Chapter II

An Analysis of the National Budget for FY2006-07

1. INTRODUCTION

The Finance Minister Mr M Saifur Rahman placed the National Budget for the fiscal year 2006-07 (FY2007) and the Revised Budget of FY2006 in the National Parliament on Thursday, 8 June 2006. This is the 12th budget presented by him as a Finance Minister of the country and the last budget of the present government. The budget has been placed at a critical juncture both from political and economic perspectives.

The Centre for Policy Dialogue (CPD), in continuation of its tradition, presents the following analysis of the budget for FY2007 by pulling together the available information from government sources. However, absence of real time data on a number of indicators has created problems in analysing the economic performance and portraying fully contemporary picture of the state of the economy.

Within the above constraint, the present review examines the proposed budget in the backdrop of current trends in the Bangladesh economy.

2. FISCAL MEASURES

2.1 Restructuring the Tax Administration

In view of growing importance of domestic sources (as against external trade related taxes) in the context of mobilising resources, it is imperative to improve the tax administration by developing its capacity, extending its outreach, etc. There are some efforts postulated in the proposed budget to enhance the efficiency of the tax administration. Particular attention needs to be paid to the following:

- Enhancing scope and coverage of the Large Tax-Payers' Unit (LTU) is necessary, its extension in Chittagong should be launched immediately.
- Operation of the office of the Tax Ombudsman should start its operation from July 2006, as promised, to ensure transparency in tax administration and accountability.
- In order to speed up the clearance in Chittagong Customs House, setting up two units, one for export and the other for import, would be a necessary step.
- Although government, now for some time, has announced introduction of improved version of Automated System of Customs Data, ASYCUDA++ and Direct Traders Input (DTI) at Dhaka, Chittagong and Benapole Customs Houses to make appraisal and assessment functions simpler and dynamic, not much improvement has been observed. To make these instruments effective, more budgetary allocations are needed to develop infrastructural and human resources.
- It will be a positive step if the government can reduce, as proposed, the time limit for filing and disposal of appeals in different stages, including Taxes Appellate Tribunal.
- For quicker disposal of the appeal cases, proposal for reduction of time limit for disposal of VAT appeal cases from one year to nine months should be implemented.
- Making it mandatory for the income tax practitioners to be members of any registered Taxes Bar Association for working as an authorised person may bring about accountability of the profession.

2.2 Tax and Duty Measures

a. Direct Tax

The budget proposals have left the basic structure of the personal income tax rates and corporate (include listed, unlisted and financial institutions) tax rates untouched. However, there had been some measures at the margin, largely from the perspective of revenue generation.

Income Tax: In this budget, no change has taken place regarding the income tax. Minimum taxable income remains at Tk 120,000 i.e. monthly Tk 10,000 and Tk 1,800 remains as the minimum amount of tax.

However, allowable investment level for tax rebates has been increased from Tk 2 lakh to Tk 2.5 lakh. This will benefit those whose yearly earning ranges from Tk 10,00,000 to Tk 12,50,000.

Besides, annual tax-exemption limit of conveyance allowance in cash has been increased from Tk 12,000 to Tk 18,000 for computing income of salaried persons. This will only benefit those whose annual gross income will be Tk 600,000.

TABLE 1: Income Tax Rate For Individual Assesses For The Income Year 2006-2007 (Tax Assessment Year 2007-08)

Income (Tk)	Rate (%)	Per Month Salary (Tk)	Tax (Tk) 2005-06
120,001		10,000	1,800
370,000	10	30,833	25,000
670,000	15	55,833	70,000
1,020,000	20	85,000	140,000
Above	25	-	
Minimum taxable income			10,001
Minimum Tax			1,800
Exemption			120,000

Note: Tax rate table is for the income year 2006-07, for which the Tax Assessment year is 2007-08.
Source: Estimated from CPD Database.

- Treating the investment made by the directors of private and non-listed companies as income of the company when such investment is not made by bank cheque or bank transfer. *This will help to identify extent of investment made by directors of the companies and also will help to raise revenue.* This may concern the expanding telecom enterprises most.
- Accelerated depreciation at the rate of 50 per cent, 30 per cent and 20 per cent respectively in the first three years of installation of machinery instead of allowing 100 per cent depreciation in the very first year of their installation *will help to increase government revenue.*
- In the case of submission of tax return on self-assessment basis, the requirement to disclose in the first year of business an income of at least 15 per cent of the amount shown as initial capital to be raised to 25 per cent. *This will help to increase revenue.*
- Collection of advance income tax at the rate of 3 per cent on the bills paid by the users of credit cards may help to identify potential tax payers.
- Introducing the provision of minimum income tax of Tk 5,000 or 0.50 per cent of turnover, whichever is higher for companies irrespective of profit or loss, would help to raise revenue.
- The budget has proposed 10 per cent tax rebate for the highest tax paying category if they declare 10 per cent additional income in the following year. *It is clear that it will be the highest end of the income bracket. However, it is not clear whether this tax paying category would like to take this opportunity or not.*
- Raising admissible expenditure by way of perquisites for companies from Tk 192,000 to Tk 200,000 *will go in favour of the corporate sector.*
- Similarly, annual tax-exemption limit of conveyance allowance paid in cash from Tk 12,000 to Tk 18,000 for computing income of the salaried persons *will go in favour of corporate executives.*
- Treating the expenditure by way of salary or allowance as inadmissible, if it is not paid by bank cheque or bank transfer to the employees whose monthly salary or allowance is Tk 15,000 or more, *will restrict misdeclaration of income and expand tax base.*

Special Tax Benefit

- Given the investment incentives (effectively of Tk 7,500) allowed to the highest income bracket, it would have been only proper to raise the tax exemption base from Tk 120,000 to Tk 150,000 without raising the minimum income tax of Tk 1,800.
- Refixing the tax rate on purchasing and constructing apartment in lucrative areas in Dhaka and Chittagong will help to raise government revenue. Refixing the tax rate for purchase of land from 5 per cent to 7.5 per cent *will help to raise the revenue.* This will continue to create scope for investment of undeclared money.
- Refixing the tax rates for purchase of motorcar from the rates of 5 per cent and 7.5 per cent to 10 per cent and 15 per cent respectively *will help to raise government revenue.* This will help to continue the privilege of investment of undeclared money.
- It is not clear whether withdrawing tax exemption benefit, on remittance from abroad for resident persons who are not citizens of Bangladesh, will

positively contribute to raising revenue.

Outstanding Proposals

- The highest corporate tax slab (45 per cent) now imposed on the banking sector has to be extended to other high-profit service industries (telecommunication).

b. Indirect Tax

- Keeping the existing four tiers intact, proposed budget has offered reduction of customs duty at the lower level: from 6 per cent to 5 per cent (raw materials), and from 13 per cent to 12 per cent (intermediate goods). This will help accessing intermediate goods and raw materials at close to global price. However, the specific implication of this general measure on competing domestic industries is not fully known.
- The proposal to further streamline supplementary duties by bringing down the levels of two-slabs from 35 per cent to 25 per cent and from 20 per cent to 15 per cent will also reduce cost of imports.
- There is also a proposal for the enhancement of allowable depreciation from 15 per cent to 20 per cent in assessing reconditioned motor vehicles.
- There is a problem in the existing 4-slab system, especially in the case of capital machinery, as only selected industries have the benefit of importing capital machineries at zero duty. There is also differentiation among industries with respect to whether the zero-duty slab includes import of auxiliary machine and machine parts or not. In this context, the composition of zero-duty category appears anomalous and differentiated, which makes it prone to abuse. One way to rationalise it to impose a low level of duty (0.5 per cent) instead of zero.

c. VAT

- Withdrawal of VAT tax exemption from services such as land and graphic designer will encourage and help to raise revenue. Withdrawal of tax exemption on black and white photo studio may not have much consequence.
- Extension of coverage of services such as hotel, decorator and caterer, community centre, beauty parlour, shipping agent, air-conditioned bus service, air-conditioned railway service and transmitting advertisement through satellite channel under VAT system in replacement of turnover system may raise revenue. However, there are diverse categories of consumers of these services and there will be some discriminatory burden.
- Besides extension of coverage under VAT, effective tax administration is needed to collect VAT from the specified business activities.

Outstanding Proposals

- There is demand from Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) for allowing VAT exemption of utilities, especially electricity. Government may consider this proposal.
- It has been proposed that professionals from other categories, such as physicians and lawyers, have to be covered under VAT.

2.3 Export Promotion Vs Import Substitution

Export Promotion

The budget has proposed a number of steps to promote exports including (a) concessional import duty on raw materials for export-oriented industries, especially for the textile and RMG sectors, (b) withdrawal of all duties and taxes from certain spare parts and certain raw materials for readymade garments, textiles, hosiery, label and terry towel industries, and effluent treatment plant, and (c) income tax rebate on export earnings. The budget tries to figure out an *initiative to promote export diversification like introducing the tax reduction on diamond cutting industry, but that is not enough to diversify the export basket of the country.*

The budget proposed no new subsidy or any initiative to encourage technological upgradation of export-oriented industries. The revised tax holiday proposal by the BGMEA was also not reflected in the budget. *Besides, the much needed demand of the local entrepreneurs to set up a separate "garments village" (which already exists in India and Sri Lanka) was not considered in the budget.*

Domestic Protection

To provide protection and to promote domestic industries, the budget has proposed a number of fiscal measures including (a) reducing tariff on selected raw materials, (b) raising tariffs, and (c) imposition of supplementary duties (SDs). The proposed increase in tariff on mango pulps, from 13 per cent to 25 per cent, would facilitate the local supplier agro-processing industry.

Some of the positive initiatives in this context are the following:

- In order to make them more competitive, the budget proposed reduction of import duties of certain basic raw materials of plastics and melamine industries from 13 per cent to 5 per cent.
- As a measure of providing further incentives to the local plastic industries, proposal has been placed for the enhancement of import duties of some plastic products like stopper, lid, cap, etc. from 13 per cent to 25 per cent.
- Motivated by the same consideration, this year's budget proposes rationalisation of supplementary duty levied on certain printed plastic materials including printed plastic sheet.
- With a view to encouraging local electronics industries, the budget proposed that import duty on diodes, transistors, semi-conductor device and compressors be reduced from 13 per cent to 5 per cent.

2.4 Sectoral Measures

Agriculture

Crop Sector

- Allocation for agricultural credit, subsidies and agricultural research has been increased in the budget for FY2007. Total allocation (revenue and development) to the Ministry of Agriculture in FY2007 is Tk 3,149 crore which is 31.26 per cent higher than the revised allocation (Tk 2,399 crore) in FY2006 and 42.29 per cent higher than budget allocation (Tk 2,213 crore) in FY2006. *It is pertinent to note that only 46.96 per cent of total allocation was spent until February 2006.*
- Allocation for agricultural subsidy and rehabilitation has increased from Tk 1,100 crore to Tk 1,200 crore. There is also an allocation of Tk 244 crore for agricultural research. However, it is clearly mentioned in page14 of the budget document titled "Annual Budget 2006-07: Budget in Brief" that allocation as agriculture subsidy remained unchanged at Tk 600 crore (budget and revised budget of FY2006 and budget of FY2007). *Allocation of subsidy is a necessary condition to benefit farmers, but not a sufficient one. Although there was subsidy for agriculture (fertiliser and electricity used for irrigation) in FY2006, farmers faced severe problems for agricultural inputs including fertiliser and irrigation. This year government is going to import fertiliser and market those at subsidised rates to the farmers through private dealers. Therefore, special monitoring and administrative efforts will be required to ensure that benefits reach the farmers.*
- The government proposed to create a fund of Tk 50 crore "Fund for Assistance to Small Farmers Affected by Natural Disasters". *This is a welcome measure considering various types of new risks, e.g. possibility of epidemic diseases like "brid flue". However, the amount is very low.*
- The government has exempted fertiliser, seeds, capital machinery, drum-seeder and other agricultural inputs from duties and taxes at the importation stage. It has also proposed for withdrawal of Infrastructure Development Surcharge (IDSC) from all kinds of hybrid rice seeds. *This is likely to have positive impact on Bangladesh agriculture, particularly on agricultural production.*
- The total tax incidence of garlic, turmeric, chilly and ginger is 20 per cent and that of onion, pulses (peas and chickpeas) is 13 per cent. The budget has proposed reduction of tax incidence of all these items to 5 per cent as is the case with rice, pulse and lentils. *This will be helpful to curb inflation to some extent but is likely to have negative effect on production of these commodities.*
- Total tax incidence of sugar is now 43.75 per cent. The government imposed a specific duty of Tk 5,000 on sugar per metric tonne at the importation stage which is expected to bring down the price of sugar by nearly Tk 6,000 per metric tonne. *Considering high prices of sugar and dependence of agro-processing industries on sugar, this is a pragmatic decision.*

Water Resources

- To ensure efficient management of water resources, the government has allocated for the FY2007 a total of Tk 1,466 crore, revenue and development combined, for the Ministry of Water Resources, which is 29.6 per cent higher than the revised allocation for FY2006 (Tk 1,131 crore) and 18.8 per cent higher than the proposed Tk 1,234 crore in the budget of FY2006. *Only 27.4 per cent of the allocated amount in FY2006 was spent until February 2006.*

Fisheries and Livestock

- The government proposed an allocation of (development and revenue combined) Tk 578 crore in the next fiscal year for the Ministry of Fisheries and Livestock, which is 4.9 per cent higher than the proposed allocation (Tk 551 crore) and 36.3 per cent higher than the revised allocation of Tk 424 crore. *In FY2006, only 32.84 per cent was spent until February 2006. Thus, the main challenge will be the implementation of related activities.*
- The government will withdraw all duties and taxes from capital machinery, accessories and other inputs of poultry industries and machinery for manufacture of poultry feed at the importation stage, which will provide further encouragement to poultry and livestock sectors. These items will also be exempted from Advance Income Tax. *This is a welcome measure and hopefully will benefit poultry industry.*
- The government has proposed to withdraw 2.5 per cent supplementary duty from local production of packet powder milk in packs of 2.5 kg and over to encourage the development of local dairy industries. *This measure is a positive one as there is prospect for domestic industry, and Milk Vita is already producing powdered milk.*

Environment

- The government has allocated Tk 242 crore in FY2007 for the Ministry of Environment and Forest, which is 42.0 per cent less than the proposed allocation for the current fiscal year (Tk 417 crore) and 11.7 per cent less than the revised allocation (Tk 274 crore). *Only 25.5 per cent of the allocation was spent during the first eight months (until February 2006) of FY2006. Therefore, it is unlikely that without special institutional measures allocated amount will be spent judiciously and result in desired benefit to the environment.*
- Reduction in customs duty on effluent (waste water) treatment plant from current 25 per cent to 0 per cent will surely enable more industrial units to set up effluent treatment plants. *However, for reduction of water effluent, Polluters Tax can be a better measure.*

Agro-based Industries

- The budget has proposed increased allocation for credit support under the Agro-based Industries Programme, from Tk 100 crore in the previous budget to Tk 150 crore.
- Budgetary allocation under the "Equity Development Fund" has been increased from Tk 100 crore in the revised budget of FY2006 to Tk 200 crore in FY2007. *So far, 212 proposals have been financed under the programme where agro-based and food processing sector received the lion share (81.6 per cent). Fish hatchery and fishing is the highest receiving subsector (17.8 per cent), followed by poultry and fish feed (15.2 per cent), grand parent and hatchery (7.6 per cent) and potato flex (7.4 per cent).*
- The government has extended the benefit of tax exemption and rebate to agro-processing, jute and textile industries up to 30 June 2008 (previously up to 30 June 2006). *This is a positive measure for promotion of agro-based industries.*

RMG Sector

- Though the growth of the RMG sector is phenomenal after the MFA phase out, especially for the knit industry, the support for RMG sector was rather weak for the overall well-being of this sector. One positive move is that import duty of spare parts and raw materials has been reduced. In FY2007, the government allocated additional Tk 30 crore for the purposes of retraining of retrenched garment workers in continuation of the last year. Considering the huge demand of workers in the RMG sector, such funds for retrenchment are not necessary. Rather the government may develop a provision for provident fund, to which the government and entrepreneur will equally contribute.
- The budget has proposed to allocate Tk 20 crore to create "Skill Development Fund for the Readymade Garments Workers". The allocation also existed in the earlier budget. How far this could have a positive impact on the workers needs to be figured out. The recent unrest in the garment industry also indicated a need for special training for the workers-management relations which could be incorporated in the budget. Sri Lankan budget proposed to establish an "Academy of Labour Relations" to promote harmonious labour relations in work places at the cost of Tk 800 crore.
- In India, government has proposed the Scheme for Integrated Textiles Parks (SITP) which was launched in October 2005 with the intention of creating 25 textile parks. Seven parks have been sanctioned and 10 parks have been identified for development. An amount of Rs 189 crore for this scheme was provided. In Bangladesh BGMEA urged the government time and again to allocate a

land for developing a "garment village" through budgetary measure in view of the collapse of a number of factories. But the issue did not receive attention in the budget.

- Proposal has been placed to deduct tax at source at the rate of 5 per cent on the amount of cash subsidy as being a net receipt to the exporter and treat the deduction as final settlement of tax liability. This will have positive implications for exports.

  ◊ The budget proposed the withdrawal of all duties and taxes from certain spare parts and certain raw materials required for readymade garments, textiles, hosiery, label, and terry towel industries and effluent treatment plant. This will increase domestic production and export of knit and textile products. It is found that India has also halved excise duty on all man-made fibre-yarn and filament yarn from 16 per cent to 8 per cent, and reduced import duty on all man-made fibre and yarns from 15 per cent to 10 per cent.

Textile

- As a backward linkage industry for the RMG sector, textile still continues to be important for the country. Withdrawal of duties from yarn, spare parts and raw materials is expected to reduce cost of production in this sector.
- With a view to developing textile industries, benefit of tax exemption and rebate was allowed up to 30 June 2006. The budget for FY2007 proposed to extend these benefits till 30 June 2008.
- CPD had suggested to make allocation for the handloom industry but there is no special allocation for handloom industry in the proposed budget. Bangladesh could have taken the initiative to adopt and promote cluster development approach for production and marketing of handloom products, as was advised in the Indian budget for FY2007. India has increased its allocation for the handloom sector from Tk 312 crore to Tk 386 crore. Sri Lanka also proposed a number of actions in the budget. For example, Tk 5.1 crore was provided for the handloom industry in Sri Lanka. The required machinery and technology were provided duty and VAT free import under the advanced technology package. Yarn and dyes were exempted from VAT in order to support the handloom industry.
- A textile technology upgradation fund would have encouraged the sector to undertake the necessary restructuring and upgradation. In the Indian Budget for FY2007, allocation to the Technology Upgradation Fund (TUF) has been enhanced to Rs 5.4 billion ($120.5 million) from Rs 4.35 billion ($98.0 million). In order to create a viable backward linkage industry such TUF could be a viable option for Bangladesh.

Telecommunication

- This year's budget has proposed to enhance the allocation for telecommunications to Tk 1,574 crore (1,426 crore in FY2006), an increase of 10 per cent in FY2007.
- The budget also proposed reduction of duties on cellular mobile telephone sets and cellular fixed wireless telephone sets from Tk 300 to Tk 200 per set. This will reduce consumer burden to some extent. More importantly, this will encourage formal import of telephone sets and reduce illegal and informal trade.
- This year's budget has also proposed to reduce tax from Tk 900 to Tk 800 for each cellular mobile phone and cellular fixed-wireless telephone connection to ensure availability of telecommunication facilities to the masses at affordable prices. Since telecom companies are currently providing subsidy to their phone connections, reduction of tax on SIM will reduce their burden. However, considering their huge profit, the government may increase the tax on connection from Tk 800 to Tk 1,200 in order to raise revenue.

Jute Industries

- With a view to developing jute industries benefit of tax exemption and rebate was allowed up to 30 June 2006. The budget proposal has been placed to extend these benefits till 30 June 2008. The recent export performance of jute industry will keep alive with this initiative. Along with measures to support export promotion, the government has to ensure sufficient production of jute which at present is hampered due to shortage of jute seeds.

Real Estate

- In the budget for FY2007, tax of Tk 300 per square metre for a plinth area up to 200 square metre and Tk 500 for a plinth area over 200 square metre were proposed in the case of purchase or construction of building and apartment in Gulshan, Banani, Baridhara, Bashundhara, Dhanmondi, DOHS, etc. of Dhaka and Panchlaish, Khulshi of Chittagong. As a result, the prices of apartments and buildings would rise in every part of these cities even though tax rates are to remain unchanged in other areas. It is unclear whether the undeclared money can be whitened through this process, as was the case earlier. Also, the use of the term *"etc."* in the budget statement does not give a clear idea on where these new tax rates will be applied.

Vehicle

- In the budget for FY2007, tax rates for purchase of motorcar under Section 19BBB were raised from 5 per cent and 7.5 per cent to 10 per cent and 15 per cent respectively. As a result, the prices of cars will increase.
- A proposal for the enhancement of allowable depreciation from 15 per cent to 20 per cent in assessing reconditioned motor vehicles was also stated in the budget.

Paper & Printing Industry

- In the budget for FY2007, supplementary duty of 15 per cent was imposed on import of advertising materials, commercial catalogues, etc. This will support domestic paper industries.
- Existing import duty on newsprint paper has been kept unchanged at the rate of 25 per cent despite continued demand of the Newspaper Owners Association for reducing duty on newsprint paper. Since Bangladesh's paper industry cannot support the demand for newspaper, both in terms of quality and quantity, reduction of import duty is very essential to make newspaper less costly. In neighbouring countries the import duty on newsprint paper is much lower than in Bangladesh, 6 per cent in Pakistan, 5 per cent in Nepal and India and 2.5 per cent in Sri Lanka.

SMEs

- Providing credit to small and medium enterprises (SMEs) through refinancing scheme is a welcome step. A total of Tk 100 crore has been allocated under this scheme. In order to extend coverage to more SMEs in different areas, procedures of bank loan should be improved.
- Under Equity Development Fund (EDF), government has proposed to allocate Tk 100 crore for the development of agro-based and software industries which is Tk 50 crore less than the previous fiscal year. Still, the disbursement of this fund through Bangladesh Bank is roughly around one-third of budget allocation. And software industry gets only about 14 per cent of total disbursement of this fund. Cost structure, that is taken under consideration of EDF, is more favourable to agro-based industry. It seems that *EDF may contribute more if rules and regulations of this fund are revised by taking into cognisance the interest of the ICT industry.*
- In order to develop SME, Pakistan has exempted duty on material for manufacture of fixed wireless towers for CDMA, CNG equipment for assembly, inputs of leather and leather products, broadcasting equipment, computer hardware and parts.
- Sri Lanka has reduced tax rate on SMEs taxable income 0.2 which does not exceed Tk 32 lakh (Rs 50 lakh), from 20 per cent to 15 per cent.
- India has increased the size of the Credit Guarantee Fund from Tk 1,742 crore (Rs 1,132 crore) at end-March 2006 to Tk 3,849 crore (Rs 2,500 crore) in five years. There is a proposal to provide a sum of Tk 181 crore (Rs 118 crore) in 2006-07. There is another proposal of Credit Guarantee Trust for Small Industry (CGTSI) to reduce the one time guarantee fee from 2.5 per cent to 1.5 per cent for all loans in India.

Other Issues

Preparation for the WTO (ADD and CVD)

- Governments have effected necessary amendments in the customs act to deal with the issues of anti-dumping duty and countervailing duty in consonance with the principles laid down by the World Trade Organization (WTO). The governments expressed their willingness to take appropriate measures as and when entrepreneurs come forward with necessary information and documents.
- However, no specific recommendations were made to deal with the WTO issues. In view of the completion of the Doha Round Negotiations by 2006, there could have been some directions towards Bangladesh's negotiating strategy.

Power and Energy

It seems that the government is not considering power crisis seriously. The government has allocated Tk 3,586 crore, which is merely 5.5 per cent higher than the revised budget of FY2006. A total of 52 projects have been implemented under the power division, of which only 2 are new.

- Government has announced a Power Rehabilitation Programme which is worth Tk 100 crore only for repair and maintenance of old power plants. It seems that such a programme would not generate enough power considering very old age of most of the plants. A huge amount of public investment is necessary in order to undertake new power plant projects. However, it seems that the government is fully dependent on foreign fund to develop its power infrastructure.

- Withdrawal of special rebate facilities from UPS/IPS of a capacity, not exceeding 2000 VA, will enhance domestic production. Considering immediate crisis in the power sector, such measures have little impact.

- India and Sri Lanka have taken several initiatives in order for rural areas to be electrified. In FY2007, India has taken 5 mega power projects and plans to generate 20,000 MW additional electricity by the end of 2006. It has also planned to electrify 40,000 more villages, more than double the increase compared to the previous year. On the other hand, Sri Lanka's strategy is to provide electricity for 300,000 rural households within the next 3 years and Rs 50 crore (Tk 34 crore) has been allocated for this. *Given the lack of adequate power supply in our industrial and residential areas and the measures taken by our neighbours for the development of the power sector, the proposals made in the budget are insufficient.*

- Government at last has increased fuel price. Prices for diesel and kerosene have been raised to a rational level from Tk 30 to Tk 33. This will impose relatively less burden to rural people (for irrigation, transportation, etc.). Petrol price has been increased to Tk 56 (earlier it was Tk 43) and Octane has been increased to Tk 58 (earlier it was Tk 45). Urban consumers using motor car can bear the burden. At the same time, the price of petrol in India has gone up to Tk 73.1 (Rs 47.5) per liter. Similarly, price of diesel has increased to Tk 50.0 (Rs 32.5) per liter.

- Government has proposed an *Energy Development Fund* to promote use of solar power and other renewable sources for inaccessible localities where people are deprived of power supply, with a proposal of Tk 100 crore for this Fund in FY2007. There has been an increase of 12 per cent in the total amount spent for fuel and energy compared to the preceding year. Considering the huge demand for gas in industrial activities, it is necessary to develop gas transmission and distribution line. *There is no adequate supply of fund to undertake these activities.*

- On the other hand, Pakistan plans to supply 425 towns and villages with gas over the next two years. Sri Lanka has arranged to provide fuel subsidy to three wheeler operators, public transport and fisheries sector by providing budgetary support expenditure of Rs 300 crore (Tk 198 crore). Such subsidies will provide relief to low income groups only. *The rise in fuel price is an obvious outcome of the budget which should have been placed long before the budgetary proposals, however, there are some grey areas regarding the appropriate utilisation of adequate gas supply at a competitive price.*

Foreign Investment

- Not much has been said about foreign investment in the proposed budget. It is already discussed in CPD's IRBD that net FDI flow is very poor, as foreign companies have been repatriating their profits and dividends at an increasing amount. In this context, net FDI flow has to be increased to a larger extent.

- Accelerated depreciation at the rate of 50 per cent, 30 per cent and 20 per cent respectively in the first three years of installation of machinery instead of allowing 100 per cent depreciation in the very first year of their installation *will help to increase government revenue.*

- Foreign companies (especially telecom companies) can be enlisted in the local capital market to raise a part of their capital, which will increase confidence of local population in these companies. In this context, Tata's proposal of floating a part of its share in stock exchange is a welcome step.

- The government has exempted the machinery and spares of solar energy industry from all duties and taxes at the importation stage on certain conditions. To further extend and expand this facility, FY2007 budget proposes withdrawal of these conditions. These measures encourage use of solar energy and can contribute positively to cater the energy needs in rural areas. *This is likely to have positive impacts on different agro-based and cottage industries located in the rural areas.*

Capital Market

- Notwithstanding the dull situation in the capital market, the proposed budget did not have any fiscal incentives for the development of stock market. The huge over-subscription in the primary market reflects the fact that there is no fund crisis in the stock market. The stock market is rather affected owing to lack of investors' confidence.

2.5 Local Government, Rural Development and Rural Infrastructure

- The budget for FY2007 has proposed an allocation (Development and non-development) of Tk 6,427 crore which is only 4.7 per cent more than the revised budget and 6.9 per cent more than the proposed budget of FY2006. *It may be mentioned that only 27.3 per cent of allocated amount in FY2006 was spent up to February 2006. So it is not clear how this fund will be used.*
- Union Parishads (UPs) are directly provided with block allocation from budget as development assistance. In FY2006 UPs were allocated Tk 120 crore as block allocation. Due to success of the programme, the World Bank has agreed to join the government in undertaking "Local Government Support Project" for allocating funds directly to UPs on performance basis. *This is a very small amount (about Tk 2,676 per UP, if there are 4,484 UPs in Bangladesh), but this is a recognition that local governments need to be supported for development.*

3. SOCIAL SECTORS AND SAFETY NET PROGRAMMES

In this section, the fiscal measures envisaged for the education and health sectors are reviewed. The section also takes a look at the proposed measures for safety net programmes.

3.1 Education

- Similar to the previous two budgets, education has been given the "highest sectoral allocation" in the proposed budget for FY2007. This year's allocation of Tk 10,891 crore is 15.61 per cent of the total budget. As has been proposed, out of this total, Tk 3,786 crore (34.76 per cent) will be spent from development budget.
- This year's allocation is Tk 1,789 crore, which is 19.7 per cent more than the revised budget and 14.8 per cent more than that of the proposed budget for FY2006.
- The development budget for FY2007 is 37.4 per cent higher than that of the revised budget of the previous year, while the revenue (non-development) budget is 12 per cent higher when compared to the corresponding figures for FY2006.
- Till February 2006, the government has been able to utilise about 52 per cent of the total allocated expenditure in the education sector.
- A 6-year "Second Primary Education Development Programme" (SPEDP) has been launched at a total cost of approximately Tk 5,000 crore.
- To bring the primary school dropouts and out-of-school children to the mainstream, a project titled "Reaching Out of School Children" (ROSC) is under implementation.
- The budget for FY2007 proposes an additional allocation of Tk 45 crore to enhance primary school teachers' emoluments. This is to underwrite about 2 per cent of the government's contribution in the form of development budget to the Primary and Mass Education Ministry.

Women Education Development

- Under "Female Stipend Programme" and "Food for Education Programme", government is providing stipends, examination fees and tuition fees to about 25 lakh female students. In FY2007, the proposal is to increase the allocation to Tk 52 crore by increasing the total number of scholarships to 101,000.
- Three polytechnic institutes only for the women are in the process of establishment.
- To meet the increasing demand, establishment of a science and technological university in each of the twelve old districts is underway. *Although the budget made the highest allocation in the education sector, it miserably failed in designing proper institutional mechanism to ensure quality education.*

Science and Information & Communication Technology

- Government declared Information & Communication Technology (ICT) as the thrust sector considering its importance for the socioeconomic development of the country.
- The proposal is to allocate a total of Tk 11,093 crore (development and non-development together) in FY2007, which is 20 per cent higher than the allocation made in the revised budget of FY2006 (Tk 9,265 crore). *Considering the vital role of ICT in poverty alleviation, it was expected that the budget would announce special programmes for computer literacy for the rural people. However, it is a matter of regret that the budget did not come up with any such proposals.*

3.2 Health

- The budget for FY2007 has allocated Tk 4,784 crore in the health sector. This amount is 6.86 per cent of the total budgetary allocation. Besides, this year's allocation is Tk 672 crore (16.3 per cent) more than the revised budget for the previous year.
- The total estimated outlay of "Strategic Investment Plan for Health, Nutrition and Population," a proposal titled "Health, Nutrition and Population Programme" (7-year programme: 2003-2010) is about Tk 32,450 crore.
- Currently, in 105 upazilas, 2,90,000,00 people have been brought under a nutritional service programme through 23,000 social nutrition centres.
- The government has proposed "amendment of explanation of Medical Centre and Dental centre incorporating the limit of negligible value up to Tk 25 as fee as the out patient department and up to Tk 50 as daily seat rent of hospital bed." *Such a measure is most likely to negatively affect the poorer segment of the society by restricting their access to the health services.*

3.3 Social Safety Net

Towards targeted poverty reduction, social safety net and employment generation programmes, the budget for FY2007 proposed an additional allocation of Tk 935 crore. This is 1.5 per cent higher than the previous budget allocation. This allocation for social safety net is for expansion of existing programmes only. No new programme is launched in this budget for the next fiscal year. For the Credit Programmes for Employment Generation a total Tk 940 crore is allocated for FY2007, which is 4.18 per cent less than the previous fiscal year.

Table 2: Social Safety Net

Existing Programmes	FY2006 (P)	FY2007 (P)	Growth (%)
Old-age allowance	324.00	384.00	18.5
Allowances programme to the widowed, deserted and destitute women	135.00	156.00	15.6
Honorarium programme for insolvent freedom fighters	42.00	60.00	42.9
Fund for mitigating risk due to natural disaster	75.00	30.00	-60.0
Fund for rehabilitation of the acid burnt women and the physically handicapped	20.00	10.00	-50.0
Fund for the housing of the homeless	75.00	50.00	-33.3
Programme for the assistance to the fully retarted	25.00	40.00	60.0
Seasonal unemployment reduction fund	55.00	55.00	0.0
Retraining and employment of voluntarily retired/retrenched employees/labourers	50.00	30.00	-40.0
Development fund for the readymade garments workers	20.00	20.00	0.0
VGD, VGF, Food for Works Programmes, Test Relief and Gratuitous Relief (GR)	100 (10.32 lakh ton)	100 (10.57 lakh ton)	0.0
To meet emergencies due to natural disaster (Cash: Crore Tk)			
Total	**921.00**	**935.00**	**1.5**

Note: *Figures in the parentheses indicate allocation of foodgrain.*

"Seasonal Unemployment Reduction Fund" of Tk 50 crore was created under non-development budget in FY2006 to mitigate the seasonal unemployment of the unprivileged poor people in some specific areas caused by natural and geographical constraints (especially in Monga prone areas). The proposal is to make a further allocation of Tk 55 crore to this Fund. *However, the concern would be utilisation of this fund as the fund allocated for FY2006 was not spent at all.*

In this regard, one can take lesson from India's National Rural Employment Guarantee Scheme (NREGS) with an allocation of Rs 14,300 crore (Tk 22,022 crore). This scheme seeks to provide guaranteed employment to one member of every household for at least 100 days a year, especially in the lean season for a minimum wage of Rs 60 per day (Tk 92). The scheme involves programmes of irrigation, development of rural infrastructure and afforestation, among others. All the projects are clearly defined and described in the NREG Act; technical experts draw plans for individual villages in consultation with local leaders and elected representatives, and local people are involved in the implementation of the projects through Gram Panchayats and Gram Sabhas.

Retraining and Employment of Voluntarily Retired/ Retrenched Employees/ Labourers: In FY2007, the proposal is made to allocate an additional Tk 30 crore to the fund for the programme introduced in FY2005. However, the fund already allocated still remains unutilised. It will be better if the government introduces a contributory provident fund for garment workers where the government will contribute equal amount of money matching the company's contribution.

In FY2007, the proposal is to allocate Tk 20 crore to create skill development fund for the readymade garments workers.

3.4 Special Credit Programmes for Employment Generation

The government has proposed an additional Tk 840 crore for the seven existing credit programmes for employment generation which is 9.8 per cent less than the additional allocation in the previous fiscal year.

Table 3: New Allocations For Credit Programmes

Credit Programmes	FY2005-06 (Crore taka)	FY2006-07 (Crore taka)
Government departments/ agencies	200	148
PKSF	281	217
NGO Foundation	50	25
Employment generation for the hardcore poor	100	100
Micro enterprises in the rural areas	50	100
Credit support to promote agro-based industries	100	150
Equity Entrepreneurship Fund	150	200
	931	940

4. CONCLUDING OBSERVATIONS

1. As FY2006 was the last full fiscal year of the outgoing government, it was expected that there would be a comprehensive assessment of the economic performance of the regime. The budget speech fell considerably short in this respect. Rather it reads like a swan song of the Minister, long on claims, short on delivery, reflecting absence of vision.

2. Notwithstanding reference to a conceptual framework in the beginning of the budget speech of the Minister, the macroeconomic framework has not been applied to explain the future fiscal and monetary stances of the government in achieving the growth target, fiscal and external balance and assumed inflation rate. As such, the interface of the budget with the MTMF is not apparent.

3. It appears that the budget preparation process took the public expenditure outlay as the point of departure and then made revenue projections with the shortfall covered by foreign financing and domestic borrowing, leading to impossible spending target underwritten by an improbable financing scheme. Compatibility of monetary and fiscal policy is questionable.

4. It is evident that the PRS in the very first year of its implementation got scuttled. The Minister has made no effort to assess the outcomes of FY2006 based on the policy matrix contained in the PRS document. There had been no attempt to explain how the incremental growth has benefited the poor. Our assessment indicates that the pro-poor dimension of the growth had been rather weak, particularly in the case of wage employment.

5. No courageous or creative fiscal and institutional initiatives have been proposed in the new budget except for making only symbolic allocation in disparate areas. It is highly unlikely that the government will be able to achieve much in the next three months. The budget for FY2007 can, in fact, be termed as *A budget for everybody, but for nobody.*

6. The proposed fiscal measures in general indicate an attempt to liberalise the trade regime further and to make inputs available at close-to-global prices. Some discrete attempts to provide protection to emerging domestic industries are also visible. However, current tariff structure continues to protect specific interest groups, as it is in the case of newsprint.

7. The assumed inflation rate for FY2007 is 6 per cent. However, given the improbable projection for foreign financing, it is quite obvious that the government will have to lean heavily on domestic (bank) borrowing. Reduction of tariffs on certain food items will have marginal effect on the market, as global price of rice continues to rise. With the added pressure from fuel price hike, there will possibly be no respite on the inflation front.

8. Other than some initiatives in the tax administration, the budget fails to recognise the poor state of policy management in the government. The budget, having mentioned in three places the adverse consequences of corruption, does not even mention ACC or any other initiatives to check wastage, leakage and outright theft of public resources. Obviously, the introduction of the PPR or the Financial Management Manual only is not sufficient.

9. The experience of the ongoing fiscal management restructuring is not discussed in the budget. Till date, the struggle of the ten ministries trying to adapt the MTBF in their respective ministries continues. The performance of the first four ministries is not at all above average. The state of integration of the development and non-development budget is also not clear. The presentation is filled with language of "creative ambiguity."

10. For all practical purposes one may expect a slowdown in the economy during FY2007. The growth rate will take the hit as indicated by the recent trend in credit flow to private sector, import performance, growth in L/C opening, etc. The issue is to pre-empt any serious destabilisation in terms of inflation, import and exchange rate in the coming months (till new government takes charge).

11. Indeed, the incoming caretaker government is expected to take measures to settle the economy at a low equilibrium. By the time the new political government prepares its economic policy and programmes in line with the PRSP, FY2007 may very well be over. Thus, one should be prepared to see phased downward revision of the proposed budget as the regime changes successively.