National Budget 2006-07

15 July 2006

A budget of pleasant disappointments

The indicators

Budget size	Tk697.40b	↑ 14.22%
Revenue collection target	Tk525.42b	↑ 17.10%
Current expenditure	Tk422.86b	↑ 11.04%
Annual Development Plan	Tk260.00b	↑ 20.93%
Local contribution to ADP	51.60%	↑ 2.48 % points
Total budget deficit	3.9% of GDP	↑ 0.4 % point
Projected GDP growth	7.0%	↑ 0.29 % point

Budget 2006-07: Too good to implement

Finance Minister proposed the national budget for FY2006-07 with one clear eventuality: the government has only a quarter to implement any part of it leaving another to a nonparty care-taker and the last two to a political government. Thus however pro-voters or fancywork it looks, the outgoing government has opportunity to skirt responsibilities for any non-implementation.

The budget remains largely unchanged from the previous traditional philosophy of the government. Amid a barrage of high inflation, unstable fuel price in the international market, ruinous political confrontation and messy situation in the garments sector the government tried to balance between the rising demand from the various sectors and wooing the potential voters in the forthcoming national election.

Belying expectations, the budget harbors ample provisions for laundering black money through investing in nonproductive sectors and some throw away incentives for taxpayers, savors total avoidance of capital market and appears to be paying little attention to the rising crises of inflation, power shortage, labor unrest, and disrupted supply of agriculture inputs like fertilizer, diesel, etc. These also disgrace the seemingly voter-friendly image of the proposed budget. Besides, the huge block allocation also suggests a lack of plans in a number of sectors and allows room of suspicion of its uses ahead of a national election.

It was the last year of the 3-year rolling program, which has unfortunately gone without any review. Despite the phase out of a multi-fiber agreement (MFA), exports of garments soared to new heights and imports of capital machinery and industrial raw materials grew markedly. High inward remittances with a record growth also fought well to keep the foreign exchange reserve at a comfortable level. Budget deficit was contained, mostly due to the failure to use foreign assistance and poor implementation of the Annual Development Program (ADP).

Trade liberalization receives a boost as the government tries to combat soaring prices and inflation by reducing duties and taxes on a large number of industrial and consumer goods. Similar relief for the importers given in the past contributed in largely converting the economy into trade-driven against being export-led, and the recent relief may not help the consumers much as some unscrupulous trade syndicates already clouted the entire supply system. Besides, the reaction of the untaxed money holders to the opportunity to invest in the real estate sector may also trigger inflation.

The privatization process was in a complete halt for the past couple of years, however, activities have been rejuvenated in privatizing a state-owned bank and a few industrial concerns. However, the proposed budget shed no light on the ongoing process and no new initiative is in picture.

Though there were reinforced attempts to improve the law and order situation, labor unrest in the garments sector and boiling political crises have deteriorated the overall atmosphere. The proposed budget has no plan as to how to stop the continuous criminalization of the economy, especially break the unholy nexus among the importers-distributors of essential goods.

Budget snapshot

Tk in billion

	Budget	*Budget 2005-06*	
	2006-07	*Revised*	*Original*
Revenue			
Tax	429.15	361.75	373.12
Non-tax	96.26	86.93	84.10
Total revenue	**525.42**	**448.68**	**457.22**
Expenditure			
Non-Development Rev. Exp.	408.19	356.13	362.93
ADP	260.00	215.00	245.00
Capital Expenditure	29.01	24.56	25.79

As usual, the government continues to augment revenue from every possible source. The budget targets revenue collection of Tk525.42b, some 17% more than the revised target of the FY05-06 to finance an ever swelling ADP, continuously losing state-owned enterprises (SoEs) and unbridled rise in revenue expenses, while the economy still remains ruinously indebted to both domestic and foreign sources. Although there is an Anticorruption Commission (ACC) taking shape, the continuous expansion of the public outlay unmatched by the desired pace of development and the growth of projects suggests that the government has been little successful in mitigating corruption and managing resources.

All economic indicators for FY2005-06 are proxy, as they are based on the estimates of the first 8-10 months, and in a slot of time when export, import, industrial production and inflation were high. Thus they may not be fully representative of the entire year. GDP in the outgoing year fetched a record 6.71% growth, with relatively lower contribution from agriculture, as usual, and a slightly higher share from industry and services.

Though the government has recorded inflation to be around 6.2% at the yearend, actual rate may well exceed 8%, as the market still feels hot. The local currency once again lost edge against US dollar, as was natural in a freely floated market. Per capita national income is expected to reach a new high in terms of dollars, at $482, upped by $19 from last year's $463. Per capita GDP might grow to $456 from the last year's $441. Aggregate GDP size would reach to $62,512m from the last

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year's $60,381m.

The proposed budget still remains highly susceptible to a host of extra-economic risks. Persisting political friction between the two large belligerent parties, deterioration of law and order, endemically percolating corruption, deficiency in government services delivery, poor infrastructure, and lack of public safety yet form a formidable resistance to any development bid in the socioeconomic sphere.

Besides, fierce competition in the international market, narrow export market, inability of the small and medium enterprises (SoEs) to weather an adverse climate, erosion in the currency value and unbridled inflation etc collectively pose a durable economic barrier to any well-devised development plan. And as usual, none of these has been addressed in the budget with adequate recognition and vision. However pro-consumer the proposed budget looks, question of implementation remains a big blow to the credibility of the government since it has only 3 months in hand to do anything perceptible, while they could not implement the ADP more than 51% in the first 11 months of the current fiscal year.

Revenue target skewed up

The proposed budget has a target to mobilize Tk525.42b, or 11.3% of GDP, as revenue, 17.10% up from the last year's revised budget of Tk448.68b, which was 10.8% of GDP. Of the amount Tk406.0b (or 77.3% of the total) would come from income tax, value added tax and customs duty. Though the collection of tax revenue has been improved during the year, thanks to sincere efforts the nontax revenue remained poor as before. Several special measures have been taken time to time, but the situation changed a little. The target for non-NBR tax has been fixed at Tk18.6b, with more revenue in land registration, stamp duties, vehicle fees, etc among others.

The revised revenue target for NBR for the outgoing year was Tk344.56b, but some Tk338.13b was collected, still Tk6.43b (1.87%) short of the target. The revised target is also unlikely to be achieved leaving the proposed increase for the next year remain still highly ambitious. The following table shows performance of revenue collection during the past 3 years (all up to April, figures in bTk):

Sectors	2004	2005	2006
Import duty	57.21	63.17	63.75
VAT (import)	35.67	42.17	47.82
Supple. duty (import)	14.32	14.37	13.45
Subtotal	107.20	119.71	125.02
Excise duty	1.55	1.43	1.61
VAT (local)	32.92	39.69	49.06
Supple. duty (local)	28.81	30.34	36.77
Subtotal	63.28	71.46	87.44
Income tax	31.01	38.14	45.37
Other taxes and duties	2.38	1.91	2.07
Total	203.86	231.22	259.91

Source: Economic Survey 2005-06, Ministry of Finance

The government, in a desperate attempt to increase income tax revenue has set a target of mustering Tk85.0b in the next year, which is 22.13% more than that of the revised budget. Fortunately it has surpassed the tax target of FY2005-06 set at Tk79.60b by Tk1.8b, marking a resounding growth of 28% over that of the last year. The large tax unit (LTU) section has collected Tk22.5b against the last year's Tk12.4b. There is no significant change in income tax other than offering a 10% rebate to the diamond cutting business.

However, for widening the tax net the government forced the employers to pay salaries (above Tk15,000 per month) to their employees through cheque, and credit cardholders have been brought under tax. Total revenue from income tax is expected to grow significantly as NBR has already enlisted some 1.80m people as taxpayers, and target for the next year is yet to be set. Various measures have also been taken to encourage new taxpayers and punish the averters. Special cells have been formed with NBR to treat the large corporate taxpayers and identify more potential firms and individuals to broaden the taxpayers list and enrich the coffer.

ADP bloats again amid poorer implementation record

Like all budgets in the past the present one continued the culture of chalking out a hefty ADP with rhetorical hopes and eventually ending up with poor implementation reality. Earlier the government had planned a Tk245.0b ADP for the current fiscal, but after reviewing performance of the first 9 months of the current year trimmed down to Tk215.0b, still some 16% higher than the actual ADP spent in the previous year. During the first 11 months of the year, ADP could not be implemented more than a poor 51% of the proposed size, and it now seems impossible to implement even the rest of the revised budget.

This year the government has tabled a Tk260.0b ADP, 20.9% larger than the revised one, as usual, with a number of low-priority projects, keeping in mind the national election in 2007. Considering some other development projects financed from the revenue budget, actual ADP size would be Tk284.63b, which is more ambitious. However, it appears that the size is rather projected as a manifestation of electoral commitment to the constituencies, not meant to be implemented at all, since the present government would not be able to implement even 10% of the proposed ADP in its stint that is going to end in October this year. However, the block allocations of Tk32.63b revenue expenditure, in addition to over Tk10.0b that remains unspent during the current year, may be hastily spent in the next 3 months, apprehensively for election purposes.

The following table depicts the implementation scenario for past decade: (figures in bTk)

FY	Original allocation	Revised allocation	Actual spent	Implem. rate
1996-97	125.00	117.00	110.41	94.0%
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	109.50*	50.9%

Source: Economic Survey 2005-06, Ministry of Finance
** Till May 2006*

The recent performance of both winning considerable foreign assistance and utilizing the disbursed money has been found disappointing that forced the government to expect less than usual foreign assistance from the traditional providers. This has been manifest in the revised budget where part of foreign assistance came down from Tk100.45b to Tk89.56b. In the proposed ADP foreign sources constitute 37.0%, down from 41.0% in the last year. It is noted that the foreign development partners have increasingly been choosy about the proposed development projects in ADP and questioning the cases that involve corruption, political motivation and poor implementation performance.

In the proposed budget the highest allocation of Tk110.93b or 15.91% of the total size has been allocated to the education sector, while Tk53.57b (7.68% of the total) has been proposed for transport and communication sector, followed by Tk49.04b (7.03%) for defense, Tk47.84b (6.86%) for health, Tk45.93b (6.59%) for agriculture, Tk37.86b (5.57%) for fuel and energy, and Tk15.74 (2.26%) for telecommunications, etc.

Most economists maintain that the proposed ADP is still too large to manage given the historical experience. None of the past few ADPs saw an implementation rate of more than 90% (albeit after adjusting in the next year). Starting with a roaring size and ending with a whimpering trim seems to have been incorporated in the culture of ADP, which suggests that little thought is given in the development plans. A sluggish start in the first two quarters and hasty completion in the last also has become a trait for the public agencies for implementation of the proposed projects, making the target unrealistic to achieve every year. Such slow pace of spending is basically due to weak implementation capacity and poor disbursement of the foreign aid component. As per available data, foreign aid and loan of $6.5b is still clogged up in the pipeline, as a major part of the disbursed aid had remained unutilized due to various factors like harsh donor conditions, inefficient implementation and of course, bureaucratic procrastinations.

Implementation of the new public procurement guidelines that has been introduced at the behest of the ongoing IMF-WB reform program seems to have eroded enthusiasm, to some extent, among the respective departments and ministries in project preparation and initiation. Despite pressure from the donor and multilateral lending agencies some projects have been implemented skirting the said guidelines, exposing the projects to susceptible costs and discouraging development partners to make new commitments. Slow implementation, though apparently discouraging, smacks of the likelihood that there would be at least some sort of transparency and check of corruption.

The large chunk of unallocated fund in the budget, known as block allocation, amounting to Tk73.95b and forming 10.6% of the proposed total expenditure has a large revenue portion of Tk32.63b, which is 162% more than that of the revised budget and 28% more than that of the current original budget. Of the revenue portion some Tk8.0b has been kept for unforeseen essentialities, and Tk12.0b for other expenditures. Some Tk5.0b from Tk12.01b has been kept for the completed projects as well, leaving the remaining Tk7.01b to be spent for assisting the vulnerable groups and meeting demands of the ministries under the medium term budget framework (MTBF). All these expenditures seem susceptible to be focused on potential voters, as has been historically noted, leaving the burden to be borne by the caretaker and the next elect government.

About 40% of the total diesel consumption is now used for irrigation that needs subsidies from the block allocation. The government is pondering on introducing cards for the poor, like that in India and Sri Lanka, to purchase kerosene and diesel for irrigation at subsidized prices. But such a step might be used for political purposes.

Of the ADP portion of the block allocation of Tk41.32b about Tk30.24b has been earmarked for different ministries and Tk11.08b for different tiers of the local government and for poverty reduction and development of Chittagong Hill Tracts. Of the Tk30.24b, the agriculture ministry is to get the highest Tk7.41b, education and religious affairs ministries Tk5.37b; communications ministry Tk2.92b, energy and power Tk4.05b, mineral resources Tk2.95b and the rural development to get Tk1.01b. The present government has just over 3 months of its tenure and is less likely to be able to release the ADP part of the block allocation for any project, as it generally follows a lengthy procedure. Most economists maintain that provision of any block allocation is beyond accountability and its essence goes against the tenets of the constitution and violates the financial discipline, since it is inherently inclined to be used for political purposes.

Internal resource in ADP financing

Whatsoever the reasons, it is encouraging to note that over years the development budget has been able to reduce its usual dependency on foreign assistance. Historically, foreign assistance has made way for more social distance, misuse of resources, seepage of foreign currency, and burden of debt causing general cost of living to increase. It is also another gateway to corruption, which the bilateral donors use to wield specific political and strategic influence on the ruling coterie. Gradual reduction of dependency on foreign assistance would not only help the country manage its own resources best, but also avoid unpleasant intervention in the polity and policies and unwilling acceptance of unnecessary project equipment (yet at a preposterous price at the will of the donors serving their own interests), as well as 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
1997-98	Tk122.00	Tk55.21b	45.25%
1998-99	Tk140.00	Tk58.12b	41.51%
1999-00	Tk165.00	Tk82.26b	49.85%
2000-01	Tk182.00	Tk95.30b	52.36%
2001-02	Tk160.00	Tk77.85b	48.66%
2002-03	Tk171.00	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%
2006-07e	Tk260.00b	Tk163.82b	63.00%

Source: Economic Survey 2005-06, Ministry of Finance

As there is evidently a gradual slide in dependency on foreign assistance, the demand supply gap has been filled by the increasing domestic borrowing including that from the banking system along with increased local revenue garnered through augmented efforts and transparency. However, such a heavy borrowing also increases operating costs, and eventually raise inflation. The proposed budget indicates a larger borrowing from the banking system (Tk151.0b) that would not only affect the credit flow to the private sector for industrial, commercial and agriculture purposes, but also frustrate any measure to contain inflation.

Government's net borrowing from the banking system surged over 141% more during the year over the last year in the face of dwindling foreign aid. It borrowed Tk68.55b against last year's Tk28.38b. Besides, net borrowing from the nonbanking system was Tk19.56b during the same period. Net foreign aid dipped to $339.4m during the period against $647m in the last year. Institutional limitations of the government agencies are largely responsible for poor performance in aid disbursement process.

GDP makes solemn gallops

Growth of gross domestic product (GDP) has been estimated to be around 6.71% on current market price for the outgoing fiscal year 2005-06. Though the International Monetary Fund ((IMF) had forecast a 6% growth and Asian Development Bank (ADB) eyed a 7%, the Bangladesh Bureau of Statistics (BBS) calculations landed at the above rate. Service sector, like few past years, makes the single largest component in the growth, around 55%, while agriculture makes 31% and the manufacturing sector the rest 14%. It is noted that service sector has not only outperformed the other two, but is also expanding at a faster rate. Manufacturing sector on the other hand could not strengthen much as it should considering the rapid growth of export and import of capital machinery.

The manufacturing sector has been estimated to have grown at 10.45%, first time in double digit in the history, making the industry sector to contribute to 29.01% to GDP. Last year it grew by 8.28%. Agriculture has been estimated to grow at 4.49% compared to 2.21% in the last year, contributing some 21.77% to the GDP, while the services sector grew by 6.47% against 6.36% with a contribution to GDP of 49.22%. Budget deficit during the current fiscal year is expected to go up to 3.9% of GDP from 3.5% last fiscal. GDP has been targeted at 7% and budget deficit at 3.7% in the next year.

Many experts and economists consider the rate close to the actual, if not underrated, but at the same breath maintain that the country could achieve much higher, as the World Bank (WB) puts it at 8% a year, if corruption and confrontational political culture could be contained. WB has already decided that its future aid for projects, including power sector, would be depended on reducing corruption. However, it may be noted that the growth has hardly reached the bottom, and only the upper echelon of the society reaps the benefits of such a telling growth as the increasing rich-poor gap suggests.

The growth is, however, smaller than other emerging regional economies like India that has a rate of 9.4%, China of 9.5%, Vietnam 8.0%, and Sri Lanka of 6.9% in the contemporary fiscal year. Despite the position at a little behind the race, the growth, now more than 5.5% on average for the past decade, has earned the country its due recognition. It has already been included in the 'Next Eleven', a group of nations with promising economic growth potential, as per the latest report by Goldman Sachs, a US-based investment firm. Other states include Indonesia, Pakistan, Egypt, Mexico, Iran, South Korea, Nigeria, Philippines, Turkey and Vietnam. The report recognizes high growth potential of the country, both in the private and the public sectors. The report forecast that the world's top 10 economies would be the US, China, Japan, Germany, India, UK, France, Russia, South Korea and Italy by 2025.

Agriculture gets a nod

The proposed budget continues its policy of supporting the agriculture sector. The government has earmarked Tk2.44b for research and development in the sector, while raising subsidy from Tk11.0b to Tk12.0b. Starting from 2000-01 by the previous government with Tk1.0b, the subsidy to the sector grew 12 times amid continuous resistance from the IMF and WTO, basically in the form of various agriculture inputs like fertilizer and diesel for irrigation. The present government not only continued the initiative, but also bolstered in a policy consensus that would sure help the sector grow.

Agriculture credit grew by 13% in the first 3 quarters of the year to Tk40.0b, while the target for next year has been fixed at Tk60.0b. Moreover, the overall allocation for the sector has been proposed to boost by 43% to Tk31.49b from Tk22.13b. For the development of the water resources, fisheries and livestock sectors, the budget has proposed rise of allocation by 29.3% and 36.0% respectively. However, the proposed 9% increase in subsidy would soon be diluted by the enhanced price of diesel that was hiked by 10%.

Production of food grains has grown significantly compared to the previous years. Despite damage caused by periodic flood, production of rice has been 12.545m tons (aus 1.745m and aman 10.8m tons), much behind the target of 15.065m tons, but more than last year's 11.32m tons. However, total grain production is likely to reach 27.245m tons, some 13.34% less than the targeted 31.439m tons. The country usually imports food grains, depending on its crop success. During the first half of the outgoing fiscal year, some 1.224m tons of food grains have been imported, whereas in the whole previous year some 3.374m tons were imported to meet the local demand.

The proposed budget of FY2006-07 did not mention anything on food security. Failure to achieve target in food grains has been attributed to the floods, but the weather experts maintain that natural disaster was much less in the current fiscal year compared to last few years.

Inflation unbridled

The average rate of inflation stood at 7.61% during the first 11 months of the outgoing year, against 6.27% in the same period of the last year. The point-to-point inflation declined to 5.72% in February 2006, but again shot to 6.17% in March and to 7.46% in April 2006, pushing the entire gamut of inflation over 7.0%. Inflation in food items was 8.9% and in nonfood items was 5.87%. Increases in prices of petroleum fuels seem to have worsened the situation.

The price hikes of some essential goods in the international market coupled with sudden erosion of currency have worked together to plunge the situation to a dire position. Besides, it was also reported that a number of powerful trade syndicates involving elite ruling party stalwarts were at work behind the recent price spirals.

Though it was observed that previous higher prices, to some extent were not domestically induced, but were triggered by the increased international prices, mainly in oil and food items, the recent hikes are absolutely attributed to domestic policies, polity and administrative lapses. Frequent rise in prices of fuels, which have deep impact on transport and distribution of essential goods and services, inefficient handling of currency erosion, and inability of the government to administer trade syndicates are three major reasons for the recent inflations.

As the proposed budget continues an expansionary monetary policy and increased investment activities, the price level is less likely to come down from its present level. The proposed huge block allocations, allegedly induced by political motives, would also provoke inflation in the coming months. Besides, cut in duty and supplementary taxes alone would help curb inflation as there is no measure in action to reign in superprofiteerism, corruption, frequent toll collection in transport sector, etc.

The inflation calculation seems somewhat underrated as the heat is more felt in the market than the official figure suggests having. This may be attributed to the fact that the basket has not been updated since long and some recent parameters such as usage of mobile phone, satellite television channels, etc are not included in the basket.

Governance remains a perennial question

Governance issue continues to remain an Achilles' heel for the government as it was for some past years since no visible improvement has yet been noticed. Despite a large number of measures was taken to combat corruption in the government agencies, nothing substantial has improved. Lower judiciary still remains under the government control, despite repeated attempts to initiate the long-awaited independence. There is no development budget for the judiciary and judicial reforms drift on rhetoric. Although public order and security sector receives a hefty 4.9% of the entire budget, and the operational sphere of special police and speedy trial courts has been widened recently, given the poor state of equipment, skill and lack of accountability of the police force, increased criminalization of politics and a confrontational political fabric, etc. together have failed to address the law and order situation adequately. And there is little sign of having an immediate improvement in the coming days.

The country now faces 3 stern difficulties: relentless corruption throughout the government institutions as well as the polity, rapid expansion of religious extremism and its consequent destabilization of rule of law, and gradual and rapid erosion of public confidence in the state and government institutions.

The newly formed Anticorruption Commission (ACC), now it seems, has been created rather as an unwilling response to the donor pressure than any real urge from a reformist point of view. The attitude has been manifest in the fact that the ACC is yet to initiate the first case against any corrupt person in the country, which is allegedly so replete with corruption. It is still to have a formal structure, adequate human resources and necessary equipment and funding. Moreover, the institution is allegedly manned by geriatric people who are unable to wield any real influence over the organization.

Despite there was a constitutional provision for establishing the office of Ombudsman in the country, no realistic initiative has yet been started. Lower judiciary and state law and order apparatus is allegedly and sometimes evidently controlled by the party in power. Patronization of criminal means of earning state power and resources, delayed trial system and general inefficiency of the administration often force the government to overlook deterioration of law and order situation and stick to hard line policy of atrocities on general public.

A confrontational political system and a crony bureaucracy, both unaccountable to the general people, have taken shape over the past 3 decades that has bred ubiquitous corruption across the society. During the past couple of decades they have mustered enormous wealth, which they now want to protect through investment. Their influence in the government have initiated the introduction of incentives for access to the mainstream economy. But incentives seemed to have worked little to bring unaccounted income of the black money-holders to book. Against a target of Tk30.0b of unaccounted income, some Tk46.03b has been brought under tax and Tk3.45b has been received as tax in the fiscal year. Some 7,254 people, mainly businessmen and professionals, took the opportunity. It is estimated that every year some Tk700.0b becomes black or untaxed, and some Tk1,750.0b have been circulating in the entire economy.

The government has earlier introduced a medium term budget framework (MTBF) replacing the traditional budget system to implement the poverty reduction strategy. It has brought some 10 ministries and divisions including of education, health and agriculture within the fold of MTBF to integrate the strategy with actions. The government announces to have active plan to bring all other ministries and divisions in the realm shortly.

The policy of allowing unaccounted incomes to join the main-stream economy was first introduced in 1976 at a direct tax of 25%. Subsequently the policy was discontinued in 1990-2000 period and was reintroduced in 2000-01, and a total Tk39.20b was laundered in the last 30 years that yielded some Tk34.0b as tax.

There were five provisions for whitening black money. The provision that allows whitening money by paying a tax of 7.5% has just been withdrawn in the new system, but the rest other provisions, such as purchasing apartments by paying tax at a rate of Tk200 per square meter, 5.0% by purchasing vehicles below 1500cc and at 7.5% above 1500cc, by purchasing land for 5.0% tax, etc. would remain unchanged. Though only one opportunity is being withdrawn, the rest four would undermine the efforts of the honest taxpayers who pay 10-25% tax to remain a dutiful citizen. These provisions would also raise the cost of land and apartments that would eventually rob the entire diligent middle-income community of their opportunity to purchase lands and apartments at a reasonable and fair price and it is likely that soon a substantial part of the prime land of the country would fall into the hands of black money-holders, who are essentially criminals. These provisions reward the criminals, predominantly political elite, at the expenses of the hard-working honest taxpaying citizens that not only violates the essence of the constitution, but also against all moral values.

Poverty reduction strategy in shape

Despite focused efforts with aids from the multilateral lenders and donors, poverty reduction as a policy and a drive remains rather warped. However, during the year there was a clear strategy in shape. After evolving through a 3-year i-PRSP the government has formulated a national strategy for accelerated poverty reduction that will form the basis of the development plan. It has already achieved two targets of the millennium development goal (MDG): ensuring access to safe drinking water and removing gender disparity in primary and secondary education. Already enrollment in primary education has been achieved 97%, and significant success has been made in reduction of the child and maternal mortality, malnutrition and improving food security.

The whole picture is not yet quite savoring. At present 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. The top 5% per capita income-holders now holds assets 84 time the worth of the bottom 5%, which was 18 time in 1992, 27 times in 1997 and 46 times in 2002. The continuous fissure would end up in severe destabilization in the society.

The proposed budget has earmarked some Tk64.27b for local government and rural development against Tk60.13b in the last year. Despite allocation of a larger chunk this year, there was no clear direction as to how this fund is going to be used. Earlier the finance minister himself was against strengthening the decentralization of administration through holding upazila elections in time and allocating development funds through the elected people in the upazila level. This not only thwarted developing of a strong local government, but also allowed the lawmakers involve in all local affairs causing serious conflict of interests between the lawmakers and the local government representatives, both elected by the people. Unless there is a strong, effective local government at work, rural development and thus poverty reduction would not have a paved avenue to roll on. The proposed budget however, remains silent on the issue.

A serious issue is brewing up silently that might compound the poverty situation as well as the entire agriculture system. As per a recent study, active farmland has been decreasing at an alarming rate that would shrink the agriculture significantly in a few years. Per capita farmland was 0.81 hectare in the 1980s that came down to 0.61 hectare last year, and the total size of 8.2m hectares is eroding by nearly 1%. The gradual erosion of cultivable land by homestead, road and other infrastructure would also threat food security, environment and social fabric.

Already the number of landless people has tripled in the last 5 decades. Illegal land grabbers at the behest of elite close to the ruling parties have occupied a large chunk of state (khas) land, now around 5.0m acres. More than half of the families in the country own only 4.2% of the total land area while only 6.2% of the families own 40% of the land. Proper distribution of the land among the landless poor, now 58% of the total population, could reduce poverty. But no government has paid enough attention to this. And the proposed budget, as usual, has remained completely silent about the issue.

During the year NGOs working in almost all corners of the country have received foreign donations of $347.53m (nearly Tk19.81b), which is 27% higher than that of the last year. The donors have committed funds of $456.8m, some 61% more than last year's $283.4m. Since FY1990-91 the NGOs have received over $3.16b to run poverty alleviation operations in the country.

Social security net widened

There are numerous proposals for improving social security situation in the country. Allocation of Tk3.84b for 1.6m hapless and underprivileged people, of Tk1.56b for 0.65m destitute and widowed women, Tk0.1b for rehabilitation of acid burnt and physically handicapped women, Tk0.3b for mitigating risks due to natural disasters, Tk0.32b for 0.1m insolvent freedom fighters, Tk0.4b for 0.164m fully retarded people, Tk0.55b for *manga*-prone and seasonally unemployed people, Tk0.3b for training of retired people, Tk0.2b for skill development of the readymade garments workers, and Tk0.5b for homeless people have been made to mantle a multi-prong raid on rural poverty.

Allowances for senior citizens have been raised to Tk200 per month from previous year's Tk180, and the number of the beneficiaries has been proposed to increase from 1.5m to 1.6m. Allowances to widow and deserted wives have also been raised from Tk180 to Tk200 per month and the number of beneficiaries has been planned to raise from 625,000 to 650,000.

However, the vast number of diverse recipients have already generated an intermediary class who allegedly misappropriate a major part of the kitty. There is also a loophole in the system that can turn the entire fund into an instrument to buy voters in the rural areas during elections.

Besides, for rehabilitation of acid victim women and physically retarded people a budget of Tk100m has been allocated, while for risks management of natural disasters program a fund of Tk300m has been proposed. The number of recipients of allowances by pauper freedom fighters has been increased to 100,000 from 70,000, while for assisting some 164,000 fully crippled people at the rate of Tk200 per month, the existing fund of Tk250m has been increased to Tk400m.

Some Tk5.9b has been allocated for various small and micro credit programs in the rural areas to continue the employment generating fabric under various ministries. Already some 225 large and small nongovernment organizations (NGOs) are in the field to distribute the state funds among the extreme poor seeking financial assistance for income-raising enterprises.

Education receives highest allocation

Education and technology receive some 15.9% of total budget proposed for the FY2006-07, with Tk110.93b, up by 20% from the revised budget in previous fiscal, and remains the single largest allocation in the budget. A 6-year 'Second Primary Education Development Program' with an outlay of Tk50.0b and a stipend program with Tk33.12b are implementation for expansion and qualitative improvement of primary education. Over the past 5 years some 5,000 headmasters and 52,000 assistant teachers have been recruited in the primary schools.

Some 8,000 schools have been rebuilt and another 5,000 were repaired. The female-male teacher ratio has been raised to 44%, and female students have been encouraged through a 'Female Stipend Program'. The number of scholarships in the primary, secondary and higher secondary level has been raised to 85,000.

Despite the largest chunk allocated for, education fails to yield desired result, as much of the government funds fails to reach the targeted and most vulnerable group. Though at present there are some 54 private universities functioning along with 21 public ones in the country, quality of education remains a question in most institutions. And most of these universities lack adequate facilities, especially campus, library and quality teachers.

Health sector bloats without much result

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 29m people were brought under a nutritional service program through 23,000 social nutrition centers.

Child and maternal mortality was a prime concern in almost all health and population strategies. The government has been able to reduce child mortality from 66.1 per thousand to 65 and maternal mortality from 3.2 per thousand to 3.1, and life expectancy has been raised from 61 to 64 years.

Infrastructure to get the prop

The budget proposed an increased allocation for infrastructure development including road, transport and telecommunication sectors. An amount of Tk55.57b has been earmarked for the communications development, while Tk15.74b chunked out for telecommunications sector.

The country now has much improved road links across the entire land. Other than a mighty Padma at Paturia-Daulatdia, almost no river is left to be bridged by this time, especially after connecting banks over Padma and Rupsha in last year. The government earlier wanted to set up road links with the neighboring Myanmar and Thailand, but the plan had been flustered after it categorically decided to shy away from the proposed Asian Highway that denied its desired route through India-Bangladesh-Myanmar and offered an India-Bangladesh-India route to any third country. Despite repeated efforts the government failed to budge Myanmar to construct a vital road link through its Arakan province, albeit at Bangladesh's cost, before the deadline of signing an agreement expired on 31 December 2005.

Bangladesh has experienced a boom in telecommunications sector in recent years. Bangladesh Telegraph & Telephone Board (BTTB) has earlier taken initiatives to provide mobile phone connections to 1.0m subscribers, with 0.25m by 2004, but the total connection was halted at 0.243m. The number of land telephone connections has now increased to 1.0m from 0.565m in late 2001. The government has also reduced the call charges (NWD by 72% and ISD by 46%) to enhance the communication frequency and revenue.

The government has upheld the National Telecommunication Policy of 1998, enacted a Telecommunication Act in 2001 to allow private participation. Responding to this policy, some 4 private companies have already come forward with a proposal to set up 1.4m land phone connections at different zones in the country. Earlier the mobile phone system, predominantly by the private sector, penetrated the market with a sizeable number of connections. Till April the country has 11.6m cell connections of which 97.9% are covered by the 4 private cell phone companies. The following table shows the connectivity scenario in May 2006:

Company	Mobile	Fixed	Total
GrameenPhone	10,200,000	0	10,200,000
Aktel	2,460,000	0	2,460,000
BanglaLink	1,600,000	0	1,600,000
Citicell	600,000	0	600,000
Teletalk	243,000	0	243,000
T&T Land line	0	1,001,000	1,001,000
Total	15,103,000	1,001,000	16,104,000

The total connections now takes the teledensity to 10.8%, not only exceeding the 1998 policy's target of 8% by 2005-06, but also targets fixed by almost all private companies. With the recent connection with the Asian fiber optic cable through an ambitious submarine cable installed by a consortium called SEA-ME-WE-4 the telecommunications will receive greater speed and bandwidth to become a faster, reliable and more secure communications gateway. The proposed budget does not address the issue in details, but it is learnt that the newly set up cable is going to have an extensive connection with much larger bandwidth in its second phase, but BTTB, the main body responsible for submarine connections, is yet to make any tangible move towards it. Earlier in 1993 refusal by the BTTB to have such connection at free of cost delayed the country for at least 13 years. BTTB has at last completed the connection in 2006 at a cost of Tk6.28b. It is alleged that the BTTB is not interested in lucrative offers, if it is free of cost, since it offers no opportunity of commission earning.

Power remains in the dark

During the fiscal year power appeared to be the single major menace for both household and industrial consumers and the government. Till today only 38% of the population has come under power grid, while per capita consumption of power still remains at 158kwh, one of the lowest in the world. Till June 2005 there was a total installed capacity of 5,025mw including 1,290mw from the private sector, of which actual generation was 3,751mw including 1,269mw from the private sector. The actual generation capacity was 66.5% for state-owned Power Development Board and 98.4% for the private sector.

During the outgoing year only 360mw is likely to be added to the installed capacity, while in the entire stint of the present government a total 1,380mw has been added. It may be noted that despite every year some Tk25.0b has been allocated on average, the present government was able to add only 80mw in the past 5 years, as the rest 1,300mw had been initiated by the previous government. Though the sector's contribution to GDP was 1.38% on average, the present government paid little attention to it. Against a daily demand of 4,500mw the sector is now able to provide only 3,500mw leaving an utter shortage to cause the consumers suffer. Though per capita consumption was expected to reach 160kwh by the end of the year, actually it may not exceed 158mwh. The following table shows the sector's installed and generation capacity for past few years (figures in megawatt):

Fiscal year	Installed capacity	Reliable production capacity	Maximum actual generation
1996-97	2,908	2,148	2,114
1997-98	3,091	2,320	2,136
1998-99	3,611	2,850	2,449
1999-00	3,711	2,665	2,665
2000-01	4,005	3,033	3,033
2001-02	4,230	3,300	3,218
2002-03	4,710	3,600	3,458
2003-04	4,710	3,700	3,622
2004-05	5,025	3,900	3,751
2005-06	5,385	4,250	3,520

Source: Economic Survey 2005-06, Ministry of Finance

Prevailing diesel and power crises, triggered by international price hikes, forced the readymade garment (RMG) producers to keep their factories idle for almost 5 hours of the 10-hour working day, claimed the Bangladesh Garment Manufacturers and Exporters Association (BGMEA). They fear that the RMG production might fall by 50% and production cost might go up by about 25% due to the crises, and if no remedy is sought immediately, the country might lose the market to its arch competitors India and China.

Though the most manufacturers resorted to generators, but the diesel crisis has worsened their woes. They usually collect diesel in containers or drums, which is now banned by the government. Besides, 90% of the generators used in garment factories are diesel run, while only about 5% are run by gas. Thus in the face of diesel and power crises, garment factory owners are being forced to ship their product by air to make up for lost time in a bid to maintain the deadlines. Since many manufacturers are being forced to ship their products by air, there are long queues in the airport too and airfreight charges have gone up 2-3 times the normal rate in some cases. In the near future power is going to act as a fulcrum to the export sector.

Banks sinking in NPL

The situation with nonperforming loans (NPL) in the banking system has deteriorated during the fiscal year. After the first 3 quarters, the total nonperforming loans stood at Tk207.17b, an outright hike of Tk32.07b from the previous quarter. Within this period the banks have written off bad debts amounting to Tk103.0b, which reduces the gross figure of NPL. The recent spurt in NPL sends an alarming message that the increased money might in fact have been stuck because of political and partisan interests ahead of a national election. Share of NPL stands at 15.38% on a total disbursed loan of Tk1,347.36b till March 2006 against some 13.55% in December 2005. The net NPL in March 2006 stands at Tk107.16b (8.59% of the loans disbursed), which was Tk86.06b (7.15% of the loans disbursed) in December 2005.

Earlier ADB had advised on setting up of asset management company (AMC) to recover the nonperforming loans, but the central bank differed with the proposal. Bangladesh Bank (BB) claims that it has capacity to deal with nonperforming loans without setting up an AMC. The problem of classified loans could be addressed through the implementation of the already established Central Bank Strengthening Project (CBSP) without taking assistance from ADB. ADB recommendation for setting up an AMC to recover classified loans was based on a report of an ADB technical assistance loan on Financial Markets Governance Improvement Program.

The statistics from the central bank shows that the 4 state-owns banks still largely outperform all other banks as a whole. This is because of a recent increase of loans that was taken by the Bangladesh Petroleum Corporation (BPC) from Sonali Bank and became nonperforming. The following table depicts the entire picture (figures in bTk):

Sector	March 2006		December 2005	
	Amount	%	Amount	%
NCBs: Gross NPL	129.09	27.14	100.24	21.35
: Net NPL	77.53	NA	56.28	NA
PCBs: Gross NPL	37.97	5.64	35.44	5.62
: Net NPL	10.51	NA	10.58	NA
DFIs: Gross NPL	39.07	35.15	38.37	34.87
: Net NPL	21.00	NA	NA	NA
Foreign banks	1.04	NA	1.04	NA
: Net NPL	Nil	NA	Nil	NA

During the current year cash reserve requirement (CRR) and Statutory Liquidity Ratio (SLR) were revised upward from 4.5 and 16% respectively to 5 and 18% of the time and demand liabilities for scheduled banks to slow down overall domestic credit. The tightened monetary stance is not intended to slow down output growth but to curb excess demand arising from inflationary expectations, thereby supporting sustained stable output growth over the near and medium term.

Lending rates that have been lowered to restrict the flow of credits in 2004 with an urgent alacrity was raised again during the year. All commercial banks have raised their lending rates in line with the market demand, for particular sectors like term-loans to the large, medium and small industries, working capital for industries, trade financing, housing loans and consumer loans, with rates on working capital between 9.0 and 14.5%, and on export credits at 7.0%. The banks offered their rates for the large and medium loans between 9-15%, and for small industries 9-22%, while on housing loans fixing between 11.5-15.5% and consumer credits at 12.0-18.5%.

The question of privatizing Rupali Bank remained alive during the year. The Privatization Commission (PC) has held several road shows in Dhaka and planned to hold in Dubai, Singapore and London to find a good strategic partner for the Bank. The PC had earlier issued an expression of interest (EoI) seeking both domestic and foreign partners, and some 7 parties so far tendered their EoIs.

The 29 private commercial banks (PCBs) earned Tk28.24b as aggregate operating profits in 2005, a 29.1% growth over the previous year's Tk21.88b. Performance data on nationalized commercial banks (NCBs) are not yet available. However, the net profit situation is not quite healthy for some PCBs and the NCBs. At least 8 PCBs had reportedly been faced provision shortfall of Tk4.02b as on September 30, 2005.

Provision deficit in the banking sector stood at Tk44.47b and interest against bad debts stood at Tk49.45b at the end of March 2006. There are provision deficits in 11 banks out of the total 49 banks. Of these, NCBs have a total provision deficit of Tk37.82b, 5 PCBs have Tk4.57b and 3 DFIs have Tk4.25b.

The nonbanking financial institutions (NBFIs) including leasing companies have financed and disbursed lease and loan of Tk31.8b during in 2004 marking growth of 37% and have maintained recovery rate of nearly 95%. Total lease and loan assets outstanding on December 31, 2004 was over Tk45.0b. NBFI emerged as an effective alternative source of finance and well-sought-after arm for credit for the small and medium enterprises (SMEs).

Bangladesh Bank (BB) made the 'marking to market system' for valuation of government bonds (GB) and treasury bills (T-bill) mandatory for all banks from February 01, 2006 system to ensure transparency in the management of the assets and liabilities in the banking sector. The said system is a process of calculation to determine the market value of an asset that refers to changes in the value of future contracts on a weekly basis and report the value of assets on market value basis instead of book value basis. Initially 2 government bonds and 5 types of T-bills will be traded in the secondary market, while financial institutions and individuals may take part in the deals.

As per the new provisions, the securities that are held by the banks to meet their statutory liquidity requirement (SLR) with the central bank will be treated as 'held to maturity'. Further, the securities that are held by the banks in addition to meet their SLR will be identified as 'held for trading'. The value of all government-approved securities will be calculated on the basis of 1-year tenure of the 'held to maturity' investment whereas valuation will be calculated on a weekly basis for the 'held for trading' investment.

The NPL situation may worsen as Bangladesh Bank relaxed its policy on rescheduling of loans and offering of fresh credits to clients that allows the commercial banks to offer fresh credit facility to clients after payment of 15% of the default amount of the previous loan portfolios. The move is also contrary to the central bank's much-professed contractionary monetary policy and also undermines the integrity of the ongoing financial sector reforms. It is now apprehended that the pressure of handing out new loans would mainly fall on NCBs, as number of loan defaulters is highest with them. Some suspect that a window of the pre-election financing may have been opened through this.

The commercial banks have written off Tk103.0b from their bad loans since 2003 to December 2005. Some of them have even recovered about 1 to 4% of the written off loans. NCBs have written off Tk34.59b, PCBs have written off Tk39.0b, DFIs Tk28.0b and FCBs Tk1.41b. As per a write-off policy Bangladesh Bank made in 2003 to reduce bad loans, a bank must keep a provision of the same amount against a bad loan to be written off. Of the entire volume of written off loans, about Tk60.0b was done by 2003 and the rest in the following years.

The government is actively considering a move to raise the paid-up capital of Sonali Bank through budgetary allocation in the coming year to help the largest NCB survive a dire liquidity crisis. The Bank finds it difficult to recover a sum of Tk52.84b taken as loan by Bangladesh Petroleum Corporation to finance fuel oil imports. The government opts for the recapitalization course, which was applied in the case of ailing Adamjee Jute Mills that was eventually shut down in 2002. The banking sector experts maintain that the government should not delay recapitalization of the bank beyond the next fiscal as it might impair its viability.

The central bank already suggested that the government raise the required amount of money by issuing bonds in the local market shortly to solve the liquidity problem within this fiscal. But the government is not in a position to raise the Bank's paid-up capital within this year as only Tk4.0b had been kept in 2005-06 budget for recapitalization. Sonali Bank, once the biggest provider of fund in the money market, of late has become the largest borrower.

Privatization loses its teeth

Privatization seems to have lost its appeal among the policy makers, as the Privatization Commission (PC) suddenly finds itself inactive after most of the SoEs allocated for privatization were taken aback by the respective ministries. The reversal from a declared policy of privatization, induced allegedly by the vested interests in the ruling clique, have not only watered the plan for reviving the ailing SoEs, but also put the pressure on public coffer unchanged.

The government privatized 29 companies, out of 46 enlisted, in the past 5 years during its current stint; of which 26 have already been handed over to the private entrepreneurs and another 3 have been awaiting some final procedure. From the remaining 17 companies 16 are in the process of privatization and were supposed to be finalized by the end of this fiscal. In the current fiscal only 6 industries were handed over to private entrepreneurs.

Though the government has agreed in principle to offload a major chunk of its stakes in all SoEs, partly as a major move towards bolstering the capital market as well as to scale down an increasing pressure on the coffers, there was indeed little progress. It was planned that SoEs that are profitable and have no other hindrance to float their shares would be listed on the stock market shortly. Accordingly, shares of DESCO, a power company, was directly listed with DSE and began to be traded.

Among others Eastern Cables, Osmania Glass, National Tubes, Atlas Bangladesh, Eastern Lubricant and Padma Oil had been thought to be fully offloaded. But on a second thought the government retracted from this declared policy and decided not to offload majority shares of some profiting companies like Atlas, Eastern Cables, Osmania Glass, etc.

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The decision, however, coincided with the earlier one to take back most of its SoEs from the Privatization Commission and be vested with the respective ministries for running afresh. Meanwhile, revising its previous decision, Biman Bangladesh Airlines, the national flag carrier, had decided to offload 61% its share instead of 51% leaving the rest 39% to lie with the government. The Investment Corporation of Bangladesh (ICB) would take the decision as to when the share would finally be offloaded. However, till date the move saw no real progress.

However, there was some progress in privatizing the land ports. The government has handed over operations of 4 out of 13 land ports to the private sector on build-operate-transfer (BOT) basis for a period of 25 years to facilitate efficient and smooth handling of goods. There are plans to hand over the operations of other land ports to private sector in phases.

The government's largest privatization project, Rupali Bank, have caught steam. Seven companies from home and abroad have been short-listed as potential buyers of the state-run Bank. The PC approved an Expressions of Interest (EoIs) submitted by these companies for taking over Rupali Bank, that include Domestic Investors Consortium, Summit Industrial & Mercantile Corp, National Housing Finance & Investment Ltd & FMO Netherlands Development Finance Co, State Bank of India, Sabrie Capital Worldwide Ltd of Oman, Bank Muscat of Oman, Maa International Investment Ltd of Malaysia, Prince Bandar Bin Mohammad Abdur Rahman Al Saud of Saudi Arabia, and JJ Finance Ltd of UK. It is expected to hand over the Bank to the private entrepreneurs within the calendar year 2006.

SoEs slide unabated

The state-owned enterprises (SOEs) continued the perennial loss as usual. The loss has increased by 78% during the outgoing fiscal year over that of the last year. The single largest component of loss can be attributed to the Bangladesh Petroleum Corporation (BPC), which suffered from high oil prices in the international market and depreciation of taka against the dollar. SOEs have also seen a whopping 278% rise in classified loans at the end of March 2006 over that of June 2005. The 44 SOEs in the country have incurred a net loss of Tk45.07b in the current fiscal, which was Tk26.81b in the last fiscal. Some 17 of these SOEs have incurred a loss of Tk62.74b while the rest have made a profit of Tk17.67b. Among the 17 losing enterprises, BPC alone has incurred a loss of Tk34.07b against Tk28.99b in the last year. Losses in other losing concerns also increased during the said period, as is seen in the following table:

SOE	2004-05	2005-06
Power Development Board	Tk6.18b	Tk9.92b
Dhaka Electric Supply Authority	Tk330m	Tk1.51b
Bangladesh Chemical Ind. Corp	Tk1.73b	Tk2.84b
Bangladesh Biman Corp	Tk2.49b	Tk8.36b
Bangladesh Jute Mill Corp	Tk1.71b	Tk1.67b

SoEs have taken more loans in the current fiscal than in the past, and the amount of their defaulted loan has also risen in this fiscal. Till March 2006 the total loan of the SoEs stood at Tk144.89b that include defaulted loan of Tk51.27b constituting 35.4%. BPC's share in that loan was Tk82.85b including the defaulted loan of Tk42.10b. In June 2005 the total loan of the SOEs was Tk100.45b with defaulted loan of Tk13.55b. BPC had a share of Tk44.40b but no defaulted loan at that time.

Tax reforms continue

Tax reform continues to capture the core mindset for revenue improvement. At present only 1.9m individual taxpayers are on the list, another 0.2m are expected to add in the next year, taking the size to only 1.4% of the total population in 2006-07. To compel inclusion in the tax assessment list, holding a TIN (tax identification number) has been made mandatory for all firms, companies and institutions, individuals seeking certain business or social activities. Submission of return has been made compulsory for all TIN-holders.

Level of tax exempt income has been retained at Tk120,000 and all other features also remain unchanged. However, tax payers who would pay tax at 25% in assessment year 2006-07 and show income growth of at least 10% in the next year would receive 10% rebate on the additional tax. Besides, it has been made mandatory for the employers to pay salary to the directors or employees above Tk15,000 in cheque in order to get it as approved expenses. For tax rebate on investment in approved securities, limit has been raised from Tk0.2m to Tk0.25m. For self assessment, income for business has been raised from the existing 15% to 25% in the first year to get the tax benefits. Meanwhile, they cannot transfer ownership within 5 years. It has been proposed that the companies irrespective of whether they make profit or not would pay tax of Tk5,000 or at a rate 0.5% of the turnover, whichever is higher. The credit cardholders would pay an advance income tax at 3% on the paid bill. Tax exemption and rebates offered to the agriculture processing, jute and textiles sector that would end in June 2006 has been extended up to June 2008.

Tax evasion remains a persisting problem and various new measures are being proposed every year to curb the malice. The government loses Tk7.0b a year in various exemptions. During the year Tax Ombudsman Act 2005 has been enacted and the office is expected to start functioning in July 2006 to settle assessment disputes and claims.

Savings and investment rise slowly

Gradually savings has increased during 2005-06. The ratio of domestic and national savings to GDP has been increased to 20.3% and 26.6% respectively in the outgoing year. Ratio of national savings to GDP is expected to reach at 24.97% at the end of the fiscal year where the public sector has a share of 6.3% making contribution by the private sector to investment almost 75%. The revenue-GDP ratio at the end of 2005-06 is expected to reach at 10.8%, much below the corresponding government expenditure-GDP ratio of 14.9%. For the next year the ratio is expected to be around 11.3%.

Like the previous years, the credit flow in nationalized and government sectors fell, but increased in the private sector. While the contribution of the private sector to investment was below 60% in the early 1990s, this has grown to nearly 75% at the end of the year. In fact the entire investment drive has been in the hands of the private sector thanks to various steps taken in the past decade by the governments for creating an investment-friendly atmosphere across the economy.

The following table shows the investment-GDP ratio for past 10 years (as percentage of GDP):

Year	Total Investment	Public Investment	Private Investment
1996-97	20.72	7.03	13.70
1997-98	21.63	6.37	14.26
1998-99	22.19	6.72	15.47
1999-00	23.02	7.41	15.61
2000-01	23.09	7.25	15.84
2001-02	23.15	6.37	16.78
2002-03	23.41	6.20	17.21
2003-04	24.02	6.19	17.83
2004-05	24.53	6.21	18.32
2005-06[p]	24.97	6.30	18.67

Source: Economic Survey 2005-06, Ministry of Finance
p= provisional, extrapolated on first 10 months' figures

Exports have telling story

Exports have charted a new skyline during the outgoing fiscal year, as it is likely to cross the $10.0b mark for the first time. During the first 11 months of the year, exports fetched some $9,410m, which suggests that at this rate the annual earnings may reach as high as $10.25b. The periodic growth has been marked at 20.89%, quite telling if considered the challenging quota-free post-MFA situation in the apparels sector, the mainstay of the exports. The following table shows the export growth in past decade (figures in $m):

Year	Primary goods	Industrial goods	Total	Growth
1996-97	526	3,901	4,427	13.98%
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*	NA	NA	9,410	20.89%

**Up to May 2006*

Exports of almost all goods grew well except home textile, tea, ceramic tableware and handicrafts. Growth of woven garments export was 12%, that reached $3,647m during the period of 11 months over the same period of the last year. The sector alone constitutes 38.8% of the entire export basket. Knitwear products also continued to gallop, fetching over $3,395m and marking a 33.9% growth. This sector constitutes another large chunk of 36.0% of the basket. Apparels sector as a whole constitutes almost 75% of the basket making the entire export base too narrow and highly dependant on a few items.

The year was the last of the 3-year export policy adopted back in 2003. Though a hefty number of 350 recommendations by some 52 trade bodies have already been sent to the ministry of commerce for a new 3-year policy, the latter is yet to make any move to come up with a final shape. Exporters have recommended setting up a specialized export-import bank to ease the existing cumbersome banking procedures in export, withdraw all types of value added tax (VAT) for utility services, and demanded tax holiday facilities and low interest facilities for the export-oriented industries. The last export policy set a target of $9,600m for the last year, which is expected to be achieved by 104%.

The multi-fiber agreement (MFA) has expired during the second half of the last fiscal year, and Bangladesh managed the after-effects quite well. It had not only overcome the likely jolt, but also been able to increase its export volume across the world. The private sector tried hard to maintain the level of export amid apprehension of various perils, and have now settled at a consolidated position. The proposed budget did not apprehend nor has earmarked any fund for addressing the readymade garments sector. Besides, export-oriented firms have been imposed a 5% tax at source on cash subsidy as it is a net receipt to the exporters. However, there are some provisions for agriculture processing, jute and textiles sectors.

The composition of exports has begun to change again during the recent years. It is shifting away from reliance on traditional goods to more prospective new commodities that carves out a greater share of the potential foreign market. While overseas sales of labor-extensive traditional goods stagnated in many areas, often because of high competition in foreign markets, more than 29% rise in export earnings, on an average, from primary goods was recorded during the last two years. This suggests that the country is diversifying exports horizontally to get more access to the global market. The country now exports its products to 173 countries of the world, shifting their markets from American region to Europe where 53.4% of the total exports go. While the export basket had 51.4% share for jute goods and 38.50% raw jute in 1973, now it has 41.6% for woven garments and 32.60% for knitwear.

The private sector has played a crucial role in exploring and exploiting the international market potential thanks to its ability to take the advantage of opportunities and supportive official policy. And other sectors are emerging too with strong fitness and net earnings of those sectors might outweigh the earnings of the present days' traditional RMG and shrimp sectors in future. Earnings from agricultural and allied goods exports have risen by over 34% and export earnings from fertilizer and chemicals increased by above 13% in the last fiscal year. The country is now exporting poultry and dairy products, gems and jewellery, fruits, vegetable seeds, cosmetics, cashew nuts, spices, aromatic rice, pulses, potato, plastic goods, flowers, handicrafts, engineering goods, wood articles, wood corks, basket, artworks, antiques, optical, surgical and photographic instruments, etc. These items identified under 'others' in the export basket occupied only 0.9% of the total exports in 1973, which rose to 10.40% in 1983 and 11.40% in 2005, indicating that many new products are being continuously included in the export basket. This is expected to change the vulnerability of the exports in the coming years. However, the proposed budget gave no hints in strengthening such efforts.

Imports pace with exports hike

The government had a tussle over controlling the unbridled import and encouraging industrial units to raise production capacity by installing new machinery and procuring more raw materials. This forced the government to impose a larger margin on import of some goods, which were later removed.

However, import continued to soar despite state-imposed bars and currency crises created by the market. During the first 10 months, import reached $10,799m, against $9,832m in the same period last year. The flow indicates that annual volume would well exceed $12,900m. Import growth over the past decade can be seen in the following table (figures in $m):

Year	Primary goods	Raw mats	Capital goods	Total*	Growth
1996-97	615	1,180	333	7,152	2.95%
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	NA	10,799	9.50%

Source: Economic Survey 2005-06, Ministry of Finance
**Total includes other imports, p Figures up to April 2006*

The 2006-07 budget has proposed restructuring of customs and supplementary duties keeping the tiers intact as a part of tariff rationalization. The restructuring will reduce revenue, but would help to ease the inflationary pressure, if the middlemen are not allowed to reap the whole benefit of tariff reduction. The following table shows the restructured duty scenario:

Tariff on	Existing structure	Proposed structure
Customs duty on: Basic raw materials and capital machinery	0%-6%	0%-5%
Intermediate goods	13%	12%
Finished goods	25%	25%
Supplementary duty	35%	20%
	25%	15%

The proposed reduction of customs and supplementary duty has been designed to ease the import of nearly 4,000 goods, mostly essential. Though this might reduce the revenue to a substantial extent, widening the tax net might act as a hedge against the erosion. However, it can be also noted that the autonomous import liberalization may blunt bargaining edge in the bilateral and multilateral negotiations of tariff reductions in which Bangladesh is involved. For example, the average tariff in Bangladesh is much lower than that of India, but its exports to India continue to face tariff, non-tariff and para-tariff barriers and even antidumping or countervailing duty.

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 year workers abroad have remitted over $4,819m through the legal channel that marks a resounding growth of 25.23% over $3,848m in the last year.

Though it is not known exactly how much is remitted through illegal channels known as *hundi*, but some intelligent guesses suggest that the figure is close to $3.0b. The flow if continued every year would not only help maintaining a healthy foreign exchange reserve, but also provide funds for much sought after industrialization and development of the services sector. The following table shows the remittance performance for the past decade (figures in $m):

Year	No. of remitters	Amount	Growth
1996-97	228,000	1,475	21.20%
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%

Every year some quarter million people go abroad, especially to the oil-rich middle-east countries, Malaysia, South Korea, Brunei, USA, UK, Australia, Japan and western Europe. The following table shows the number and level of skill of these expatriate workers:

Year	Profes-sionals	Skilled	Semi-skilled	Un-skilled	Total
1997	3,797	65,211	193,558	118,511	381,077
1998	9,574	74,718	51,590	131,785	267,667
1999	8,045	98,449	44,947	116,741	268,182
2000	10,669	99,606	26,461	85,950	222,686
2001	6,940	42,742	30,702	109,581	188,965
2002	14,450	56,265	36,025	118,516	225,256
2003	15,862	74,530	29,236	136,562	254,190
2004	19,107	81,887	24,566	147,398	272,985
2005	1,945	113,655	24,546	112,556	252,702
2006	384	38,224	9,775	47,652	96,035

Source: Economic Survey 2005-06, Ministry of Finance

Despite remittances have become one of the major foreign exchange earning sectors of late, the government is yet to find out a suitable policy in this regard. Other regional countries have already started special immigration diplomacy to secure their current position as well as expand in the international labor market. But Bangladesh is yet to ponder on such moves. Experts suggest that the country can embark on bilateral labor agreements with the labor-starving and -importing countries, as did India, Pakistan and Sri Lanka, to cut a larger hole in the overseas labor market. There are some 117 such agreements across the world that secure long-term working environment for expatiates. However, Bangladesh has signed avoidance of dual tax treaty with some 24 countries.

Foreign exchange reserve has been a point to ponder by the present government as it started its stint with a low point of $1.05b in late 2001. Shortly it raised the limit, and in about two years was able to exceed $2.0b mark. Despite the pace of increasing exports and remittances was quite fast, the reserve could not reach its optimum level due to increasing import and profit repatriation by the telecommunications companies. The balance stood at $3,107m at the end of this May after meeting all dues to Asian Currency Union (ACU), the clearing house for the country, for imports, etc. The following table shows the foreign exchange situation in June in the past decade (figures in $m):

Year	Reserve	Growth	Equivalent import month
1996-97	1,719	(15.69%)	2.88
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

Source: Economic Survey 2005-06, Ministry of Finance

Since import duties have been reduced in the proposed 2006-07 budget, import of both essential and luxury goods are likely to shoot up in near future, and at the same time, exports may not grow as expected mostly because of a continuous price cut and stiffer competition. These would keep the reserve at a relatively weaker position for the coming year.

Currency stoops to greenback

Despite apprehension by the economists and analysts, local currency on the current account that was floated free since 31 May 2003, remained somewhat stable, though with a subtler intervention by the central bank. Before floating taka had been valued at 57.90 for a US dollar, which began to slide slowly, and in about a year crossed 59.75. However, other than slow erosion, the currency did not face any harsh correction until December 2005 when suddenly taka experienced its nadir at Tk75.00 per US dollar for a week and after regaining for a few days settled at 69.73 at the last day of FY2006. Since floating in June 2003 the currency has been depreciated by 21% on weighted average basis, with 8.58% since June 2005 alone. The following table shows the currency scenario vis-à-vis US dollar (based on the quarterly average) since floatation:

Period	US dollar	Period	US dollar
Mar 2003	59.90	Jun 2004	59.76
Jun 2003	59.90	Sep 2004	59.52
Sep 2003	58.42	Dec 2004	59.86
Dec 2003	58.47	Mar 2005	62.68
Mar 2004	58.93	Jun 2005	63.56
Jun 2004	59.75	Sep 2005	64.84
Sep 2004	58.42	Dec 2005	65.86
Dec 2004	58.48	Mar 2006	66.75
Mar 2004	58.94	Jun 2006	69.05

Ever since its floatation, the currency had the most precarious turbulence during this period. The situation aggravated when 12 PCBs began to hoard dollars ahead of a continuous fall of value that dried up the foreign exchange market. Later when the government began to intervene with adequate supply of hard currency the value began to go up, back to its previous positions plunging the concerned PCBs conceive a huge exchange loss.

FDI and aid taper defying investment incentives

Disputes over the amount of actual foreign direct investment (FDI) registered at the Board of Investment (BoI) and received by the central bank seem to have become a lasting issue. The BoI is inclined to overestimate the amount always out of an urge to exhibit its performance, while Bangladesh Bank cuts it down to a credible size.

The foreign aid dipped 40% in the first 6 months of the current fiscal year mostly due to slow implementation of project aid. Government received total $488m in foreign aid during July-December 2005 against $815m in the same period of the last year. Net foreign aid during the period also dipped as the government repaid $251m in principal amount of the previous loans to donor agencies. Net foreign aid during the said period stood at only $237m. In the same period of the last year, the government had repaid $241m principal amount and the net foreign aid was $573m.

Foreign investors have taken out more money than they have pumped into Bangladesh in the last 5 years mainly through profit repatriation and repayment of loans with foreign banks. Out of several hundred foreign investors in the country, a few mobile phone companies dominate the said outflow of capital, followed by oil and gas companies and foreign banks. Since 2001 investors who made total foreign direct investment (FDI) of $2,185m have eventually repatriated $2,744m. FDI records for 1996 to 2005 show the investors remitted $3,626m or 81% of their investment of $4,457m. The data shows that between 1996 and 2000, the country enjoyed a higher rate of FDI inflow with a lower outflow of profit and loan repayment. As per BoI, investors in telecommunications sector claim 36% of the total FDI, textiles 18% and chemical industries 7%, oil companies 18%, banks 10%, while power companies claim the rest 2%. The main outflow of money is taking place in the service sector, i.e. telecommunications and energy that does not export any commodity or employ larger manpower. The following table shows inflow-outflow situation for the past 5 years:

Year	FDI inflow	FDI outflow		% of outflow of inflow
		Profit	Loan	
2001	$355m	$175m	$188m	102.25%
2002	$328m	$195m	$243m	133.54%
2003	$350m	$355m	$229m	166.86%
2004	$460m	$338m	$372m	154.35%
2005	$692m	$418m	$208m	90.46%

Within the January-May 2006 period, investors repatriated $180m in profit. Economists suggest that the country must try to increase overall FDI inflow, especially in the manufacturing sector to offset negative impact on the balance of payment.

It is noted that project aid implementation under the ADP was very slow, as only 22% of the total project aid allocation was implemented during the period. The foreign-aided projects are getting delayed due to complexities in appointing consultants and delay in tendering process, while project directors are often found not efficient. Besides, intervention by political and local elites into the projects also delays implementation.

The following table shows the foreign debt situation during the past decade (figures in $m):

Year	Disbursed	Repaid		Balance
		Principal	Interest	
1996-97	745	316	147	15,025
1997-98	748	307	137	14,033
1998-99	867	373	166	14,843
1999-00	862	447	172	16,211
2000-01	865	438	159	15,074
2001-02	963	435	151	16,276
2002-03	1,075	452	156	17,411
2003-04	695	423	165	18,511
2004-05	1,257	434	185	18,777

Source: Economic Survey 2005-06, Ministry of Finance

Capital market ignored

In a disappointing move the finance minister, generally known as market-friendly, remained completely silent over the capital market that was awaiting some incentives in the budget. The issue of capital market is not only starkly absent in the budget speech, it was also ignored in consideration of tax measures. The market reacted with nonchalance, which became a trait for the past 6 months after a throbbing period of two years of bullish trades. It finally went in chill following the central bank decision to raise bank rates, shifting from its early monetary policy of expansionary to contractionary one.

The bourses witnessed a bearish trend during almost entire year, due to tight monetary policy of the government. At the yearend DSE General Index lost 350.17 points (21.81%) and closed at 1339.52 points from last year's 1689.69 points. Its All Share Price Index started with 1293.11 points and closed at 1040.46 points, losing 252.65 points (20.61%). While DSE-20, comprising blue chips, declined by 532.85 points (30%) to at 1310.85 points from 1843.71 points. Throughout the year turnover in DSE declined by 38.86%, and in CSE 31.97% and the market lost a total capital of Tk19.87b.

Although the market saw a bearish trend, a good number of securities entered the market compared to the previous years. Some 19 companies got listed with the DSE during the last fiscal year while only 5 companies made their way to the stock market in the previous fiscal year.

During the fiscal year some 15 new IPOs were launched in the market that raised Tk1,744m capital for the entrepreneurs. These were overwhelmingly received by the investors, both individual and institutional, which is manifest in the fact that they fetched an oversubscription amount of Tk12,626m or by 7.24 times. The zeal was later chilled down by the sudden rise of bank interests that drove a large portion of the investors to the fixed deposits. The table below shows the capital market performance scenario for past 4 years:

	2002-03	2003-04	2004-05	2005-06
General index (DSE)	830.46	1299.98	1713.17	1320.51
Total no of securities	260	267	277	297
Total no of cos.	241	248	239	254
Tot. issued cap (mTk)	36,081	46,304	66,392	77,624
Tot. mkt cap (mTk)	69,201	134,141	208,875	189,003
No of IPOs	8	10	5	16
Capital injected (mTk)	240	9,613	1,178	3,861
Trading volume (mTk)	30,597	20,308		

2005-06 figures are updated till 12 June 2006

During the year a new Chairman was appointed at Securities and Exchange Commission (SEC), the regulatory authority of the capital market, replacing the previous one, who had been lauded for taking some pro-market measures that gradually helped the market pick from the prolonged pensive condition after 1996 crises.

Nonperforming companies have been under stringent watch for the past few years. During the period 15 such companies have been delisted from the stock exchanges, out of a total 33 since 1994, mostly without any recourse to the shareholders who lost their investment money. Out of these securities only 2 companies have bought back their shares form the market, while the rest 31 simply vanished from the market with over Tk0.53b market capital. Some shares were sent to the over-the-counter (OTC) market of Chittagong Stock Exchange, but no good response was noted from any buyer. Because of an absence of necessary laws, the regulators are not capable of punishing any company for denying rights of a shareholder after delisting.

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. Other than a change in the accelerated depreciation for machinery (at 50, 30 and 20% instead of allowing 100%) there is no major shift from the existing tax structure for the corporate bodies that could encourage the capital market. Only a 10% rebate has been given to the diamond cutting enterprises, a business that is yet to surface as a major industry in the country.

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

Fiscal year	Private	Public		Listed Banks/FIs
		Listed	Nonlisted	
1996-97	40.0%	35.0%	40.0%	45.0%
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%

Items to be costlier

- Fixed phone set, as Tk100 duty has been imposed, and its connection has been imposed Tk800.
- All advertisement materials have been imposed a 15% duty.
- All tinned drinks have been imposed 12% duty instead of the existing 6%.
- Mango pulp have been imposed 25% duty instead of the existing 13%.
- Imported glucose has been imposed 15% duty.
- Raw materials of cigarette have been imposed 25% duty.

Items to be cheaper

- Import duty on mobile phone sets and VAT on SIM card have been reduced by Tk100 each.
- Depreciation facility on imported reconditioned cars has been increased from the existing 15% to 20%.
- Duty on imported sugar has been fixed at Tk5,000 per ton instead of 43.75%.
- Import duty on onion, pulse, garlic, turmeric, chili, ginger, etc has been reduced from the existing 13-20% to 5%.
- Import duty on transistor, semiconductor, compressor, etc used in the local electronic industry has been reduced from the existing 13% to 5%.
- Import duty on machinery used by the textiles, readymade garments, hosiery, label and terri towel, etc and waste water treatment plants has been reduced.
- Import duty on fertilizer, seeds, and agriculture inputs has been reduced.
- Import duty on all capital machinery of poultry and dairy industry has been withdrawn.
- Import duties and taxes on certain basic raw materials of plastic and melamine industry has been reduced from the existing 13% to 5%.

Reforms and reinstatements

Revenue and administration

- Lowest taxable income for firms and companies has been fixed at Tk5,000 or 0.5% of the total turnover, whichever is higher. The provision has already created grudge among the corporate sector as it goes against the basic principle of tax on incomes, and is likely to thwart the growth of the SMEs.
- The government has proposed to set up a tax ombudsman office shortly, which would reduce grievances of the taxpayers.

Banking and finance

- To encourage banks and nonblank financial institutions to provide credit to SMEs, the government has introduced a Tk1.00b Refinancing Scheme through Bangladesh Bank. The World Bank and the Asian Development Bank will provide $10m and $30m respectively to support the said scheme. Till date, some 3,000 SMEs have received credit under this scheme.

Infrastructure

- A Power Rehabilitation Program with an outlay of Tk1.00b financed from non-development budget has been under-taken for repair and maintenance of old power plants.
- An Energy Development Fund to promote the use of solar power and other renewable sources of energy has been created and Tk1.00b was allocated for this in FY2006-07.

Trade and tariff

- The existing 4-slabs structure of customs duties remains intact with lower tariffs.

Concluding thoughts

Despite there was much words about a voter-friendly budget, the proposed one remains largely traditionally pro-rich and trade-friendly that does not bring any noteworthy policy shift. The government also remains mostly stuck to the policy and budgetary measures taken in the previous years. This is partly because of the reality that the government has only 3 months in hand to implement a part of the budget, and partly because it did not intend to upset the consumers with new difficulties, as they are already suffering from a continuous inflationary pressure.

The budget seems to have an ambitious ADP, an unachievable revenue size, and porous yet huge block allocation of fund to undetermined projects and expenses. ADP also seems mostly untidy, as if the government is in a mood that it did not have the responsibility to implement it, and performance of that of the outgoing year is also quite poor. Though the revenue has achieved a telling growth in the current year, the target set for FY2006-07 remains largely unachievable given the existing corrupt collection system.

The incentives for the black money holders and diverting them to an unproductive sector like vehicles, lands and apartments from the capital market or the real sector and absence of an attempt to attract them to the productive sector like industries and commerce was a blow to the genuine taxpayers. It would also allow the prime lands to slip into the hands of people who earn through unethical means. This provision not only hints party elite who possess such money, but also undermines the government's sincerity of treating citizens with due justice, especially to the good ones.

Absence of the capital market issues in the budget speech also suggests that the government has no focus on the core development questions of the economy. Blanket reduction of duties and supplementary taxes on a vast number of imported goods, as a measure to contain inflation, would fail to bring any good to general consumers as import of essential goods has already been grabbed by some trade syndicates allegedly close to the ruling clique.

The few steps to reduce duties and tax on some goods and increase on some other are likely to have little impact on the revenue collection or on the inflation situation. The benefits may not reach the consumers, but would swell the pockets of the intermediary traders, as there was no measure to reign in these people. Most government measures fall flat because of such intermediaries, who still can go without punishment.

The proposed budget would not bring much change in life of the citizens, but might appear a burden to the forthcoming non –party caretaker and the next elected government. The next elected government would have to struggle to implement the budget, as they would have little time to propose a new, while having unwillingness to comply this. And whosoever come as the guards for the next stint of five years would simply need to tailor before they decide implementing any part of it.

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