BANGLADESH

National Budget 1999-2000

11 June, 1999

Much debated 5.20% GDP growth

Government has revised GDP growth in 1998-9 to 5.2% from the early estimate of 3.8%, basing on healthy boro harvest of 10.5m MT, a 29% growth, against 8.137m MT in the previous year. However, according to the latest target set by the Ministry of Agriculture, it was 9m MT, a 10% growth. We derive an impact on GDP growth by 1.74% and 0.63% respectively for 29% and 10% increased boro production. This does not substantiate the government claim.

Negative impacts of last deluge have been moderated

The last deluge destroyed 1.8m MT aman production. Most of the medium and small enterprises were affected. However, government's massive Tk 26 billion agri-credit program, commendable effort in rehabilitating flood-hit infrastructure, expedited fund mobilization and favorable response from international donors have helped in making a remarkable recovery.

Still poor industrial and agricultural growth

Industrial growth rate has been registered at a low 2.5% in the outgoing fiscal year (1998-9) attributed to the last deluge. Ready-made garments and small & medium enterprises are the most affected. Though agriculture sector was also badly affected, it has revived due to higher boro and wheat production.

Investment in the gas sector is remarkable

Mining sector has registered a high 21.5% growth due to rapidly increasing foreign direct investment in the gas sector. We expect such growth to continue in the incoming fiscal year as new gas fields are being contracted out to foreign companies.

Highest inflation since 1992

Prices of food items have registered almost double digit jump by 9.78% while overall inflation has reached 8.79% from previous year's 6.38%. This is attributed to food shortage due to the deluge and high cost of import due to frequent devaluation. This year Taka has been devalued by 4.54%.

Declining forex reserve

Foreign Exchange reserve has declined by $156 million to $1.514 billion, equivalent to 2.3 months' import. A poor growth of 2.99% in export against 7.7% in import has made significant negative impact on reserve situation. We fear further deterioration as full-scale payment against power and gas purchase from foreign companies falls due. Remittances from abroad, however, have made positive contribution, registering a growth of 8.52%.

Slow pace of privatization

Three state-owned textile mills and Chittagong Steel Mill are under process of liquidation. Khulna Shipyard has been handed over to Bangladesh Navy. However, overall progress of privatization is far behind the target. Draining of government resources by the loss making state-owned corporations is continuing. This budget has proposed Tk 2.5 billion for repaying their overdue loan and procuring raw material. They have incurred Tk 13.45 billion loss in the outgoing fiscal year.

New industrial development fund

$100m (equivalent to Tk 5b) Industrial Development Bond floated in UK to collect funds from NRBs and more Tk 5b to be collected locally through government guaranteed bonds, can infuse fresh blood to the financial sector, burdened by a huge bad debt. The funds have created optimism about industrial development among economic and financial experts. If default in repayment can be curbed by proper monitoring after disbursement, this can lead us to a healthy industrial growth.

Still struggling to curb power shortage

Another 100MW private-sector operated power plant, after the first one of similar capacity at Khulna, has been installed at Baghabari and additional 260MW capacity has been installed as 6th unit of Ghorasal Power Plant. However, the country is still suffering from a power shortage of more than 500MW. More 200MW is expected to be added in the incoming fiscal year. We are less optimistic about any significant result in next two-three years, from experience of slow pace of progress in the sector.

Incentives for export diversification

As our export is heavily dependent upon ready-made-garments (RMG), risk of sudden drop in export is high. Therefore, export diversification has long been stressed by economic and financial experts. Cash incentive on export of artificial and natural flower and local cottage-product "Nakshi Kantha", a kind of hand-sewed rug can open huge prospect like that of RMG. Cash incentive on RMG and jute export is to be continued. Additionally 10% cash incentive has been proposed for leather footwear export. Cash incentive on export of Zamdani (Bangladeshi handloom-made fine fabric), which was suspended for last several months, is expected to be reintroduced.

Strengthening capital market through institutionalization but few additional taxes

Institutionalization of the capital market is being stressed by the government. Efforts have been made for creating a Central Depository System (CDS) for streamlining trading at the bourses and enhancing authentication. Proposal for amending the Trust Act to allow provident and pension funds to invest in the capital market is under scrutiny. A bill is expected to be placed in the current session of the parliament in this regard.

The following tax provisions have been proposed regarding capital market:

- Currently 10% tax on dividend is deducted at source and considered as fully paid for the dividend earned. For dividend income upto Tk 10,000, tax is not deductible at source. This limit has now been raised to Tk 30,000. However, tax deduction at source will no more be exempt from further taxation.
- 10% tax on bonus shares at source has been newly imposed in the budget. However, practicality of such move is questionable.

Demand for widening tax rate differential between listed and nonlisted companies have not received government's nod in the budget.

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Key Issues

- **Budget size Tk 342.92b**
- **Revenue collection target Tk 241.51b**
- **Proposed current expenditure Tk 178b**
- **Size of ADP Tk 155b**
- **Contribution of local resources to ADP 50.5%**
- **Budget deficit 120.27b**

Increasing tax collection through widening of tax-base, but reducing tax rates is a key concept of the budget. Tax concessions, reducing discretion of tax officials and narrowing tax-disparities for similar products have been proposed to enhance revenue collection by Tk 10.5b over previous year.

Total revenue collection is targeted at Tk 241.51b which is 22.5% over revised estimate of collection of the outgoing fiscal. Current expenditure of Tk 178b, 6.2% over revised estimate of the outgoing fiscal has been proposed. Tk 6.8b extra is estimated to be incurred due to enhanced salary and allowances. Size of Annual Development Program (ADP) has been increased by 10.7% at Tk 155b and contribution of local resources to ADP has been assumed to be 50.5%. The Budget has a deficit of Tk 120.27b, slightly less than revised deficit of outgoing fiscal.

Education continues to get the highest priority with 15.02 % allocation of the budget. Defense, health & family planning, power and water resources follows getting allocation of 8.74%, 7.35%, 5.16% and 2.96% respectively.

Changes in tax provisions

- Pre-shipment inspection for all kinds of import has been made compulsory to streamline import procedure and determination of tariff value.
- Floor-limit for taxable income of individuals have been raised to Tk 75,000 from Tk 60,000. Minimum tax rate remains at 10%.
- Minimum import duty reduced from 7.5% to 5% and maximum from 40% to 37.5%
- VAT net has been expanded to 31 additional products and 14 service categories
- A number of businesses have been brought under net of tax-at-source and Advance Income Tax (AIT).

Incentives to domestic industries

Leather footwear industry has received attractive incentives and concessions. Provision for 10% cash incentive on leather footwear export along with duty concession on import of chemicals and pigments can be a boost for footwear export.

Import of textile machinery has been made duty free with exemption of development surcharge and AIT on cotton import. Duty on polyester yarn and chemicals and pigments used in the textile sector has been sharply reduced. Excise duty on handloom products has been exempted. Agrobased and fruit processing industries have received significant duty concessions.

Duties on raw materials of plastic industries (excluding those of plastic shopping bags) has been reduced. Dairy, poultry and fishery have been exempted from VAT. Additionally, rubber and nonsteel metal industries, and manufacturers of electric appliance and electric cables will be benefited from duty concessions.

Budget at a Glance

Tk Billion

	Budget 1999-2000	Budget 1998-9 Revised	Budget 1998-9 Original
Revenue			
Tax	186.35	158.55	166.17
Non-Tax	55.16	38.45	41.59
	241.51	**197.00**	**207.76**
Expenditure			
Current Expenditure	178.00	167.65	159.37
ADP	155.00	140.00	136.00
Non ADP Projects	1.97	1.51	0.00
Other Non-ADP Capital Expenditures	4.93	3.91	7.60
Domestic Loans & Advances (Net)	-4.57	-5.23	-4.40
Net Outlay for Food	2.24	4.41	-0.40
Non-ADP Food for Works (FFW)	5.71	3.06	2.79
Repayment of Foreign Loan	18.50	16.75	14.75
	361.78	**332.06**	**315.71**
Budget Deficit:	**120.27**	**135.06**	**107.95**
Budget Deficit Financed By:			
External Sources			
Foreign Grants	32.69	35.52	29.90
Foreign Loan	50.91	53.32	43.92
	83.60	**88.84**	**73.82**
Domestic Sources			
Term Debt (Net)	1.79	-5.66	-3.14
Budgetary Surplus	2.50	1.84	1.84
Departmental Financing (T&T Bond)	1.71	1.50	1.50
Public Account Transactions (Net)	30.67	33.89	33.93
	36.67	**31.57**	**34.13**
Extra Financing from Banking System	0.00	14.65	0.00
Total Financing	**120.27**	**135.06**	**107.95**

Brought under tax-at-source & Advance-Income-Tax

- Interest on savings instruments - 10%, interest income upto Tk 25,000 will be exempted
- Full length feature film - 5% of estimated cost when applying for censor clearance
- Real estate companies - Tk 200 per sqm at the time of getting approval of plan from concerned authorities
- Imports - 5% of LC commission to be deducted at source by the banks
- Leasing - 3% of lease rental to be deducted at source by the lessee company
- Motor vehicles[1] and Inland vessels[2]

[1]For personal use over 1000cc - Tk 2000-6000 at the time of renewing fitness; over 2000cc cars and jeeps - 5% of cost at the time of registration
For rental i.e. bus, mini-bus, truck and tank lorry, prime-mover – Tk 1000-7000 at the time of registration. These taxes are in addition to estimated income tax to be paid in advance at the time of registration at a rate based on cost of vehicle. This budget requires that the cost be 25% higher than that is shown in paper.

[2] Similar provision with Tk 7,500-100,000 at the time of registration in addition to advance income tax based on cost of the vessel with 25% extra.

Brought under VAT net

Services

- Electricity
- Professional service of physicians and lawyers;
- Professional service by engineering and architecture firms and interior designers and decorators
- Tickets for watching international tournaments
- Rent-a-car except taxi cabs
- Rail journey in air-conditioned cabins
- Health club and fitness centre; satellite channel distribution and advertising.

The following products have been brought under VAT net at retail level:

Products

- Spectacles
- Greetings and invitation cards
- Tires and tubes of motor vehicles
- Storage batteries other than drycells
- Electric accessories and spares
- Electric cable and marble and granite stone.

To be benefited

- Footwear
- Textile
- Agrobased and fruit processing
- Dairy, poultry and fishery
- Rubber and nonsteel metal industries
- Melamine and ceramics
- Private hospitals
- Electric appliances and cables
- Plastic industries except those producing plastic shopping bags
- Road transport (public bus)
- Shipping (locally registered companies).

To be negatively affected

- Three wheelers (two stroke)
- Plastic shopping bags
- Imported plastic utensils
- Imported ball point pens
- Imported paper pulp & paper products
- Ship-breaking

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