not only shrink the local production base, but also jeopardize the foreign currency reserve. Once the local production base is contracted, it would also reduce employment opportunities.

The monetary policy that conflicts with budgetary provisions of huge deficit would also aggravate the inflation situation in the near future, as it already created a viscous circle of inflation. It may also stand towering against all other good attempts to tame the adversities of the economy.

The budget seems to have an ambitious ADP, compared to the rate of implementation during the first 10 months of the fiscal year. It has a provision for block allocation of fund to support a few undetermined projects and expenditures, some provisions seem inadequate for effective result, such as ACC, etc. The special emphasis for power generation is well placed and also seems achievable. Though revenue has achieved a moderate growth in the current year, but it was poor compared to the last year, and the new target seems a bit difficult to achieve, since import tariff has been reduced on a large number of commodities.

The withdrawal of incentives for the black money holders that diverted a large amount to unproductive sectors like vehicles, lands and apartments from the capital market or real sectors, would create a level playing field for the white money holders. It also goes well along with the current drive against political bigwig and high net worth notorious businessmen who made fortune by plundering the national assets. If the drives against adulteration and profiteering with the essential commodities could be strengthened, the reduction of tariffs on such goods would of course ease down the inflationary bites. Especially a hunt down on the identified trade syndicates that intrigue a price escalation could really bring some good results.

The proposed incentives for the capital market may also bring about some substantial developments in the long run. More coordinated efforts are needed to pull the telecommunications giants into the capital market, and if steps could be taken to force the undisclosed and untaxed money to be invested in the capital market, this would help the market effectively.

Usually a budget whatsoever altruistic in nature does not bring much change in the citizens' life, as the largely unaccounted economy itself has little mechanism to combat the syndication of profiteering, adulteration and hoarding of essential goods, and hold back the price escalation through formal channels. Though not officially declared, the gestures by CTG suggests that it is likely to continue its tenure for another one and a half years, which would allow it to implement the proposed budget till June 2008. Their management of economy is put to test till then.

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