B A N G L A D E S H

National Budget 2013-14

21 July, 2013

Grandiose charade to enthrall voters with an eye on the poll; racking up embellished revenue target, financing deficit and maneuvering development expenditure spew daunting challenges

Budget Highlights

- Budget size — Tk2,224.91b — ↑ 16.04%
- Budget deficit — Tk.550.32b — ↑ 5.69 %
- Revenue collection target — Tk1,741.09b — ↑ 19.50%
- Revenue Expenditure — Tk1,344.49 — ↑ 20.39%
- Annual Development Plan — Tk658.7b — ↑ 19.76%
- Projected GDP growth — 7.2% — -
- Projected Inflation — 7% — ↓ 0.5% points

NATIONAL BUDGET AT A GLANCE: FY2013-14

	Budget 2013-14	Revised 2012-13	Budget 2012-13
Revenue:			
NBR Tax Revenue	Tk1360.90b	Tk1122.59b	Tk1122.59b
Non-NBR Revenue	Tk51.29b	Tk45.65b	Tk45.65b
Non-Tax Revenue	Tk262.40b	Tk228.46b	Tk228.46b
Foreign Grants	Tk66.70b	Tk52.80b	Tk60.44b
Total Revenue	Tk1741.29b	Tk1449.50b	Tk1457.14b
Expenditures:			
Non Dev. Rev. Exp.	Tk1134.71b	Tk1028.92b	Tk994.96b
Non-Dev. Capital Exp.	Tk209.78b	Tk77.35b	Tk121.79b
ADP	Tk658.70b	Tk523.66b	Tk550.00b
Net Outlay for Food Operations.	Tk2.63b	Tk1.83b	Tk3.58b
Structural Adjustments	Tk0.00b	Tk0.00b	Tk0.00b
Non-ADP FFW	Tk14.57b	Tk14.93b	Tk14.39b
Dev. Projects Financed From Rev.	Tk19.34b	Tk8.01b	Tk12.25b
Net Loans & Advances	Tk155.04b	Tk207.65b	Tk195.68b
Non-ADP Project	Tk30.14b	Tk30.91b	Tk24.73b
Total Expenditures	Tk2224.91b	Tk1893.26b	Tk1917.38b
Net Deficit	-Tk483.62b	-Tk443.76b	-Tk460.24b
Deficit as a % of GDP	**-Tk4.60b**	**-Tk4.80b**	**-Tk5.00b**
Financing:			
Net Foreign Borrowing	Tk143.98b	Tk119.03b	Tk125.40b
Foreign Grants	Tk237.29b	Tk199.51b	Tk203.98b
Domestic Borrowing	Tk339.64b	Tk324.73b	Tk334.84b
Total Financing	Tk483.62b	Tk443.76b	Tk460.24b

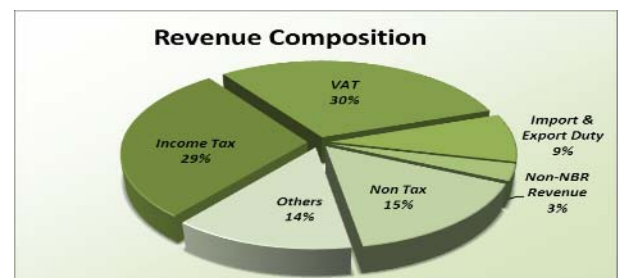
Too mammoth to wield

The national budget for the fiscal year 2013-2014, the final one of current tenure of the incumbent government was placed in the Parliament with a profuse expenditure target at Tk2224.91b which is 18.7% of the Gross Domestic Product (GDP). The budget, placed in the election year, portrays overly optimistic revenue target riding high on spending and bloated development allocations; augurs a last gasp effort to please and sway voters with the opportunity to skirt onus for any non-implementation to the newly elected government. The GDP growth rate for FY2013-14 in the budget has been projected at an ambitious 7.2% while the inflationary pressure is pledged to be curbed within 7%.

The national budget FY2013-14 has been rolled out on the back drop of a year that experienced mixed fortunes. On one hand robust remittance inflows, modest export growth and declining imports boosted foreign exchange reserves, aided appreciation of the Taka and improved balance of payments; partially restoring macroeconomic stability and providing import security and stabilization. While on the other hand adverse domestic factors in the form of restrained private investments, dithering infrastructural development and low employment generation amid unrelenting political turmoil resulted in slow economic growth for a second consecutive year while commoners' endured erosion of purchasing power as domestic savings slipped to lowest level in a decade. Exposure to malpractices and scams afflicting the financial sector aggravated default loans resulting in high interest rate and subdued private sector credit growth. Faltering image of the country on the back drop of Padma bridge corruption allegations and recent Rana Plaza tragedy dished out challenges on the external fronts which may bear further implications for the economic performance in the upcoming fiscal year.

Illusive revenue goal

Revenue mobilization from internal sources continued to be the favored option for the government to finance the hefty budgetary expenditures. Budget for the FY13-14has set a revenue target (excerpt grants) of Tk1674b (14.1% of GDP). Increasing the weight of National Board of Revenue (NBR) tax for yet another year to 21.23% (21.53% in budget FY13) the budget has planned to procure Tk1412.2b (11.9% of GDP) from the tax paying sources. The rest Tk262.4b (2.2% of GDP) is aimed to be collected from the non-tax revenues. Income tax and Value-Added Tax (VAT) jointly are expected to provide the lion share of Tk982.53b. The target is Tk224.9b higher than the previous year's target. The projected Tax to GDP ratio for FY14 is 11.88% that is currently 11.22%. The collection targets for non-NBR and Non-Tax revenue sections also signified increase of Tk51.3b and Tk262.4b by 12.4% and 14.9%.



Amid persistent political upheaval and dull economic outlook, the major tax paying businesses are on a tightrope. As a result, the NBR has fallen short by Tk40.34b from its target in the last fiscal year. Moreover, the government has increased the taxable income slabs and made some major alteration to tax and rebate system that might affect the revenue collection to some extent. At this backdrop, the revenue collection target

appears to be too ambitious to realize. The government, nevertheless, believes the new tax slabs and reform measures including expansion of tax offices will eliminate irregularities and include 0.3m new tax payers this year under the tax net and thus drive up the tax revenue. To generate more revenue, attention should be given to fix the loopholes in the existing policy that provides the businesses room for tax evasion. Moreover, by mitigating the administrative bottlenecks of the profit-making State-owned Enterprises (SoEs) like Bangladesh Telecommunication Regulatory Commission (BTRC) and Bangladesh Oil Gas and Minerals Corporation (BOGMC) the government can secure greater revenue collection from non-tax sources.

All about spending

Particulars	2013-14 P		2012-13 P	2012-13 R
	Allocation	Share (%)	Share (%)	Share (%)
Interest	*Tk 277.43b*	12.5	12.2	12.3
Education & technologies	*Tk 250.50b*	11.3	11.1	11
Public Administration	*Tk 236.16b*	10.6	14	14
Miscellaneous Expenditures	*Tk 211.35b*	9.5	6.3	3.3
Transport & Communication	*Tk 200.06b*	9	6.8	6.8
Subsidies	*Tk 154.43b*	6.9	7.5	8.9
Local Govt. & Rural Dev.	*Tk 147.11b*	6.6	7.4	7.9
Defense	*Tk 124.22b*	5.6	6	6.1
Social Security & Welfare	*Tk 114.28b*	5.1	5.3	5.5
Energy & Power	*Tk 113.43b*	5.1	5	5.3
Public Order & Safety	*Tk 92.28b*	4.1	4.2	4.5
Health	*Tk 90.74b*	4.1	4.7	4.5
Agriculture	*Tk 80.83b*	3.6	4.3	4
Pension	*Tk 66.91b*	3	2.3	2.9
Industrial & Economic Services	*Tk 31.15b*	1.4	1.5	1.5
Recreation, Culture & Religious Affa	*Tk 17.05b*	0.8	0.8	0.9
Housing	*Tk 16.96b*	0.8	0.7	0.7
Total Budget Expenditure	***Tk2,224.91b***	**100**	**100**	**100**

Resource allocation pattern of the election year budget not only portrays the government's persuasion of swaying votes but also demonstrates management imprudence. Interest expense, the cost of incautious government borrowing from the banking channel, dominates the total budgetary allocation with 12.5% share in the total expenditure. In addition, the budget has set aside nearly 6.9% of its outlays for capital investment, primarily to bail-out the troubled state owned banks. Higher attention to the unproductive sectors is trenching rational requirements of the priority sectors like agriculture, health and defense. Thus is hazardous for economic and social growth. Moreover, despite widespread controversy the government made generous allocation for constructing "Padma Bridge", which nonetheless is subject to substantial degrees of uncertainties. For a developing economy like Bangladesh, large budget outlay could have been affirming if the revenue-expenditure balance and the quality of expenditure were ensured.

Deep deficit proposition

In all the fiscal budgets proposed by the incumbent government deficit were projected at 5% of the Gross Domestic Product (GDP). But, this time the government had to accede to the International Monetary Fund (IMF). Hence, breaking the tradition, the government estimated the budget deficit for FY14 at 4.6% of the GDP, though IMF suggested it to be at 4.3% of the GDP. The deficit target for FY14 is thus projected to be Tk550.32b. However there remains a risk of further increase considering the over ambitious revenue collection target.

	Budget 2013-14	Budget 2012-13 ®	Budget 2012-13 (P)
Overall Deficit	Tk550.32b	Tk496.56b	Tk520.68b
% of GDP	4.60%	4.80%	5%
Deficit Financing:			
Domestic Borrowing	Tk339.64b	Tk3.25b	Tk334.84b
Net Borrowing from the Banking System	Tk259.93b	Tk285b	Tk230b
Non-Bank Borrowing	Tk79.71b	Tk47.00b	Tk74b
Net Foreign Borrowing	Tk143.98b	Tk119.03b	Tk124.4b

As the foreign sources with relaxed conditions are becoming arid and the sovereign saving tools are under performing, dependency on the banking system and hard loans (the costlier source) is on the rise. In FY12, public borrowing from the domestic channel skyrocketed as government failed to mobilize fund from other channels. Excessive government borrowing for FY12 pushed inflation further, created liquidity crunch in the banking system crowding out private sector then. Gratifyingly, understanding impact of the policy attempts of the previous year, in the first three quarters of the outgoing fiscal year the government managed to keep the deficit at a reasonable level and dealt the financing sensibly. Deficit financing during the period was Tk174.47b (1.68% of the GDP), 32% lower than that of FY12. The internal sources provided 48.75% e.g. Tk86.79b of the total deficit budget whereas the remaining 50.25% e.g. Tk87.68b was borrowed from the external sources. But from the fourth quarter of the year the government buckled up to meet the budget and election pledges. Collection from sales of the state-owned saving certificates was only 9% of the year's target, even though the net sales increased from Tk4.78b in Jul-Apr of FY12 to Tk6.79b in the same period of FY13. Foreign aid disbursement, on the other hand, grew by 36% to $23.10b in the Jul-May period of FY13. Naturally the banks had to fill up the shortfall. In the last fiscal year overall government borrowing from the banking channel soared to Tk247.76b, 15.45% higher than last fiscal year's borrowing.

Considering slump in net borrowing from savings certificates the government has set next year's target at Tk49.71b. After the hike in rates of return the saving tools are now quite lucrative investment options for the savers. So, even if the 5% at source tax is still effective and many savers are divesting their investments in the backdrop of increased cost of living, the next year's target appears more achievable than the current year's target of Tk74b. Realizing Tk143.98b foreign aid might also not be that challenging if the current pace of utilization is maintained. The enigma actually lies with the net borrowing target from the banking system. The budget set a target to borrow Tk259.93b from the banking system, which is close to the total paid-up capital of the scheduled banks. In addition, the financial system (other than banks) might have to contribute in the Tk30b non-bank borrowing requirement. The economy is already bearing the air-stream of the previous years' excessive bank borrowing; next year's target will make the condition more perplexing. Furthermore, the financial system is recently going through a hard time. At this point the banks' capability to lend the government is also questionable. Reliance on costlier financing will also increase the interest expense. In FY14 an amount of Tk277.43b which is 17.9% of the revenue expenditure or 12.5% of the budget outlay will be

used to pay off interest. Allocating largest fund for interest payment would confine outlay for productive and emergency purposes. Moreover, the side effects associated with the financing options are irreversible. Consuming such costly (both tangible and opportunity costs) fiscal deficit would be worthy only if the fund mobilized for deficit financing are channeled to the productive sectors.

Election sweetener tax policy

a) Individual Income Tax Rate:	
Income Slab	**Applicable Tax Rate**
The first Tk220,000	0%
On Next Tk300,000	10%
On Next Tk400,000	15%
On Next Tk300,000	20%
On the balance	25%
b) Corporate Tax Rate:	
Mobile Company:	
Publicly Traded	40%
Other Than Publicly Traded	45%
Cigerette Company:	
Publicly Traded	40%
Other Than Publicly Traded	45%

** Tax-free income limit for the senior citizens and individual women tax-payers has been revised upwards to Tk250,000, while that for physically challenged individuals to Tk300,000.

** The budget has proposed minimum tax of Tk3,000 for taxpayers living under city corporations, Tk2,000 for taxpayers living in municipal areas and Tk1,000 for taxpayers living in other areas including villages.

- The investment ceiling for individual taxpayers in certain cases has been raised from Tk10m to Tk15m and a 15% tax rebate instead of existing 10% has been proposed for such investments
- Existing duty on import of some capital goods and intermediate goods has been reduced from 3% and 12% to 2% and 10% respectively
- 10% surcharge has been proposed on net asset of the individual tax payers worth Tk20m-Tk100m and 15% on net asset over Tk100m
- Dividend Income of Tk10,000 has been made Tax-free
- 15% tax rebate has been proposed for investment in mutual funds
- To motivate new companies to be listed in the capital market, the existing 3% advanced income tax (AIT) on shares issued at premium during Initial Public Offering has been exempted
- The AIT imposed on the issuance of bond has been withdrawn
- Annual turnover worth Tk3m for Small and Medium Enterprise has been made tax free from existingTk2.4m
- Tax rate on hatchery, dairy farm and dairy industry has been slashed from 5% to 3%
- Reduction of Import duty on pharmaceutical machineries from existing 12% to 5%

The proposed budget for FY14 embraces a number of changes for both direct and indirect taxes to be imposed in the coming fiscal year.

With a view to tackle the prevailing inflation, increased cost of living and minimizing the tax burden on the general taxpayers, the proposed budget has raised the minimum ceiling of tax-free income to Tk220,000 from the existing Tk200,000 along with setting minimum tax limit based on the geographical location of the taxpayers. To revamp the capital market, the budget contains a bunch of tax measures. The corporate tax segment, however, has been left with less surprises although according to the experts high corporate taxes is driving out the foreign investors from Bangladesh. Moreover, the budget raised the tax imposed on both publicly traded and non-traded tobacco companies and publicly traded telecom companies. The fresh imposition is expected to generate higher tax revenue.

Duty on imports of shipbuilding accessories and raw materials has been reduced from existing 25% to 5% to reinforce the budding local shipbuilding industry. Moreover, duties imposed on the poultry, dairy and hatchery industries have been slashed to encourage local entrepreneurship. This budgetary attempt to facilitate the local industries has been welcomed.

The 'election year budget', naturally had large alterations in taxes to please the voters. These alterations could make the task of NBR in attaining targets much harder. Besides, deliberate shift from income tax to VAT for generating higher revenue might not be beneficial unless the legal loopholes are eliminated. Moreover, the regressive nature of VAT e.g. flat rates for rich and poor might be discouraging for the tax payers. Furthermore imposition of tax on both income and expenditure is trenching the disposable income of the general public, which in turn might affect investments.

Not very convincing growth projection cast skepticism

The GDP growth rate for the FY2013-14 has been set at an ambitious 7.2% for the second consecutive year despite falling short in the previous two years. As the gap between realized and targeted growth rate continue to widen, the Sixth Five Year Plan (SFYP) to alleviate poverty line and the government's target of achieving higher growth trajectory for attaining the middle income status by 2021 has taken a severe blow. According to the provisional estimate revealed by Bangladesh Bureau of Statistics (BBS), GDP growth for the current fiscal year is expected to be 6.03%, well short of the target by 1.17 percentage points, in line with the development partners' estimates where growth rate projection hovers below 6%. Mismanagement on macroeconomic fronts coupled with slumbering private investment in the face of prolonged political unrest and financial sector scams suppressed the country's economic growth. Provisional estimate of BBS revealed that the agriculture sector, which contributes about 19% to the GDP, posted a growth of mere 1.18% in the current fiscal year compared to 2.46% in the last fiscal year with crop production target unlikely to be met. Though construction sector registered 8.1% growth compared to 7.6% in the last fiscal year both service and manufacturing sector along with wholesale and retail trade sub-sectors endured decline in growth in the current fiscal year. In FY2012-13, total investment as a share of GDP marginally improved to 26.8% from 26.5% in the previous fiscal. In order to facilitate 7.2% growth in FY 2013-14 the required total investment as a share of GDP will have to be increased substantially provided the incremental capital-output ratio remains at the same level. The quixotic growth projection in FY2013-14 just like in previous year may once again prove to be unrealistic in absence of clear guidelines in the national budget and

Unique Trade Center (UTC), Level 6 (SW), 8 Panthopath, Karwan Bazaar, Dhaka 1215, Bangladesh
Tel : +(880-2) 913 6432–4 (Three Lines), Fax : +(880-2) 913 6162–3 (Two Lines)
e-mail : hello@aims-bangladesh.com; web: http://www.aims-bangladesh.com

continued political uncertainties as general elections looms in the horizon.

Sight on lower inflation

Despite repeated hike in energy prices and increasing food prices the government has managed to trim down the average inflation of the recently concluded financial year to 7.7% slightly higher than the government target of 7.5%, thanks to the monetary stances and rational deficit management.

2012-13	Base (2005-06)			Base (1995-96)		
	General	Food	Non-food	General	Food	Non-food
Jul	5.21	2.23	9.94	8.03	6.3	11.54
Aug	4.97	2.25	9.29	7.93	7.1	9.59
Sep	4.96	1.75	10.18	7.39	6.16	9.95
Oct	5.86	2.51	11.28	7.22	5.57	10.46
Nov	6.55	3.94	10.68	7.41	6.45	9.31
Dec	7.14	5.28	10.03	7.69	7.33	8.43
Jan	6.62	5.02	9.09	7.38	7.21	7.79
Feb	7.84	7.45	8.44	7.87	8.34	7.12
Mar	7.71	7.5	8.04	7.74	8.3	6.79
Apr	8.37	8.68	7.91	7.93	8.57	6.81
May	7.98	8.13	7.76	7.86	8.4	6.93
June	8.05	8.26	7.75	7.97	8.53	6.99

For fiscal year 2013-14, the government targets to bring down average inflation to 7%. Considering factors like higher public spending (thus increased bank borrowing) for the upcoming national election, Supply chain disruption, slumping agricultural production, mounting house rent, further hike in energy prices, the inflation target seems quite challenging to be achieved. Moreover, the future increase in VAT would also fuel the prices further. According to a study of Centre for Policy Dialogue (CPD), purchasing power has diminished by 38% over the last four years. Falling purchasing power is inflicting the saving pattern. Many of the savers are going for early encashment to meet basic expenses. Such change in savings pattern could be endangering domestic investment and overall economic growth.

Bloated ADP

A gigantic Annual Development Program (ADP) budget of Tk658.7b (5.5% of GDP) has been proposed for FY2013-14, which is 19.76% higher than the original ADP of FY2012-13 of Tk550b. Of the total ADP allocation, Tk413.07b (62.07%) would be financed from local sources while the rest Tk245.63b (37.30%) had been planned to be financed from project aids, loans & grants. The transport sector got the highest allocation (23.34%) as Tk68.52b has been allocated solely for Padma Bridge under this sector, resulted in lesser ADP allocation for other development projects. Only 50 new projects are going to be included under this proposed ADP along with 996 carried forward and 130 projects of the autonomous bodies.

Sector wise ADP allocation	FY2013-14		FY2012-13	
Transport sector	Tk153.74b	23.34%	Tk77.63b	14.30%
Power sector	Tk90.53b	13.74%	Tk79.11b	14.57%
Education and religion sector	Tk87.66b	13.31%	Tk63.35b	11.67%
Rural development and rural institutions	Tk66.22b	10.05%	Tk61.53b	11.33%
Infrastructure planning, water supply and housing sector	Tk54.54b	8.82%	Tk53.35b	9.83%
Health, nutrition, manpower and family welfare sector	Tk42.40b	6.44%	Tk46.35b	8.54%
Agriculture sector	Tk37.21b	5.56%	Tk51.25b	9.44%

Historically ADP implementation rate remains low in the first three quarters of a fiscal year due to the classical bottlenecks like inefficiency of the implementation agencies, poor inflow of foreign assistance, skilled manpower shortage etc. that propels a hurried implementation of poor quality in the fourth quarter. But in the outgoing fiscal year election tempted implementation work was at record high during the first nine months, though it fell drastically from April mainly due to political unrest. According to the Ministry of Planning, ADP implementation rate in Jul-May of FY13 stood at 63% which was 70% during the same period of FY12. Due to this poor implementation, ADP target for FY2012-13 was revised down to Tk523.66b from the original Tk550b. Hence doubts loom large regarding realization of the over-ambitious ADP target in the election year.

Subsidy cringes in donor duress

The Awami League-led government in its final budget for FY2013-14 earmarked Tk290b as total subsidy, which is 23% lower than the total allocation in the proposed budget last fiscal year. This brings down the government's subsidy expenditure below 3% of GDP which was close to 4% in the preceding national budget. The diminution comes on the back drop of conscious effort to curb subsidy cost in order to comply with IMF conditions. However, fuel and fertilizers price upsurge in the global market along with arrears payment accumulated over the last few years bloated the revised amount of total subsidy to Tk388.1b for FY 2012-13. The proposed subsidy for power sector in FY2013-14 stood at Tk55b recording a decline of 14% of the total allocation set in the previous fiscal owing to several price adjustments of electricity and petroleum products in the last 18 months. Subsidy for the state-owned enterprises (SoEs) surged by 4.73% despite Tk24.3b decline in total losses of SoEs. The total allocation for subsidy in fuel & energy sector amplified to Tk79.5b in FY2013-14 from Tk62b proposed in FY2012-13, which is more than three times the ADP allocation for fuel and energy sector. The largest share of the total subsidy allocation where provided to the agriculture sector which stood at Tk90b. However the amount is 25% lower than the revised budget subsidy of TK120b and may well be inadequate to boost agriculture production given its less than admirable growth in the current fiscal year. The government also proposed to allocate Tk25.9b on subsidies for the export oriented sectors and Tk17.6b on food sector.

Sidelined agriculture

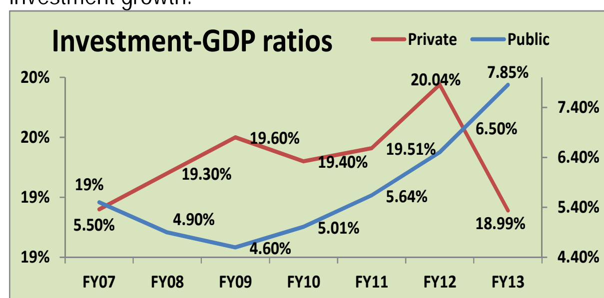
The growth rate of agricultural sector hit an eleven year low at 1.18% (provisional) in FY2012-13 as low prices of staple rice led the farmers to reduce cultivation of paddies. As a consequence, crops and horticulture sub-sector, the major contributor of the sector, posted a growth rate of 0.15% in FY13 against 1.95% in FY12. Bumper production of rice that fueled the sector's growth rate to 5.56% in FY10 could not be sustained due to lack of policy support, resulting in decreasing growth rates of 5.09%, 2.46% and 1.18% for FY11, FY12 and FY13 respectively. The allocation and subsidy amount in the budgets for this sector has been slashed down gradually in spite of repeated commitments of attaining self-sufficiency in food. Consequently, agricultural contribution in GDP (currently about 19%) is showing a declining trend over the last few years. The new budget once again has slashed the outlay for the farm sector. The agriculture budget was projected at Tk122.75b while the subsidy at Tk90b which are Tk33.58b and Tk30b lower than the ongoing year's revised budget and subsidy. Bangladesh Bank (BB), on the other hand, has raised the farm loan disbursement target by 3.29% to

Unique Trade Center (UTC), Level 6 (SW), 8 Panthopath, Karwan Bazaar, Dhaka 1215, Bangladesh
Tel : +(880-2) 913 6432–4 (Three Lines), Fax : +(880-2) 913 6162–3 (Two Lines)
e-mail : hello@aims-bangladesh.com; web: http://www.aims-bangladesh.com

Tk145.95b for FY14 than that of FY13. The farm sector of Bangladesh is very much crucial for the GDP growth and food security. The sector has become almost saturated; to get back the momentum it needs proper policy and financial support as well as technological up gradation.

Investment receives attention

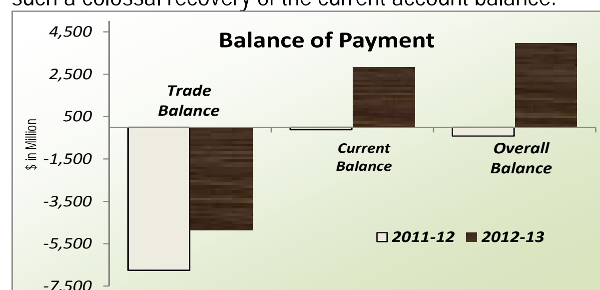
Considering the per capita income the investment-GDP ratio of Bangladesh should be 31.3%. But the rate is hovering in 25%-26% band for quite a long time; hence there remains an investment deficit. Despite having recognized potentials, Bangladesh is repeatedly failing to increase the investment rate because it lacks accommodative investment atmosphere. The provisional estimates show that overall investment rate has increased by mere 0.3 percentage point to reach 26.84% in FY13. But since investment in the private sector (71% stakeholder in the country's investment) witnessed a slump of 1.05 percentage points, the small increase in the overall investment might not bear much impact. As increase in private sector investment leverages the domestic production more effectively. The private sector investment rate was upwardly mobile until FY11. Since FY12, initially the uncongenial fiscal and monetary stances and later the intensified political tension and financial sector instability impaired the private sector investment growth.



The budget for the FY13-14 offered a number of tax incentives to augment investments. The customs duties on capital machineries import has been reduced to 2% from 3%. That of the intermediate raw materials was also proposed to be trimmed down to 10% from 12%. The budget has also relaxed the regulatory duty imposed on some important raw materials for the textiles sector. The SME, pharmaceutical and shipbuilding sectors have also got a boost. Tax holiday for 17 industrial and 17 infrastructure facilities was been extended for two more years until June 30, 2015. The budget has also proposed to increase investment tax rebate by 5 percentage points to 15% and raise the investment ceiling to Tk15m from existing Tk10m. The budget measures are definitely creditable. But at this point when the entrepreneurs are balking to start new ventures considering the economic, infrastructural, utility and political conditions, these measures might not be enough to boost investment. Furthermore, continuation of the 0.8% tax on export and higher procurement of local fund by the government is dismaying for the investment sector. Therefore, in addition to the budget measures constructive reforms in the policy, regulatory, infrastructural and institutional frameworks are required. Pleasingly the government in assistance with the United Nations Conference on Trade and Development (UNCTAD) is developing a comprehensive investment policy to attract more investment. If government manages to tackle the downside issues related with investment it will be a boon for the long-term. Still mobilizing needful investment to take the GDP growth rate at 7.2%, especially in the election year, appears to be a difficult proposition.

Recovery for external balance sheet

Restraining import policy, soothing remittance and satisfactory export earnings resulted in a positive balance of payment (BoP) in FY13 releasing substantial pressure from the external balance sheet as well as the exchange rate. The overall balance soared to $4.66b at the end of May FY13 from a negative $0.01b of the comparable period of FY12. The massive jump is mostly driven by the substantial improvement in current account balance which stood at $2.57b in the first eleven months of FY13 recovering from negative $0.53b of the same period of the previous fiscal year. A conjunction of improved trade balance and a record-breaking mark in the remittance income had the most significant contribution in such a colossal recovery of the current account balance.



Despite the ongoing unrest in RMG sector and the repeated political shutdowns, the export earnings registered a modest 11.18% growth in FY13 from that of the previous fiscal year which, however, fell short of target by $1b to stand at $27.01b.

The over-dependence on garment sector and the persistent labor and political unrest are stalling the pace of export earnings from reaching its potential. The current fiscal year budget has allocated special incentives to two promising export earning industries – pharmaceutical and shipbuilding while reducing the different tariffs imposed upon them. Export target for FY14 is set at $30.45b, up by 12.53%, although the related quarters lacked confidence to meet that target.

Import, on the other hand, has dropped by 0.39% in the first eleven months of FY13 from that of the previous fiscal year followed by reduced import expenditure on petroleum products. The import of capital machineries, which is thought to be a pivotal component of establishing industries, has also been consistently maintaining a declining drift since last year as the motivation for expanding business is at the trough. The concurrent growth in exports and falling imports has steered the overall trade deficit. The Jul-May record shows that the overall trade deficit was squeezed to $6.32b in FY13 from $8.64 in the comparable period of FY12. The surplus in overall balance of payment was also largely driven by the record breaking remittance of $14.46 just concluded fiscal year.

Satisfactory performance in each of the components of the external balance sheet led the country's foreign exchange (forex) reserve to surpass $15b mark (worth more than 5-months import bill requirement) several times this year. The buffer in forex reserve also helped the currency to steadily appreciate against greenback. The monthly average exchange rate stood at Tk77.75 at the end of June of FY13 from Tk81.80 of the comparable period of previous fiscal year. However, holding buffer forex reserve has significant opportunity cost and can trigger inflation, it is feared.

ASSET&INVESTMENT MANAGEMENT SERVICES OF BANGLADESH LIMITED
Unique Trade Center (UTC), Level 6 (SW), 8 Panthopath, Karwan Bazaar, Dhaka 1215, Bangladesh
Tel : +(880-2) 913 6432–4 (Three Lines), Fax : +(880-2) 913 6162–3 (Two Lines)
e-mail : hello@aims-bangladesh.com; web: http://www.aims-bangladesh.com

The budget for FY14 has reduced the duty of capital goods by 2% and the duty of intermediary goods by 1% and offered some other tax incentives for the ready-made garments sector. Moreover, the allocation of Tk25.92b as incentives for export is expected to drive up export earnings. However, the RMG sector, which contributes the lion share of the total export, has been left out in cold with lack of real stimulus. After a number of unexpected incidents like Tazreen Fashion and Rana Plaza tragedy, the sector is already in threat of losing competitiveness. To counter the challenge the turmoil-prone RMG sector required adequate direction and policy support because unless the sector can breakthrough its performance the overall export earnings might be hurt.

An era of quiescent PPP

Public-Private Partnership (PPP), hyped as the solution for brisk infrastructural development by the incumbent government , has been incorporated in the National Budget for a fifth consecutive time with an allocation of Tk30b for the fourth consecutive period. However each time projects under PPP have consistently floundered to materialize due to inadequate framework and policy guidelines. Of the Tk30b allocated in FY2012-13 only a marginal portion has been utilized for initial operational purposes. Time and again PPP allocation aimed at providing support for upfront development projects failed to create a mechanism for targeted subsidies and ensuring long-term financing due to ambiguity in risk mitigation procedure, absence of clause for dispute settlement and lengthy formulation, appraisal and approval process along with absence of a PPP act in general. In order to address some of these issues and expedite implementation of PPP projects a draft of the PPP law was passed in early June 2013. Acknowledging the delay in the FY2013-14 budget speech, the finance minister presented the implementation status of some 17 projects to be undertaken under the PPP scheme. However with general election approaching PPP implementation is likely to remain unrealized with symbolic allocations yet again in the next fiscal year as political power struggle takes centre stage.

Power & Energy slowly making the marks

The proposed budget for FY14 has tugged up the allocation for power & energy sector by 13.6% endowing Tk113.5b. It also placed the "Roadmap on Power and Energy Sectors" that highlighted the accomplishments and future plans of the power & energy sector. According to the speech, during the tenure of the incumbent government 3,845MW power and 680mmcft of gas were added to the national grid. It claimed, 60% of the population were brought under the coverage of electricity which impelled the per capital electricity consumption to 292kwh from 220kwh. It also cited the successful lift in total power generation to 8825MW by the end of the outgoing fiscal year while the target was 8294MW. The proposed budget has allocated Tk90.6b to the power sector. In line with the previous budgetary pledge of a strategic shift from expensive fuel based rental and quick rental power plants, the government planned to install 1320MW of coal based and 2000MW of nuclear power plants with the intention to generate 19701MW power by 2017. The successful implementation of the plan would take the sector in equilibrium given that there is no "system loss". During the first three quarters of FY13 system loss raised alarmingly, causing a loss of 3.92b KWh against acceptable limit of 3.80b KWh. Alongside, the proposed budget has also braced the energy sector with Tk22.9b allocation. In harmony with the budgetary pledge of the outgoing year, "Gas Development Fund" has been created to invest and develop oil and gas exploration to reinforce BAPEX through conducting 2D seismic survey on 450 km seismic line and 3D seismic survey on 475km seismic line. Initiatives have also been taken for constructing gas transmission pipeline to develop the gas supply of Dhaka, Chittagong and south-western regions. The proposed allocation and plan for power & energy seems quite encouraging for these two fundamental sectors. But the track record shows the power & energy policies (i.e. installing rental and quick rental power plants) taken by the incumbent government were proven not to be as efficient as they appears. The deadly side-effects of the rental and quick rental power plants have disturbed the overall economic harmony in the previous years. The economy is still bearing the burden of piling subsidy in the form of increasing power price thus increasing inflationary pressure and cost of production. Therefore, before embarking any of the planned projects it would be prudent to undertake through assessment of the projects along with the probable side-effects on the economy as well as on the environment. The budget, however, had no citation about the much criticized coal-fired Rampal Power Plant near the Sundarbans mangrove forest that triggered concern among the environmentalists.

Troubled infrastructure development

Infrastructure and communication, the fancy bait for swinging vote, obtained an allocation of Tk182.3b in the FY14 budget as the government is perusing the flashy projects like Padma Bridge, Metro Rail Transport (MRT) Line, under water tunnel and many more. This year's allocation is more than triple of the budgetary allocation of FY13 of Tk54b. The woolgathering desire of self-financing Padma Bridge captured Tk68.52b or 3.08% of the budget outlay. Facilitating the project (by sidetracking other priority sectors) is clumsy because its realization is still dark-clouded for government's failure to disprove the alleged graft that has dislodged the project in to donors' disinterest. As the roads division is undertaking construction of two large projects – the 20km MRT Line from Uttara to Motijheel and tunnel underneath the Karnaphuli River it also received a massive allocation of Tk55b. Moreover, the long neglected railway division received an enormous allocation of Tk55.9b with a view to expanding and modernizing the railway system. The budget also cited the plans for expanding existing railway network to India, Nepal and Bhutan, upgrading of Dhaka-Chittagong railway and construction of 2nd Bhairab and 2nd Titas Bridge. It also affirmed fund mobilization from Asian Development Bank, World Bank, China and India. However, considering poor implementation track records in the infrastructure development area, it seems be too early to be much hopeful for the sector.

Burgeoning social security with reduced beneficiaries

Bangladesh over the first decade of the new millennium have made considerable progress in utilizing its economic growth as a means for reducing poverty, however the rate has become somewhat subdued in recent times. Achieving the target of creating 6.24m new jobs in the next fiscal year remains a challenge amid low levels of investment and falling trend in overseas employment in recent months. One of the tools used by the government to pursue its endeavor to bring down poverty line is the Social Safety Net Programs (SSNPs). However the

jury is still out on the effectiveness of the program owing to the continued lack of focused mechanism to avert leakage and pilferages. The augment in allocation for SSNP by 9.8% in the FY2013-14 national budget has been hailed by many which stood at Tk253.7m. On the flip side cutback in total number of beneficiaries by over 2.8m and reduction as a percentage of GDP and total budget outlay with respect to the revised budget of the outgoing year drew criticism. Moreover, persistent inclusion of pension for the retired government officials in the SSNPs contributing 26.4% of the overall allocation is deemed unwarranted with Tk21.7b increment out of the total Tk26.2b overall SSNP allocation increase coming from the aforementioned segment. Furthermore, vulnerable children and children without parental care still remain outside the program while increase in the number of beneficiaries of lactating mothers in the cities possibly intended with magnanimity, particularly in readymade garments manufacturing areas may tend to foster discrimination between theurban and rural mothers. This may spur inflow of rural mothers to the cities to take advantage of maternity allowance. Perhaps a better balance could have been established by diverting the flow to rural areas while enforcing garments factory owners to bear allowance charge for working mothers in cities.

On the front of social progression an allocation of Tk436.2b for human resources development has been proposed in the national budget FY2013-14 which is 19.6% of the total outlay. Of the total amount, Ministry of Education, as usual topped the recipient list with 30.2% share, followed by Mass Education Ministry with 27.4% share, Health and Family welfare with 21.7% share and others with 20.7% share. In comparison to the revised budget of the outgoing year total allocation for education sector increased by Tk40.97b while allocation for health care sector increased by Tk3.4b.

Productive sectors to harbor undisclosed money

The national budget for FY2013-14 stirred fresh controversy over money whitening stipulation following declaration to concede "special" provision for laundering undeclared money through investment in nonproductive sectors such as real estate. However amid strong criticism and pressure from various sectors the stipulation was later rescinded allowing scope for legalizing undisclosed money through investment in industrial sector. Experts argued the provision to legalize undisclosed money by investing in the real estate sector would be a double whammy for assiduous middle-income community as on one hand it would be discriminatory to them while on the other hand it would have inadvertently shot up real estate prices further, dogging legal earners of the opportunity to purchase lands and apartments at a fair price. According to the Finance Bill 2013, the undisclosed money can now be legalized through investment in industries, trade and other sectors by paying 10% additional tax along with regular tax. Moreover, a provision has been included which no longer require disclosure of the source of the money if invested in industries and other productive sectors. The amnesty though conveniently prepped up as compromise to encourage investment is in fact against the government's pledge to establish good governance and a blatant act of endorsing corruption. The trend of allowing preferential treatment to undeclared income has been ongoing since 1975 though without yielding any significant results. Since independence till April 2013, a total of Tk135.2b has been whitened while the government received only Tk14.1b as tax.

Mammoth bail-out package for state-owned banks

In the outgoing fiscal year the banking sector anomalies emerged as the newest threat to the macroeconomic stability and growth. Corruption, management imprudence, regulatory slacks and poor monitoring toned down the performance as well as financial health of the overall sector. The high-profiled embezzlements including the Hallmark and Bismillah Groups disturbed discipline of the financial sector deeply. Sonali Bank, the prime casualty of the Hallmark scam, reportedly failed to settle the financial claims of other banks. Eventually the overall sector also got into trouble. International trade and investment sector also confronted setbacks in face of hesitance in settlement of letters of credit and fresh loan sanctioning. Meanwhile, amid the central banks' repeated alteration in loan classification and provisioning rule, inadequate loan recovery measures by the banks and poor business condition increases the default loan balance astronomically. Many banks, especially the state-owned and specialized ones, struggled hard to maintain the provisioning and capital requirements. Apparently, the public banks sought fresh funds from the government to recompense the fund that they lost through willful negligence. However, in the face of strong recommendation from the International Monetary Fund (IMF) the government allocated a hefty Tk123.34b (6.9% of the total outlay) in the next budget to bail-out the state-owned and specialized banks. Hopefully the government will also address the IMF's another recommendation to regain discipline within the sector. Otherwise the fund to be injected might also be siphoned out in a similar manner. More importantly the central bank needs to strengthen its management capacity. Meanwhile, in late June 2013 the Ministry of Finance injected Tk2.74b fresh fund to the state-owned financial institutions.

Transient mementos for capital market

	FY12	FY13		
		Closing	High	Low
DGEN	4272.67	4425.48	4800.43	3610.43
	28-Jun-12	27-Jun-13	23-Sep-12	1-Apr-13
Trade Volume	Tk3.00b	Tk6.44b	Tk12.88b	Tk1.02b
		27-Jun-13	19-Sep-12	21-Jan-13
Daily Avg. Turnover	Tk4.93b	Tk3.64b		
Market Cap	Tk2,438.39b	Tk2,549.00b	Tk2,638.82b	Tk2,160.24b
		27-Jun-13	23-Sep-12	1-Apr-13

The 'please all' budget had quite a few doled out for the capital market as well. Ceiling for individual investment is proposed to increase by Tk5m to Tk15m. Investment limit eligible for tax rebate was earlier 20% of the total income that is extended to 30% in the new budget. The tax exemption limit on dividend income is also doubled at Tk10,000 from the next fiscal year. Market participation of the individual investors will get a new lease of life by these moves, it is hoped. Additionally, to make the bond market vibrant the 0.05% tax at source on bond issuance was been withdrawn. Acting on the condition of Asian Development Bank (ADB) the budget has introduced tax rebate on investment made in privately managed mutual funds. This facility was previously applicable only for the open-end funds managed by the state-owned Investment Corporation of Bangladesh (ICB) and its subsidiary. Meanwhile the MoF approved Tk9b fund for the refinancing scheme to revive the capital market that is to be

disbursed to the stock market intermediaries for executing part of the stimulus package. But, the budget did not have any incentive for the institutional investors. The enticing budget measures infused the stock market by drawing more retail investors to the trading floor. However greater participation of the retail investors does not necessarily ensure a stable market condition as their trade behavior is impulsive at times. Rather institutional investors greatly aid to keep the market stable by making sound long-term investments.

The 3% tax on companies offering Initial Public Offerings (IPOs) at premium has been scrapped in the budget. This move will encourage interested companies to get listed with premium. But if proper screening is not done companies with low fundamental ground might get the benefit of the measure. At the same time, the budget hiked the corporate tax for listed mobile phone and tobacco companies from existing 35% to 40%. This measure will not only deter the listing of such companies but also will affect the dividend income of the investors in such companies.

The budget measures should be effective in revamping the market in the short term but for sustained development of the market strengthening the regulatory purview and institutional foundation is necessary. The budget did not contain any new direction for such development or about the capital market plan. Although, the government has amended couple of bylaws related to the capital market but the enactment of the Financial Reporting Act is delayed for yet another year. Surveillance software was launched in order to ensure transparency through detecting suspect and potential market manipulations. To bring all the transaction under the coverage of this software an initiative was taken to convert the omnibus accounts into beneficiary owner's accounts. But foot-dragging of the related parties delayed the conversion and made the effectiveness of the software languish. As per the budget, the bourses will enjoy tax exemption after completion of the demutualization process, tentatively by the end of the current calendar year. But that has very little to do with the enhancement of the market capacity. Moreover, the time-limit to legalize undisclosed money through the capital market by paying 10% extra tax has expired this June. But the post budget speech of the finance minister created ambiguity. Finally DSE asked the government to clarify its position on the scope for investing undisclosed money in the capital market. Notably in Budget 2011-12 the speech did not contain any such money whitening provision, but it got green signal when the Appropriation Bill 2011 & Finance Bill 2011 were being passed in the parliament.

Items to get costlier

- Cigarettes and other tobacco products because of supplementary duty hike
- Imported cars aged less than two years to be costlier due to introduction of new year based depreciation policy
- Imported milk powder sees hike in Custom Duty (CD) from 5% to 10%
- Import of mosquito coils, flowers, fish, energy drinks and fruits to be costlier because of hike in the supplementary duty
- LPG gas cylinders with capacity below 5000 liters see rise in CD from 3% to 10%
- Printing plates, railway sleepers, artificial filaments and bus bar trunking system experience increase in CD
- Float glass and surface ground or polished glass see rise in supplementary duty from 30% to 45%
- Photocopy and fax machine, outdoor and indoor unit of air conditioner, surgical masks, life-saving antibiotic drugs
- Textile fabrics with polyurethane sees increase in supplementary duty from 0% to 45%
- SRO benefits reduced for import of newsprint rolls raising the duty to10 % from the existing 3%
- Mobile battery charger (less than 10VA) due to inclusion of 10% Regulatory Duty (RD)

Items to get cheaper

- Capital machineries and Intermediate raw materials, because of the reduced CD from 12% and 3% to 10% and 2% respectively
- Safety caps for biking or skating as tax has been reduced from 25% to 5%
- Webcams, digital cameras, optical fibers, server rack, navigation light, sweet biscuits, sugar confectionary, mineral water and waffles, because of reduced CD
- Windshield glasses because of the reduction in import duty from 12% to 5%
- SIM price to fall due to drop in supplementary duty on local SIM cards
- Reconditioned car price aged more than two years followed by introduction of new year based depreciation policy
- Imported minibus chassis prices to go down due to reduction in duty from 25% to 10%
- Local cosmetics, shaving and hair care products, poultry and dairy products, fish feed and fertilizer due to reduced supplementary duty
- Local insulin, insulin pen, wheelchair, watch for the blind, hospital bed, raw materials for medical equipment, fire extinguisher and life boat got cheaper
- Solar lantern and LED lamp because of the reduced duty from 12% to 5%
- Raw materials for ship building Industries to see price fall as the duty imposed has been reduced to 5%

High hope, hollow health

According to the rule of thumb, the first year of a government is dedicated to policy formulation; the next two years are reserved for implementations while the remaining tenure is for realization. It seems the previous budgets by the incumbent government might had some blemishes as there were not much considerable achievements at the end of the fourth year. Just like the previous budgets the new one also put much emphasis in the size than the quality in less creative accommodation with emerging challenges. Ambitious yet less visionary budget appeared to be a combination of flashy figures to lure voters and compromising policies to accord with International Monetary Fund, thus lacks in coordination between facts and figures. Implementation of the budget, which seems over optimistic at instances, would have to straggle and therefore undergo adjustments for sure.

Unique Trade Center (UTC), Level 6 (SW), 8 Panthopath, Karwan Bazaar, Dhaka 1215, Bangladesh
Tel : +(880-2) 913 6432–4 (Three Lines), Fax : +(880-2) 913 6162–3 (Two Lines)
e-mail : hello@aims-bangladesh.com; web: http://www.aims-bangladesh.com