Chapter II

An Analysis of the National Budget for FY2007-08

1. INTRODUCTION

The national budget for the fiscal year 2007-08 (FY2008) and the revised budget of FY2007 were placed before the country on 7 June 2007. The Centre for Policy Dialogue (CPD), in continuation of its tradition of presenting its analysis of budgets prepared by successive governments, has prepared the following analysis of the budget for FY2008. The CPD analysis draws upon data and information from various ministries, departments and agencies of the government as well as other sources. The CPD also undertakes a thorough examination of the various aspects of the budget for FY2008 which was prepared by the Caretaker Government (CTG).

1.1 Distinguishing Features of Budget 2007-08

This is the first time a non-party caretaker government has presented a full year budget. This distinctive feature could be interpreted as an opportunity to prepare a budget that would be free from political bias and pressures which generally tends to be characteristic of budgets prepared during normal times. Some quarters have, however, raised the issue of legality of the present budget that was proposed by a caretaker government. In this context one would be well advised to read **Article 83** *along* with the **Article 93** of the Constitution which stipulates that there is no bar in presenting a full fledged budget under the current circumstances.

Overall, the budget clearly reflects efforts to sustain reforms and the general direction of the transition taking place in the economy. There are also signs of recognition about the growing structural inequalities in the economy. An attempt has also been made to improve transparency in budgetary accounting. With reaffirmed commitment to the poverty reduction strategy (PRS), a new medium term macroeconomic framework (MTMF) has also been estimated for the next three fiscal years (FY2008-10). This, to some extent, is expected to provide some relief from apprehensions about *plan holiday*, at least for the short term. In line with the PRSP target, a 7 per cent growth of GDP has been projected for FY2008. Required performance in the macroeconomic arena to attain this rate of growth will, however, critically hinge on performance in the arena of investment. On the other hand, while it was expected that the proposed resource envelop will define expenditure targets for the upcoming fiscal, there are signs that indicate otherwise.

Built on a fragile fiscal framework stemming from high expenditure targets in the backdrop of lower revenue expectations, the budget proposes a number of thoughtful fiscal measures. It appears that while overall ~~the~~ budget for FY2008 does attempt a break off with the past, it falls short of making a real breakthrough.

2. PUBLIC FINANCE FRAMEWORK

Proposed fiscal structure for FY2008 demonstrates a certain degree of fragility on different counts. In the backdrop of a comparatively low revenue growth target, a much higher growth in expenditure has been targeted. At the same time, within public expenditure, marginalisation of development expenditure is taking place with lowest ever targeted annual development programme (in terms of share of GDP). Mobilising resources to finance the formidable deficit of 5.6 per cent of GDP might turn into a major challenge for the government during the upcoming fiscal year. With obvious pressure building on the domestic sources, higher borrowing from the banking and non-banking sources will be required. Over ambitious target of foreign financing (both grants and loans) may also make the ADP financing tricky. About 49 per cent of the ADP outlay is to be foreign sourced.

2.1 Revenue Earnings

A target of Tk 57,301 crore in revenue collection has been set for FY2008, which is Tk

7,829 crore or 15.8 per cent higher than the revised figure for FY2007. On the other hand, revenue-GDP ratio and tax-GDP ratio are targeted at 10.8 per cent and 8.6 per cent respectively, up from 10.5 per cent and 8.4 per cent in FY2007. The PRSP target for FY2008, however, sets higher revenue-GDP ratio at 11.6 per cent and tax-GDP ratio at 9.6 per cent. These targets remain modest compared to neighbouring economies, owing to the successive failure in scaling up revenue mobilisation over last couple of years.

Figure 1 : Tax-GDP Ratio Of South Asian Countries

Source: CPD-IRBD Database.

NBR Tax Component

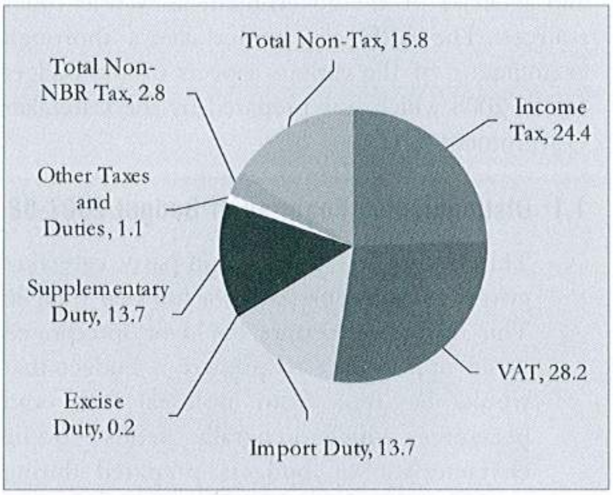
According to the targets set for FY2008, NBR tax earnings will have to achieve a 17.0 per cent growth, compared to 15.5 per cent growth in FY2007. This target leaves NBR to contribute 76.5 per cent of the total revenue earnings for the next fiscal year. In view of the previous trends of achievement, this will be a challenging task and may not be eventually met.

Out of the required additional amount of Tk 7,829 crore as total revenue in FY2008, VAT will have to contribute 28.2 per cent, followed by income tax (24.4 per cent). Import duty will contribute 13.7 per cent of the total additional revenue. In total, the NBR component is expected to contribute 81.4 per cent of the total revenue.

Non-NBR Tax Component

Non-NBR tax component (NL, Vehicles, Land and Stamps) faces a growth target of 12.4 per cent in FY2008. With the benchmark growth of 15.9 per cent in FY2007, the growth target of earnings from the non-NBR tax components looks rather conservative. Contribution of non-NBR tax component in the total revenue earnings of FY2008 will be 3.5 per cent, which was 3.6 per cent in FY2007 (revised). As per the total revenue target for FY2008, non-NBR tax component is programmed to contribute 2.8 per cent of the total increment.

Figure 2 : Incremental Contribution in Revenue Growth of FY2008



Source: CPD-IRBD Database.

Non-Tax Component

Non-tax revenue component (DP, PO&R, T&T and IFT) is targeted to grow at 12.1 per cent in FY2008 and contribute about 20.0 per cent of the total revenue. The targeted growth of collection in this component is found to be on the low side compared to the achieved 19.5 per cent growth in FY2007 over the actual figures of FY2006. Incremental contribution of non-tax revenue to the total revenue growth will be 15.8 per cent.

The composition of revenue growth targets set for FY2008 under different heads indicates that the economy has finally shifted its dependence on international trade taxes to domestic taxes. Concurrently, in FY2008, indirect taxes are going to provide a greater share of the enhanced collection in comparison to direct taxes.

2.2 Public Expenditure

Fragility in the fiscal structure of FY2008 stems from the high expenditure target that has been set by the budget. Total public expenditure budget of FY2008 amounts to Tk 87,137 crore which is Tk 20,301 crore or 30.4 per cent higher than the revised budget of FY2007, whereas revenue earning is set to grow by 15.8 per cent. Public expenditure as a percentage of GDP, against the PRSP target of 15.3 per cent, will amount to 16.4 per cent in FY2008, which is substantially higher than that of FY2007 (14.3 per cent). As mentioned earlier, share of ADP in the total expenditure is getting marginalised.

Table 1 : Sector-Wise Distribution of Total Expenditure (Non-Development and Development)

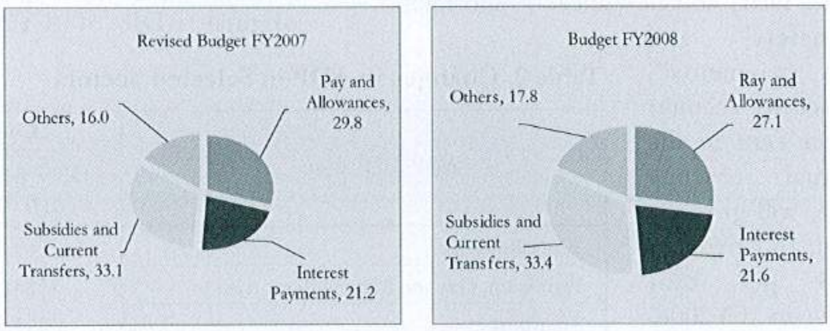
Sector	FY2007 (Revised)	FY2008 (Budget)	Change in Budget FY2008 over Revised Budget FY2007	
			Crore Tk	%
Public Service	6201	9782	3581	57.7
Fuel and Energy	3034	4586	1552	51.2
Industrial and Economic Services	503	694	191	38.0
Social Security and Welfare	2918	3893	975	33.4
Agriculture	5316	6891	1575	29.6
Housing	581	731	150	25.8
Recreation, Culture and Religious Affairs	757	938	181	23.9
Interest	9154	10785	1631	17.8
Transport and Communication	5953	7000	1047	17.6
Education and Technology	10899	12369	1470	13.5
Health	4957	5470	513	10.3
Public Order and Safety	4373	4754	381	8.7
LGRD	7342	7472	130	1.8
Defense Services	5397	5469	72	1.3
Total Expenditure	**67385**	**80834**	**13449**	**20.0**

Source: CPD-IRBD Database.

Within the total expenditure, share of ADP and non-development revenue expenditure accounts for 30.4 per cent and 55.5 per cent respectively, while their respective shares in FY2007 were 32.2 per cent and 63.1 per cent.

A sector-wise distribution analysis of total expenditure reveals that public service is set to receive Tk 3,581 crore more in FY2008 than FY2007, registering a growth of 57.7 per cent. Fuel and energy follow

Figure 3. Contribution of Major Heads of Revenue Expenditure



Source: CPD-IRBD Database.

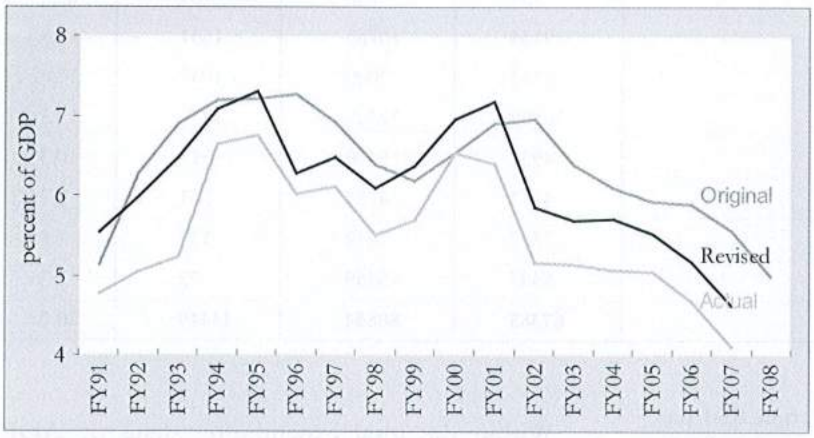
[1]Acquisition of assets and works is not included and recoveries are not deducted here. Total augmented non-development revenue expenditure (after adjustment) becomes Tk 50,259 crore in FY2008 which was Tk 43,832 crore in FY2007 (revised).

closely with an additional allocation of Tk 1,552 crore (51.2 per cent growth) and industrial and economic services will receive an additional Tk 191 crore (38 per cent growth). Excluding ADP, total expenditure of FY2008 will increase by Tk 15,401 crore. Liabilities of BPC and additional allocation in public service together will contribute Tk 11,104 crore or 72.1 per cent of this extra expenditure.

Revenue Expenditure

Revenue expenditure target for FY2008 is Tk 49,838 crore[1], which is Tk 6,622 crore or 15.3 per cent higher than the revised figures for FY2007. As percentage of GDP, revenue expenditure stands at 9.4 per cent in FY2008, which was higher than the PRSP target of 8.6 per cent.

Figure 4 : ADP as % of GDP



Source: CPD-IRBD Database.

Economic analysis of revenue expenditure reveals that expenditure on account of major three heads, "salary and allowances", "subsidies and transfers" and "interest payments", which is set to account for 82.2 per cent in the total actual revenue expenditure, will grow by 4.9 per cent, 16.7 per cent and 17.8 per cent respectively in FY2008. Block allocation will increase significantly, i.e. by 132.5 per cent. It may be noted that the domestic debt servicing liabilities are on the rise. Share of DSL (domestic) in revenue expenditure was 18.2 per cent in FY2007 (revised), which is projected to be 19.0 per cent in FY2008.

Development Expenditure (ADP)

The new ADP for FY2008 has been set at Tk 26,500 crore, which is 22.7 per cent higher than the revised ADP and 1.9 per cent higher than the original ADP of FY2007. With 38 new projects, ADP of FY2008 includes 927 projects in total. The ratio of domestic-foreign sources of financing is targeted to be the same as revised ADP of FY2007 (63:47). Targeted ADP for FY2008 will stand at 5.0 per cent of GDP – again the lowest since 1991.
Free from political pressure, quality of the ADP of FY2008 should be seen as the crucial factor rather than its size. Sectoral allocation pattern of the new ADP reveals that education and religion received highest allocation (16.3 per cent of the total ADP), although the allocation is 2.9 per cent lower than the original ADP of FY2007. Power sector has been prioritised in the ADP of FY2008 and is set to receive 30.7 per cent more allocation than that of in the revised ADP (FY2007), which is also 14.9 per cent higher than the original ADP of FY2007. Agricultural sector got 22.6 per cent more allocation over revised ADP FY2007; however, this is 14.6 per cent lower than the original ADP of FY2007. Social welfare,

Table 2. Changes in ADP in Selected Sectors

ADP Allocation	Changes (in crore Tk.)	
	ADP08-Revised ADP07	Revised ADP07-ADP07
Water Resources	269.21	-269.97
Petroleum, Gas and Mineral Resources	585.21	-580.2
Transport	313.59	-318.61
Road Transport	2428.15	-2411.98
Air, Rail and Water Transport	875.59	-896.78
Education and Religion	824.48	-935.18

Source: CPD-IRBD Database.

women and youth development received 7.7 per cent more allocation in FY2008 than the revised ADP of FY2007, which is, however, less than half of the original allocation of FY2007 (55 per cent lower).

An analysis of the pattern of revised ADP FY2007 and ADP FY2008, however, raises the question as to whether there has been an attempt to transfer the fiscal burden from the previous year to the budget for FY2008.

Sectoral allocation structure, particularly for water resources, petroleum, gas and mineral resources, transport and education and religion, shows that the revised amount between revised ADP and ADP of FY2007 is close to the increased amount allocated in FY2008 over revised ADP FY2007.

Block Allocation

The ADP of FY2008 does not include any sectoral block allocation. Total block allocation decreased by 65.8 per cent over the original ADP of FY2007. However, ADP of FY2008 has kept allocation against unapproved projects. Special block allocation and allocation for unapproved projects have been targeted at Tk 1,413.98 crore and Tk 992.5 crore respectively. The combined allocation comprises 9.1 per cent of the total ADP for FY2008.

Table 3 : Fiscal Framework in Budget FY2008

ADP Allocation	Revised Budget 2007		Budget 2008	
	Crore Tk	% of GDP	Crore Tk	% of GDP
Revenue Earnings	49472	10.6	57301	10.8
Total Expenditure	66836	14.3	87137	16.4
Non-ADP Expenditure	45236	9.7	60637	11.4
Liabilities of Government (from BPC)			7523	1.4
Annual Development Programme	21600	4.6	26500	5.0
Overall Deficit (excluding grants)	17364	3.7	29836	5.6
Financing				
Domestic	10031	2.1	19276	3.6
Bank	6531	1.4	7253	1.4
Non-Bank	3500	0.7	4500	0.8
Non-Cash Bond (Liabilities of BPC)		0.0	7523	1.4
Foreign	7333	1.6	10560	2.0
Foreign Grants	2150	0.5	4255	0.8

Source: CPD-IRBD Database.

Education and Religion

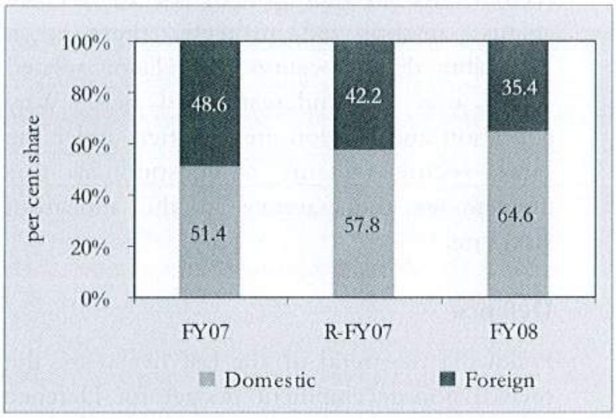
Allocation in education and religion sector was revised downwards by 24.2 per cent in the revised ADP of FY2007 from its original allocation. However, religion related projects received 28.2 per cent more than the original ADP. Similarly, while ADP of FY2008 got 2.9 per cent less allocation in education and religion sector as a whole than the original ADP of FY2007, religion related projects actually received 47.9 per cent more allocation. Keeping in mind that education and religion sectors have an allocation of Tk 187.1 crore against unapproved projects, there is a possibility that allocation for religion related sector may be underestimated here. Why education and religion are reported under the same sector remains a question as this undermines transparency in the allocation structure.

Defence

Following the trend of the last five years, the revised non-development budget for Defence in FY2007 exceeded the original budgeted figure. This difference stood at Tk 536 crore in FY2007—a five year high. In FY2008, total non-development and development expenditure in defence services will stand at Tk 5,397 crore, which amounts to 6.3 per cent of the total budget (compared to 7.0 per cent in FY2007). Defence services received 9.8 per cent of the total non-development budget which is 11.3 per cent more than the revised allocation in FY2007 and 0.02 per cent more than the original budget of FY2007. Alongside, the development budget for defence is set to grow by 61.3 per cent in FY2008.

Defence expenditure for Bangladesh in FY2007 stood at 1.15 per cent of GDP. It will be pertinent to mention here that this which is lower than the comparable spending in Pakistan (2.84 per cent) and India (1.81 per cent) for the corresponding year.

Figure 5 : Sources of Deficit Financing



Source: CPD-IRBD Database.

Election Commission

Total development and non-development budget for the Election Commission increased to Tk 536 crore in FY2008 compared to Tk 120 crore allocation in FY2007. This additional allocation will allow the Commission to finance preparatory work for the upcoming elections, including preparation of the voter list.

2.3 Budget Deficit and Financing

A large deficit has been the most prominent feature of the budget for FY2008. The budget deficit (excluding grants) for FY2008 has been estimated at Tk 29,836 crore, which is 5.6 per cent of the GDP. PRSP target of budget deficit for FY2008 has been set much lower at 3.7 per cent of GDP. Given the deficit figure of Tk 17,634 crore in the revised budget of FY2007 (3.7 per cent of GDP), budget deficit in FY2008 increased significantly by 71.8 per cent.

However, Liabilities of BPC have added Tk 7,523 crore to the deficit. But even after excluding BPC liabilities, the deficit is set to increase to 4.2 per cent of the GDP.

As regards financing of the deficit, domestic sources will bear 64.6 per cent (Tk 19,276 crore) of the total deficit. Within this, Tk 7,253 crore (37.6 per cent of domestic financing) is expected to come from the banking system, while the non-bank component is estimated to contribute Tk 4,500 crore (23.3 per cent of domestic financing) in financing the deficit. The rest 39.0 per cent (Tk 7,523 crore) of the domestic financing will come from non-cash bond (liabilities of BPC).

The share of foreign financing for this large deficit will stand at 35.4 per cent (Tk 10,560 crore) in FY2008 compared to 42.2 per cent (Tk 7,333 crore) for the revised budget of FY2007. A much higher amount of foreign grants has been projected for FY2008 to the tune of Tk 4,255 crore against Tk 2,150 core in the revised budget of FY2007 (97.9 per cent growth). An estimated US$1,552 million (net) in foreign aid will be needed to finance the deficit.

Gross foreign aid requirement (after repayment) for FY2008 will exceed US$2.0 billion, far above the inflow in a single year for the last one and a half decades. Thus, mobilising foreign resources will be one of the major challenges for successful implementation of the new budget.

3. OVERVIEW OF FISCAL MEASURES

3.1 Tax and Duty Measures

Direct Tax

The budget proposals have addressed the structure of the personal income tax and selective corporate tax rates. An attempt has been made to reduce general aversion of the taxpayers to pay taxes and avoid procedural complexities.

Income Tax: The budget for FY2008 has brought significant changes regarding income tax. The tax-exempted income limit for individual tax payers has been raised from Tk 120,000 to Tk 150,000. *This will increase the minimum monthly taxable income to Tk 12,500.*

• Proposal to introduce legislative provision on universal self-assessment procedures will encourage taxpayers to pay tax voluntarily.

• Abolition of deduction of tax at source on credit card bill is likely to increase consumer spending by enhancing use of credit cards by consumers.

• Mobile phone operator companies' will be charged tax rate of 45 per cent unless these companies converted to publicly traded companies. *This is likely to persuade the firms to enter the stock exchange and have positive impact on the equity market.*

• Imposition of tax deductible at source at 0.25 per cent on all export earnings to be considered as tax finally paid will simplify tax payment for exporters; *however, this may come at the cost of potential revenue loss from the larger exporters.*

• Extension of tax rebate facility to non-resident Bangladeshi investors may help to induce investment from abroad, given the current state of the economy.

• Imposition of tax on private universities and research institutions registered under Trust Law is a measure which aims at taxing knowledge and is most likely to have an adverse impact on the financial viability and overall functioning of the relevant institutions. The government would do best if it reviews this decision.

Special Tax Benefit

• A proposal for voluntary disclosure of untaxed legal income within 60 days upon payment of regulatory tax plus 5 per cent penalty has been placed. With the ongoing anti-corruption drive, this is likely to raise significant revenues through the National Board of Revenue (NBR).

• Discontinuation of special tax treatment specified for land, apartment and motor vehicles purchase with undisclosed and untaxed money has been proposed.

Outstanding Proposals

• A database of taxpayers needs to be established to help the NBR to have first hand knowledge about the state of tax collection from individuals and companies. The ambit of the large taxpayer units (LTU) should be expanded to enhance opportunities for tax mobilisation.

Indirect tax

• Restructuring of duty slabs at 10 per cent instead of 5 per cent, 15 per cent instead of 12 per cent and 25 per cent (unchanged) and an abolition of the 4 per cent Infrastructure Development Surcharge (IDSC) have been proposed. While the cost of import items may increase for the first two slabs, removal of 4 per cent IDSC is expected to outweigh this cost.

• Assimilation of two different slabs of supplementary duty from 15 per cent and 25 per cent to 20 per cent is expected to simplify the duty structure. Additionally, reduction of existing supplementary duty of 25 per cent and 65 per cent to 20 per cent and 60 per cent respectively is expected to reduce cost of import.

• Withdrawal of zero duty on textile machinery, computer and computer accessories will raise the import costs of these items and may not prove to be favourable to the IT industry.

• Removal of customs duty from crude edible oil and lentils and continuation of zero duty import of essential food commodities and fertilisers for the farmers will allow the government to stabilise the existing price situation.

• Proposal to raise the specific duty rate on raw sugar from Tk 2,250 to Tk 4,000 has been placed to protect local sugar cane growers and prevent misdeclaration. However, this may adversely effect the price of sugar in the local markets.

• Trade liberalisation has been addressed by putting in measures such as the withdrawal of 4 per cent IDSC, reduction of existing supplementary duty and removing customs duty on electronic cash registers.

VAT

• Reduction of the minimum and maximum penalty for tax evasion to 25 per cent and 75 per cent respectively is likely to encourage self assessment by taxpayers.

• Withdrawal of annual renewal of VAT registration by commercial importers will simplify the procurement of commodities from abroad.

Table 4 : Simulation with Proposed Change in Tariff Structure

	CD	SD	VAT	AIT	IDSC	RD	Tariff Incidence
CD increased from 5% to 10%							
Old	5	0	15	3	4	0	27.75%
New	10	0	15	3	0	0	29.50%
CD increased from 12% to 15%							
Old	12	0	15	3	4	0	35.80%
New	15	0	15	3	0	0	35.25%
CD remains 25%							
Old	25	0	15	3	4	0	50.75%
New	25	0	15	3	0	0	46.75%
CD remains 25%; SD increases from 15% to 20%							
Old	25	15	15	3	4	0	72.31%
New	25	20	15	3	0	0	75.50%
CD remains 25%; SD decreases from 25% to 20%							
Old	25	25	15	3	4	0	86.69%
New	25	20	15	3	0	0	75.50%
CD remains 25%; SD decreases from 65% to 60%							
Old	25	65	15	3	4	0	144.19%
New	25	60	15	3	0	0	133.00%

Source: CPD-IRBD Database.

• Withdrawal of VAT on insulin, first aid box, hearing aid, shadow-less operation lamps at import will help to reduce medical costs, especially for the poor.

• Imposition of VAT at the rate of 4.5 per cent on coaching centers, English medium schools, private medical and engineering colleges and private universities and health clubs is likely to raise substantial revenue.

• Withdrawal of VAT exemption facility to specialised doctors, lawyers and dental clinics will extend the VAT coverage.

• Further extension of the VAT net through withdrawal of the existing turnover facilities to enterprises including building construction companies, SIM card and internet distributors, cinema halls, health and fitness centres and sports organisers is likely to lead to higher VAT income.

Outstanding Proposals

• VAT registration through commercial banks may be explored by the government to ensure greater certainty of incidence.

• A system of VAT inclusive maximum retail price (MRP) for all products needs to be examined by the NBR.

3.2 Restructuring the Tax Administration

The budget has attempted to address the need for reducing dependence on import based revenue collection and augmenting revenues from domestic sources. While some progress has been made in this direction, reforms in the tax administration need to be continued to ensure adequate revenue mobilisation. In this connection, it is to be noted that the budget proposes reduction of discretionary powers of tax officials and elimination of discriminatory tax collection policies has been proposed.

3.3 Changes in Tariff Structure: Implications for Domestic Industry

With a view to simplify the tariff structure and generate more revenue through import duty, the government has restructured the overall import duty structure by replacing the existing three tier slabs of 5 per cent, 12 per cent and 25 per cent by 10 per cent, 15 per cent and 25 per cent respectively, with the total withdrawal of IDSC of 4 per cent from the current tariff structure. The government has also decided to merge the two slabs of the supplementary duty (SD) of 15 per cent and 25 per cent into a single slab of 20 per cent, and reducing the existing SD from 65 per cent to 60 per cent.

The CPD estimate draws attention to the fact that the proposed slab of import duty may create an *anti-domestic industry bias.* Table 4 reveals that the tariff incidence will be increased by 1.75 per cent when customs duty changes to 10 per cent from 5 per cent (SD, VAT, AIT and RD remain at 0 per cent, 15 per cent, 3 per cent and 0 per cent respectively in all the cases), i.e. the tariff incidence would be 29.5 per cent for the new tariff structure in lieu of 27.75 per cent for the old structure. It is to be mentioned here that basic raw materials and capital goods items would fall under this group. On the other hand, the change in tariff from 12 per cent to 15 per cent has not seen significant differences in terms of tariff incidence for the importers of intermediate goods, a decrease in tariff incidence of only 0.55 per cent. The new tariff structure would surely be beneficial for the finished goods importers, who will now face lower tariff incidence (due to removal of the 4 per cent IDSC and same 25 per cent CD). *It is worthwhile to note that the difference between tariff incidence for raw materials and finished goods decreased from 23 per cent to 17.25 per cent with the proposed changes in tariff structure (assuming zero per cent SD).*

Another point needs to be made here which is that SD has been imposed on finished products only (in other words, there is no incidence of SD in the case of earlier 5 per cent and 12 per cent CD slab). When SD is fixed at 0 per cent, tariff incidence for finished products comes down by almost 4 per cent which comes down significantly by 11.19 per cent when SD comes down from 25 per cent to 20 per cent (proposed in the budget). Again, when SD decreases from 65 per cent to 60 per cent, tariff incidence for finished products comes down by 11.19 per cent. On the other hand, when SD increases from 15 per cent to 20 per cent (proposed in the budget), tariff incidence of finished products would increase by 3.19 per cent.

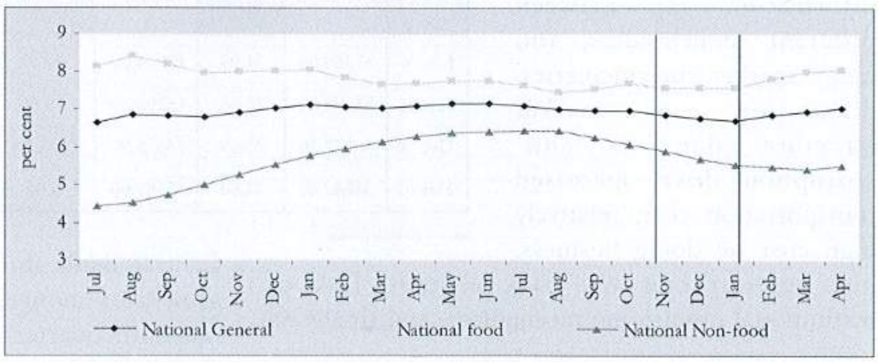
The upshot of this analysis is that there is a high possibility that the proposed restructuring of tariff, notwithstanding being progressive in nature, may create an anti-domestic industry bias!!!

Government has revised the tariff structure to make it simple and more transparent in the proposed budget of FY2007-08. We are confused with the recent initiative taken by NBR to impose safeguard tax on import of products posing threat to export items. Imposition of such a tax apparently contradicts with the objective of a more transparent and simple tariff structure.

4. PRICE STABILISATION MEASURES

Price hike has been one of the major challenges for the CTG. Two distinctive features have been observed of the recent inflationary trend: food inflation is higher than non-food inflation and rural food inflation is higher than urban food inflation. On the basis of moving average, consumer price inflation decreased from 7.09 per cent in April 2006 to 7.02 per cent in April 2007. The inflation rate on a point-to-point basis was 8.28 per cent during the same period. Food inflation had been higher than the non-food inflation during the first three quarters of FY2007 and the trend continued till April.

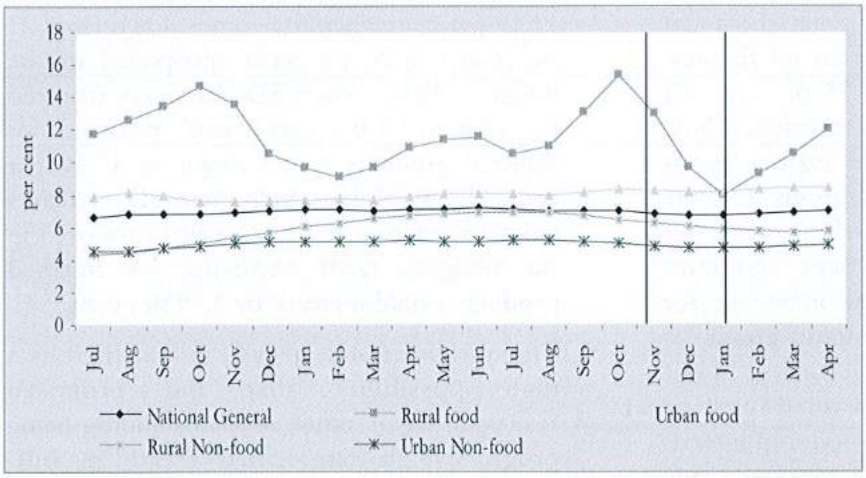
Figure 6 : Trend in National Inflation



Source: CPD-IRBD Database.

Rural food inflation is notably higher and volatile than all other classifications of inflation, most of the times, if not always. Similar trends were observed during the first three quarters of FY2007 and in April. Only in January 2007, the urban food

Figure 7 : Trend in Food and Non-Food Inflation



Source: CPD-IRBD Database.

inflation (8.1 per cent, moving average) was higher than the rural food inflation (8.0 per cent, moving average). Rural non-food inflation declined at a steady rate throughout the first three quarters of FY2007 and into April whereas both urban food and non-food inflations were stable except for few insignificant deviations.

A recent CPD study has made an attempt to diagnose the reasons behind the current creeping inflation, particularly food inflation.[2] The reasons identified are both domestic and international by nature. Domestic reasons include increased production cost of domestic commodities, market concentration/collusion of market agents (both at importers and bepari levels), information gap between different stakeholders, too many market intermediaries, dislocation in market structure due to anti-corruption drive, increased transportation cost, relatively high cost of doing business, high interest rate and bank charges, lack of institutional monitoring mechanism and finally an inflationary expectation originating from the current inflation trend. International reasons include global supply shocks due to adverse climatic conditions in major exporting areas and global price hike of petroleum products.

By investigating the nature and reasons of the recent inflationary trend, the following observations can be made. The inflation has mainly originated from a change in relative prices, indicating a cost-push inflation which is more of a supply-side issue. It is not a macroeconomic problem; rather, it is a product specific issue. Finally, based on current domestic market trends and taking note of the global and regional inflation projection for the next few months, the national inflation is unlikely to come down below 7 per cent in the near future (till Aman), while the food inflation is expected to be hovering around 9 per cent during the first half of FY2007-08.

Considering the reasons and nature of the inflation, persuasion of price stabilisation approach to decrease price volatility in the short term, and increase production and productivity growth in medium term appears to be the best strategy to address the issue of inflation. The Central Bank should also cautiously monitor the growth of monetary sector. Table 5 shows that in the third quarter of FY2007 the growth of total

Table 5 : Trends in Growth of Domestic Credits

(Outstanding stock) (Tk in crore)

	Credit to Government	Growth (point to point)	Other Public	Other Public (point to point)	Private Sector	Private (point to point)	Total Domestic Credit	Total point to point
Jun 06	31260.00	21.95	15074.20	34.72	130971.80	18.27	177306.00	20.16
Sep 06	33698.00	28.36	15296.10	18.86	134811.30	17.70	183805.40	19.62
Dec 06	36777.20	35.89	15675.90	3.61	142393.40	19.44	194846.50	20.72
Mar 07	34839.60	31.94	15589.60	3.02	145405.60	16.59	195834.80	17.79

Source: CPD-IRBD Database.

[2]CPD (2007). Price of Daily Essentials: A Diagnostic Study of Recent Trends. A report prepared for the MoC, GoB.

domestic credit is lower than the previous two quarters. Broad money and private sector growth have been projected at 15.0 per cent and 14.5 per cent respectively. Considering the target, the growth of monetary sector should be monitored carefully.

Both short-term and medium-term policy recommendations have been articulated in the aforesaid CPD report to mitigate the inflationary pressure. These can be divided into three broad groups based on the intervention level: market based intervention, non-market measures and institutional reforms. The expected outcomes from these interventions could be any of the following four:

a. To increase supply of essential commodities with increased import and higher production.

b. To reduce production and import cost.

c. To raise efficacy of marketing system by reducing the number of market intermediaries and to continue temporary measures like OMS by BDR, TCB, Food Directorate and establishment of open market (Unmukta bazaar).

d. To provide price support measures to the poorer segments, dearness allowance for the public servants and widen the social safety net programmes (e.g. FFW, VGD, TR, GR)

Among the 22 measures, 6 could be categorised as market based (four for increasing the supply, one for escalating the effectiveness of market and one for minimise production risk and facilitate supply), 13 non-market based (four for reducing the import cost, four for decreasing the production cost, two for increasing the production, one for increasing production with reduced cost and one for escalating both supply and price support) and 3 as institutional measures for reducing market volatility. It was found that majority of CPD's recommendations to mitigate the price hike of essential commodities have been reflected in the budget.

However, before anything else government should come up with a concrete and uniform estimate of national balance-sheet of food availability and demand of essential commodities on a priority basis. Based on this estimate, relevant government agencies should draw an annual plan to maintain food security of the country and take necessary measures to stabilise the price of essential commodities. Other short-term measures include taking necessary measures to reduce the production cost with increased availability of electricity to the agricultural sector through load management, increased agricultural credit facilities to the farmers and availability of subsidised agricultural inputs (such as fertilisers, distributing quality seeds, etc.), enactment of "Supply and Regulation of Essential Commodities Ordinance (2007)" with powerful implementing agency, widening of OMS initiatives by BDR, TCB, Food Directorate and private entrepreneurs, restoration of business confidence in the market, mandatory display of MRP, reduction of financial charges and reduction of the buying-selling difference of the USD and BDT, and reduction of transportation cost. Careful preparations will need to be made in view of any likely flood in July-August months, and also the upcoming Ramadan. Medium-term recommendations include promoting producers' marketing association, strengthening of the TCB as a modern corporate organisation, establishment of terminal markets with "hub and spoke" format, especially for perishable goods and establishment of an Advanced Agri-Portal.

Table 6 : CPD's Recommendations and CTG's Response to Mitigate Inflationary Trend

	Measures	Intervention Type	Expected Outcome
	Short Term Measures		
1.	Four wholesale markets in Dhaka city	Market based measure	More competition
2.	Strengthen BDR's Dal-Bhat programme	"	Increased supply
3.	Eight lakh tons of food grains imports by public sector	"	Increased supply
4.	Intensify internal procurement of foodgrains	"	Increased supply
5.	Six lakh MT tonnes of foodgrains will be distributed through TR, GR, FWP and VGD	"	Increased supply
6.	Special project to control bird flu and encourage hygienic poultry production and marketing	"	Minimise production risk and facilitate supply
7.	Withdrawal of customs duty on crude edible oil and lentils and continuation of duty free treatment of rice, wheat, onion, matar dal and chola dal	Non-market measure	Import cost reduction
8.	Existing supplementary duty has been reduced from 25 per cent and 65 per cent to 20 per cent and 60 per cent respectively.	"	Import cost reduction
9.	Commercial banks to provide credit facilities on softer terms to new importers	"	Reduction of import cost reduction
10.	Withdrawal of the provision of annual renewal of VAT registration by commercial importers	"	Import cost reduction
11.	Continuance of duty-free facility to import of fertilisers for farmers	"	Increased production
	Short and Medium Term Measures		
12.	Subsidy for diesel used in irrigation directly to card holding farmers amounting to Tk 750 crore	"	Production cost reduction
13.	To continue 20 per cent subsidy for electricity used in irrigation	"	Production cost reduction
14.	Tk 1,500 crore as fertiliser subsidy	"	Production cost reduction
15.	Distribution of agricultural credit (Target Tk 6,351 crore)	"	Increased production
16.	Increased coverage and the amount of individual grants under the social safety nets programme	"	Increased supply and price support
	Medium-Term Measures		
17.	Tk 350 crore endowment fund for agricultural research	"	Medium-Term Measures
18.	Increased allocations for road maintenance and railway maintenance	"	Increased production and cost reduction
19.	Allocated Tk 68 crore (19 per cent of total allocation) for repairing of two fertiliser units (Zia and Jamuna Fertiliser Company)	"	Import cost reduction Production cost reduction
20.	Establishment of task force at national and district level to review prices of essential commodities regularly	Institutional measure	Reduction of market volatility
21.	Inter-ministerial monitoring committee to analyse price situation of essential commodities and making recommendations	"	Reduction of market volatility
22.	A legal framework to protect consumers' rights	"	Reduction of market volatility

Source: CPD Price Study and Budget Documents.

5. SECTORAL AND REGIONAL MEASURES

5.1 Agriculture

Crop Sector- Increased investment, Subsidy for fertiliser, Diesel Card for Farmers

- **Subsidy for Diesel and Electricity Used in Irrigation:** Tk 750 crore has been proposed as subsidy on diesel used in irrigation for the Card Holding farmers. The Finance Adviser has also proposed to continue the 20 per cent subsidy for electricity used in irrigation. It is pertinent to mention here that the government has increased price of diesel by 21 per cent (from Tk 33 to Tk 40 per litre) on 2 April 2007. About 11 lakh metric tonnes of diesel are used for irrigation and 83 per cent of the total irrigated area is irrigated through diesel operated engines, and the rest is irrigated through electricity operated engines. Therefore, *this is a good initiative. CPD suggested for such an initiative through its budget recommendations to the Finance Adviser.*

- **Fertiliser Subsidy:** The budget for FY2007 has allocated Tk 1,500 crore as fertiliser subsidy against Tk 1,100 crore in FY2007 budget and Tk 1,541 crore in the revised budget of FY2007. CPD considers this to be a good initiative.

- **Fund for Agricultural Research:** An allocation of Tk 350 crore has been proposed in FY2008 as endowment fund for agricultural research compared to Tk 244 crore allocated for this purpose in FY2007. Agricultural research generates technology and most important determinant of agricultural growth in Bangladesh was technology and better management techniques generated through research. Growth in agricultural production through increased productivity and thereby reduction in per unit cost of production mainly depend on success in technology generation and dissemination. Therefore, *CPD welcomes this proposition, and hopes that it will be effectively and efficiently utilised to achieve desired goals.*

- **Fund for Small Farmers Affected by Natural Disasters:** Compared to Tk 50 crore in FY2007 allocation has been increased to Tk 100 crore in FY2008 on this account. Recent studies have shown that agriculture sector has experienced a significant change and has been shifting toward high value and high risk production system. *So, this is a welcome measure.*

  However, implementation would be the major challenge here. It is learnt that only about 52.8 per cent of the allocation made for FY2007 was actually spent until February 2007; 77 per cent of ADP allocation was released and 56 per cent of ADP allocation was spent up to April 2007.

Crop Sector-Tariff Reduction on Import of Agro-commodities Would Not Affect Domestic Production

- **Duty-free Import of Fertilisers:** The budget has proposed continuation of duty-free facility for importation of fertilisers for farmers. Considering high price of fertiliser in the international market and lack of domestic production to meet the demand, this is a realistic measure.

- **Duty-free Import of Agro-commodities:** The Finance Adviser has proposed withdrawal of customs duty on crude edible oil and lentils. He added that the import duty of a number of essential commodities, including rice and wheat, has been already withdrawn. For these commodities, zero duty import will continue. Withdrawal of import duties on agro-commodities is a very crucial issue. Here, balance of interests between farmers and consumers needs to be maintained. In the international market, currently the price of rice and wheat is very high. On the other hand, domestic production is less than the requirement. In the case of lentil, only one-third of total requirement is produced domestically. Most of the edible oil is imported as crude oil which is then refined and marketed in Bangladesh. Therefore, it is unlikely that reduction of import duty will negatively affect farmers.

- **10 Per cent Duty on Irrigation Pumps:** Withdrawal of duty-free import provision and introduction of 10 per cent duty on import of power pumps have been proposed by the Finance Adviser. It is likely to have negative impact on irrigation and agriculture. *We suggest* *for continuation of duty-free import of irrigation pumps.*

• **Agricultural Credit:** Agricultural credit has been proposed to increase. The target for FY2008 is Tk 6,351 crore compared to Tk 6,316 crore in FY2007 and actual disbursement of Tk 4,294.93 crore (up to April 2007). The budget has proposed to distribute agricultural credit through Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB), four nationalised commercial banks (NCBs), Bangladesh Rural Development Board (BRDB) and Bangladesh Cooperative Bank (BCB).

Poultry– Special Project to Tackle Bird Flu and Zero Tariff on Import of Inputs and Machineries

• Two projects for poultry sector have been initiated in the ADP. These are: (i) Prevention and Control of Avian Influenza: Tk 19.81 crore for FY2008 (total budget: Tk 154 crore for 4 years), and (ii) Poultry Technology Development and Testing Project: Tk 18.21 crore for FY2008 (total budget: Tk 33.51 crore for 5 years). In his budget speech, the Finance Adviser has stated, "Immediate and emergency measures have been taken to tackle the situation arising from the attack of avian influenza virus. A special project costing Tk 20 crore has been approved in addition to the allocation made from revenue budget to ensure constant monitoring, payment of compensation and hygienic production and marketing of poultry products."

• The Finance Adviser has also mentioned that the Government remains focused on the prevention of *jhatka* fishing and on quality control of fish and fishery products.

These are welcome measures but real challenge will be implementation, particularly in view of the fact that only 34.1 per cent of allocation in FY2007 was spent till February 2007. CPD recommended for duty-free import of equipments for poultry industry and special projects to tackle bird flu (Avian Influenza).

5.2 Industry

The government has allocated Tk 341.8 crore for the "industry" sector in the ADP of FY2008, which is 25.3 per cent lower than the original ADP and 18.2 per cent higher than the revised ADP of FY2007. Domestic resources will finance 42.4 per cent of the planned expenditure while project aid will finance 57.6 per cent of the proposed allocation. The number of projects has been decreased to 29 (15 Investment and 14 TA projects) from 39 during the previous fiscal and no new project has been included. Highest allocation has been provided to the project "Refurbishing Assets of Chittagong Still Mills and Adamji Jute Mills for Converting into EPZ." Besides, Tk 68 crore, which is nearly 19 per cent of total allocation, has been allocated for repairing of the two fertiliser companies, namely Zia and Jamuna Fertiliser Company. Surprisingly, no projects of agro-based and agro-processing industry have been included in the ADP despite these being identified as thrust sector in the Industrial Policy 2005.

5.3 Textile and Readymade Garment

The FY2008 budget proposed an allocation of Tk 10.18 crore for 4 projects for the development of textile and readymade garment industries. The majority of this funding has been provided by the GoB (about 51 per cent) and the rest 49 per cent of the allocation has been financed from foreign aid. Highest allocation was made for the development of our textile industries, with a view to proper integration with our RMG sector. Around Tk 8.48 crore has been allocated for three different projects to strengthen the capability and capacity, and enhance the quality of the country's textile industry. An amount of Tk 4.68 crore has been proposed for the development of 10 textile vocational institutes; another Tk 3.5 crore has been allocated for "Strengthening of NITTRAD's & TSMU's Capability for Development of Textile Sector". A grant of Tk 1.7 crore in the form of technical assistance has been made to the Ministry of Commerce (MoC) as a support to the RMG sector in view of post-MFA challenges. Apart from this, the government has also allocated Tk 25 crore for welfare benefits of the RMG workers and Tk 20 crore for training and enhancing efficiency of the garment workers.

The withdrawal of zero duty on textile machineries and imposition of a customs duty of 10 per cent have been made at a time when the garment sector of Bangladesh is addressing the post-MFA challenges. It is to be mentioned that the RMG sector's performance has been stellar. The sector has posted a positive growth rate of over 21 per cent during the first 9 months of FY2007; the knitwear sector is doing particularly well. However, in view of the emerging market scenario, particularly the competitive pressure from China, Bangladesh's export-oriented RMG sector needs to remain alert to the challenges of maintaining the current momentum. Consequently, providing support to the backward linkage textile industry and the zero-duty on capital machineries should be continued.

5.4 Handloom

Interestingly, there has been no mention of the handloom industry in the FY2008 budget. No development initiative has been taken by the current CTG for the development of this sector which is considered to have large potential. It is pertinent here to recall that our neighbouring country, India, has allocated Rs 321 crore for the development and strengthening of this sector in its budget for FY2008.

5.5 Jute

While jute has been identified as the third most import thrust sector in the industrial policy, we see no reflection of it in the budget. Obviously, just acknowledging the sector as a thrust sector is not enough. Concrete initiatives to develop the jute sector should be taken.

5.6 Newsprint

In view of the problems of newspaper industry and at the same time to keep the raw materials for newsprint duty-free to develop the local newsprint industry, the budget has proposed a reduction of customs duty rate from 25 per cent to 15 per cent on the import of newsprint and also withdrew duty-free import facility if 50 per cent newsprints are local. Ten per cent CD has been imposed on basic raw materials of paper industries (pulp i.e. HS47.01-47.03) and on capital machinery (HS 84.39, 8439.91, 8439.99 and 59.11) which was 0 per cent and 5 per cent in FY2007. Considering huge investment and growth of this sector, reintroducing "zero" tariff facility for raw materials (pulp i.e. HS 47.01-47.03) for this industry may be considered.

As a result of this measure, the facility enjoyed by the importers to import 50 per cent of their demand duty free on condition that the rest 50 per cent will be met from local sources is gone. Hence, the government may consider further reduction of the customs duty rate than the proposed rate. The government has to be vigilant as regards misuse of the facility by dishonest importers.

5.7 SME: Loser against Large Scale

While the small and medium enterprise (SME) has been identified as one of the priority sectors and the driving force for industrialization in the Industrial Policy 2005, not much has been done for the development of this sector in the FY2008 budget. Only an amount of Tk 40.06 crore (11.8 per cent of total industrial allocation) has been allocated for the development of this sector. In the proposed ADP, Tk 20.66 crore has been proposed for the Small Enterprises Development Credit Project (SECP) and a further Tk 16 crore has been allocated for the development of tannery industry. A decision has been taken to establish an SME Foundation under the Ministry of Industry as a new initiative. An endowment allocation of Tk 100 crore has been proposed in the budget, while Bangladesh Small and Cottage Industries Corporation (BSCIC) has allocated Tk 23 crore to create a Thrust Fund to provide SME loans. Another initiative of the present government is to re-fix the ceiling of invested capital in plant, machineries and equipment from Tk 5 lakh to Tk 7 lakh for cottage industry, which will hopefully benefit the SME industry.

Taking cue from the earlier paragraph, we see that rather than to help developing our industries to go global, the CTG has imposed a customs duty of 10 per cent (earlier it was zero duty) on textile machineries, computers and computer accessories; whereas India has raised the exemption duty for small scale industries from Rs 1 crore to Rs 1.5 crore in FY2008 to promote the SME. On the other hand, Pakistan has identified CNG dispenser, leather and shoe industry as their thrust sectors and exempted them from customs duty.

CPD has put forward some suggestions for the development of SMEs to cope up with the rising global competition:

• Budgetary declaration of re-fixation of the ceiling of invested capital in plant, machineries and equipment from Tk 5 lakh to 7 lakh for cottage industry could be increased up to Tk 10 lakh.

• SMEs based on imported raw materials suffer from double VAT collection and hence loses competitive edge—this issue needs to be addressed as soon as to enhance the price competitiveness.

• Turnover tax should be collected from larger SMEs.

• For better access to credit facilities by the SMEs, loan procedure should be made easy.

5.8 Agro-based Industry

Agro-based Industry– EEF and Credit Support to Sustain Growth

The budget has allocated Tk 100 crore as agriculture Equity Entrepreneurship Fund (EEF). In FY2007, Tk 100 crore was allocated under EEF for agriculture and ICT sectors.

An allocation has been made for Tk 150 crore as credit support for agro-based industries to be channeled through Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB), BASIC Bank and Karma Sangsthan Bank (KSB).

Specific duty on raw sugar from Tk 2,250 per metric tonne has been increased to Tk 4,000 to avoid mis-declaration and to protect the interest of sugarcane growers and local sugar industries.

The withdrawal of SD on glucose and glucose syrup (1702.30.10, 1702.30.20, 1702.30.90 & 1702.40.00) will lock down the local industries, as they will not be able to compete with the imported items. SD of 20 per cent on these items may be retained to protect domestic industries.

5.9 ICT

The budget has proposed withdrawal of zero duty on computer and computer accessories to protect the domestic industries. However, it may have negative impact on education and overall economy. Therefore, we suggest maintaining zero duty on computer while keeping the proposed duty on computer accessories.

5.10 Milk and Milk Powders

Tariff incidence on milk and cream in powder forms has increased from 72.31 per cent to 75.5 per cent whereas, tariff incidence on other milk products has decreased from 50.75 per cent to 46.75 per cent and from 32.0 per cent to 28.0 per cent. In view of rising trend in international price, introduction of specific duty may be considered.

5.11 Export Promotion and Diversification: Less Priority!!

The government has allocated Tk 1,100 crore for subsidising our exports and Tk 800 crore has already been released during FY2007. While the current Export Policy 2006-2009 identifies six thrust sectors, only agro-products and agro-processing products, and software and ICT got Tk 100 crore each through the EEF. The rest was not mentioned at all in the budget. The way the budget has been prepared it looks as if the export sector has been punished for its robust performance!!!

5.12 Environment

Environment – Special Focus to Monitor and Curb Pollution Without Any Measures

No concrete financial measures have been proposed in the budget of FY2008 for environmental protection apart from reiterating the problem of pollution and the proposal of the creation of a website and database on climate change by the Department of Environment (DoE). Mandatory establishment of effluent treatment plant to prevent industrial pollution in highly polluting industrial plants was a provision of the previous year (FY2007) where a proposal was made to withdraw import duty from effluent treatment plants. In order to make the policy more effective, CPD recommended penalty on those who will not install treatment plant within stipulated period.

5.13 Transport

Transport sector received the second highest allocation (Tk 3303.74 crore, 12.47 per cent of the total ADP) in the ADP of FY2008. Sub-sectoral distribution is: Tk 2,428.15 crore for roads and Tk 875.59 crore for railways, shipping and civil aviation. The allocations for road and railway maintenance have been increased by 76.5 per cent and 40 per cent respectively in the proposed budget of FY2008. At present financial and management restructuring is underway to improve Biman's efficiency, and a decision has been taken to convert Bangladesh Biman into a public limited company. The transition of Biman to public limited company should lead to an increase in its efficiency and profitability. However, no specific deadline has been mentioned for completing the corporatisation. Customs duty on CNG driven trucks has been reduced from 25 per cent to 10 per cent, whereas customs duty on CNG driven bus has been enhanced from 5 per cent to 15 per cent to develop assembling industry for CNG-driven bus. One major negative aspect of the proposed budget is the lack of coherence in the definition of sectors in the ADP and the proposed budget of FY2008. Projects related to road, railways, shipping and civil aviation have been included under the "Transport" sector in the ADP, whereas those were mentioned under the sector "Communication" in the budget of FY2008. This incoherence leaves scope for confusion and misinterpretation. Besides, no allocation has been made for some of the most critical projects in this sector including Padma Bridge, Mongla Port, Chittagong Port, Deep Sea Port, Second Bridge on Jamuna, Dhaka Elevated Highway and Dhaka-Chittagong Express Highway.

5.14 Communication

Communication sector is the only sector that has received lower allocation (3.3 per cent) compared to the revised ADP of FY2007. An amount of Tk 550.69 crore has been allocated in FY2008, whereas Tk 569.71 crore was allocated in revised ADP of FY2007. The notable positive aspects of this sector are:

- Mobile phone operator companies' corporate tax rate would be 35 per cent if these companies are converted into publicly traded companies and are enlisted with the stock exchanges.

- Supplementary duty at the rate of 60 per cent on the SIM card has been imposed. The government should be able to earn more revenue considering the high growth of mobile phone users.

- The policies for bringing VOIP business under legal framework are going to be finalised soon. Though consumers have to pay more money as call charges, this initiative will ensure higher revenue earnings for the government.

However, similar definitional problem exists in the budget for this sector.

5.15 Energy

Power

The government announced a plan to increase power generation over the next three years by 345 MW in the first year, 900MW in the second year and 1050MW in the third year. The proposal is to allocate Tk 1,155.06 crore for electricity generation. Inclusion of 14 new unapproved projects has been proposed, of which 9 will add 2295 MW new electricity in the national grid. However, project-specific allocations and timeframe regarding the completion of these projects have not been clearly mentioned. Initiatives have been taken to add 600 MW electricity to the national grid by completing the maintenance of neglected power generation plants by the end of this year. A loan of Tk 350 crore has been provided to Power Development Board (PDB) to settle the outstanding bills of the independent power producers (IPP). The government has also proposed to offer tax holiday facility to solar energy plants to encourage the use of alternative source of energy to mitigate the power crisis. This is a good initiative considering the acute shortage of power at present.

Oil, Gas and Natural Resources

The government has allocated Tk 729.47 crore for oil, gas and natural resources sector in the ADP of FY2008. Allocation for this sector registered a growth of 406 per cent which is much higher than previous year's allocation. This has been mainly due to the inclusion of the project "Monohordi-Dhonua, Elenga-Jamuna bridge (eastern side) gas pipe line establishment and establishment of compressor in Ashuganj and Elenga." The allocation amounts to Tk 278.34 crore which accounts for 38.2 per cent of the total sectoral allocation. In order to maintain the flow of import of petroleum products, Tk 600 crore has been provided to BPC. Besides, the government has decided to assume the accumulated default loan of BPC (Tk 7,523 crore) as its own liability by issuing treasury bonds of equivalent amount. However, details of the bond issuance process have not been provided.

5.16 Physical Planning, Water Supply & Housing

An amount of Tk 1,596.28 crore has been allocated for the physical planning, water supply and housing sector which is 15.7 per cent higher than the revised budget of FY2007. Government has set a target of raising supply coverage of safe drinking water to 90 per cent and sanitation coverage to 100 per cent in the next three years. Besides, the programme for construction of 15,000 flats on khas land in Dhaka, intended to rehabilitate the uprooted people, slum dwellers and the low-income families, will soon be implemented.

5.17 Foreign Investment

Not much has been said about foreign investment in the proposed budget. However, the government has proposed to offer tax rebate facility to the non-resident Bangladeshi investors. This might have a positive impact on FDI as the tax rebates could attract more investment.

5.18 Capital Market

The proposed budget did not have any fiscal incentive for the development of stock market other than the indirect pressure on the mobile phone companies, though the capital market in Bangladesh is gradually being widened and deepened. The government has decided to off-load the shares of a number of SoEs (under power, telecommunication and energy) in the capital market during FY2008. The listing of SoEs will surely energise the capital market and make it more vibrant. However, the names of the specific SoEs were not mentioned in the budget.

5.19 NCBs and SOEs

Restructuring of NCBs: Restructuring of several NCBs is under progress. The sale process of the Rupali Bank is expected to be completed by mid-June of 2007. Besides, corporatisation of the other three NCBs has also made some progress. Though Janata and Agrani Bank have already received the licenses, no progress has been made with regard to the Sonali Bank.

State-owned Enterprises (SOEs): Several state-owned enterprises (SOE) are going through restructuring with a view to enhancing their efficacy. Efficiency of both Chittagong and Mongla Ports has increased in recent times. Technical and financial feasibility studies in relation to building a deep-sea port have now been completed.[3] The government has already concluded agreements to transfer six land ports to the private sector, two of which have been made fully operational on a Build, Own and Transfer (BOT) basis. Besides, decision has been taken to convert Bangladesh Biman into a public limited company. Legal reforms have been initiated to reduce the complications related to land registration process. Measures taken in the budget for the reform of the SOE sector are appreciable, however, but proper implementation of these initiatives poses formidable challenge for the CTG.

[3]Pacific Consultants International from Japan has started working on establishing the deep-sea port.

5.20 Local Government, Regional Development & Chittagong Hill Tracts

Concerted Efforts for Balanced Regional Development: The ggovernment has allocated Tk 2,953.47 crore under various ADP projects in the northern region (Rajshahi Division), which is 34 per cent higher than the revised ADP allocation in FY2007. Southern region (Khulna and Barisal) received an allocation of Tk 2,652.56 crore under different ADP projects, which is 42 per cent higher than the revised ADP of FY2007. This is a good initiative for fostering and promoting development in some of the relatively underdeveloped regions of the country. However, the number of new projects or the specific breakdown of these allocations has not been mentioned. A division-wise allocation would have been better than the regional allocation, especially for southern region. In the ADP of FY2008, six projects solely focused on Chittagong Hill Tracts (CHT) have been included with an allocation of Tk 133 crore. Besides, Tk 105 crore has been allocated as special development assistance (previous block allocation) for CHT.

LGRD—Efforts for Strengthening Local Government: Priority has been given for rural road communication to establish connectivity of the growth centres with national highway network. Implementation of the poverty reduction programmes in *char, haor* and in coastal belts is being strengthened. Development assistance for local government institutions including Chittagong Hill Tracts will be increased to Tk 987 crore (increase by Tk 150 crore). Special food and development assistance for Chittagong Hill Tracts districts will continue

These are welcome measures. Real challenge will be timely release and effective implementation of the programme, particularly in view of the past record when only 35.6 per cent of allocation in FY2007 was spent up to February 2007.

6. SOCIAL SECTORS AND SAFETY NET PROGRAMMES

The budget has given explicit importance to areas related to human development. The Finance Adviser has proposed an allocation of Tk 19,701 crore for human resources development which is 25 per cent of the total budget. Of this 15.2 per cent is allocated for education and 6.9 per cent for health sectors.

6.1 Education

• The budget focuses on capacity building and increase in the quality of education.

• The budget proposed Tk 10 crore as education research grant. This grant is expected to allow the Government to provide financial assistance to the faculties of physical science, life science and mathematical science of any public or private university in the country if they can publish at least three research papers in recognised and well-reputed journals and also can organise an international seminar in a year. It was also mentioned that the proposed assistance will be provided following a purely competitive process based on specific research proposals. This is a very positive and innovative measure which will hopefully encourage research in educational institutes.

• The Finance Adviser has also proposed a monthly stipend of Tk 100 for 55 lakh primary students. It has also targeted 6.5 lakh persons who have attained literacy through mass education programme for income generating training through continuous education within the fiscal year 2008. Recruitment of 15,000 primary teachers has been proposed (60 per cent of whom will be female) and 10,000 teachers will be trained to improve the quality of education. As many as 18,186 classrooms will be built.

• The proposal to establish one computer lab in one school in each district is a right decision but inadequate to cater to the growing needs of the time.

6.2 Health – *No Concrete measures towards a successful HNPSP programme*

• The budget has proposed for continuation of the duty-free import of various lifesaving drugs, including insulin.

• The budget has stated that steps will be taken to increase the number of nurses rapidly by setting up more nursing institutions in public sector, and through support from private hospitals, universities and other institutions. However, no targets have been fixed.

• Increased advance tax deduction from hospitals, diagnostic centres and doctor's fees from existing rate of 5 per cent to 10 per cent. Major concern here is whether NBR will be able to take advantage of this.

During July-Feb 2007, only 39 per cent of allocation in FY2007 was spent; consequently, major challenge will be in the area of implementation. In this regard, one observation of the Independent Review Team (IRT) which has assessed the performance of the HNPSP and released Annual Programme Review (APR) 2007 in April 2007 is of high importance to note. According to the IRT, HNPSP has failed to address three most critical areas: programme management and leadership, financial management, and procurement. IRT opined, "at the moment the HNPSP looks like a very ill patient in need of intensive care without which it is likely to become a terminally ill patient". Therefore, special attention for implementation would be needed.

6.3 Analysis of Gender Sensitivity of the Budget—Demand for More Clarification

The share of direct and indirect gender equality expenditure has been claimed to be 24 per cent in the proposed budget as compared to 22 per cent of the previous budget. An allocation of Tk 309.8 crore to ensure gender equity has been explicitly mentioned in the budget. The highest allocation, amounting to Tk 217.8 crore or 70.3 per cent of the explicitly mentioned allocation, has been provided to for widowed and destitute women. Government has allocated Tk 17 crore for the new programme "Maternity Allowance for the Poor Lactating Mothers" for safe motherhood and safe birth. This is an appreciable measure as the disadvantaged and marginalised women will be directly benefited from this project. Besides, Tk 10 crore has been allocated for acid burn and disabled women respectively. These are positive measures which will help the low income people in the society. It is pertinent to mention here that 50 ministries/ departments have set up Gender Budgeting Cells in India. The outlay for the 100 per cent women specific programmes is Rs 8,795 crore in FY2008. It may be recalled here that Pakistan has allocated Rs 415 million in self-employment programme under its national gender action plan to provide preferential assistance to women. Women are also being given special concessions in terms of income tax.

Given the disadvantageous situation of women in Bangladesh, additional support and enhanced clarity in terms of the details about

Table 7 : Allocation Of Funds For Social Safety Net Programmes *(CroreTaka)*

Existing Programmes	FY2007 (budget)	FY2007 (Revised budget)	FY2008 (budget)	Growth (per cent) over FY2007 Revised budget
Old-age allowance	384.00	384.00	448.80	16.90
Allowances programme to the widowed, deserted and destitute women	156.00	156.00	198.00	26.90
Honorarium programme for insolvent freedom fighters	60.00	78.20	99.50	27.20
Programme for the assistance to the fully retarded	40.00	40.00	52.80	32.00
Fund for mitigating risk due to natural disaster	130.00	130.00	135.00	3.80
Fund for rehabilitation of the acid burnt women and the physically handicapped	10.00	5.00	10.00	100.00
Fund for the housing of the homeless	50.00	0.00	0.00	--
Seasonal unemployment reduction fund	55.00	00.00	50.00	--
Retraining and employment of voluntarily retired/retrenched employees/ labourers	30.00	10.00	0.00	-100.00
Development fund for the readymade garment workers	20.00	0.00	20.00	--
VGD, VGF, Test Relief and Gratuitous Relief (GR)	10.57 lakh Mt	1232.00	1649.00	33. 80
Total		**1669.20**	**2273.90**	**36.23**

Source: Budget Documents.

expenditures related to gender equity are needed. Here also the challenge of proper implementation of these allocations continues to be a defining factor.

6.4 Social Safety Net – *More Per Capita Allocation*

Towards targeted social empowerment, social safety net, poverty reduction, and employment generation (including microcredit support scheme) programmes, the budget for FY2008 proposed an allocation of Tk 3,893 crore which is 33.4 per cent higher than revised budget of FY2007. An amount of Tk 2,273.90 crore will be spent for expansion of existing safety net programmes which is 36.23 per cent higher than the allocation in the revised budget in FY2007. Along with this, the number of beneficiaries of the allowance has increased from 25.14 lakh to 27.5 lakhs (9.3 per cent increase). However, no allocation for housing of the homeless in rural areas has been made in this year's budget.

Fund for Monga: A "Seasonal Unemployment Reduction Fund" of Tk 55 crore was created under the proposed budget for FY2007 to mitigate the seasonal unemployment. The proposal in FY2008 is to make a further allocation of Tk 50 crore to this Fund. *However, the concern would be utilisation of these fund as those allocated for FY2007 was not spent at all.* In this regard, Bangladesh could take lesson from India's National Rural Employment Guarantee Scheme (NREGS) with an allocation of Rs 14,300 crore (Tk 22,022 crore). NREGS seeks to provide guaranteed employment to one member of every needy rural 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 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.*

Fund for Welfare of RMG Workers: Government proposed to allocate Tk 25 crore for the welfare of RMG workers and Tk 20 crore for training for enhancement of the efficiency of workers. Regrettably, the allocated money for Skill Development Fund for the RMG workers in the budget 2006-07 remained unutilised. Under the circumstances, it will be better if the government introduces a contributory provident fund for garment workers where the government will make matching contribution equivalent to the company's contribution.

Several New and Desired Schemes: In addition to the existing schemes, the Finance Adviser has proposed for several new and desired schemes. These are:

- Maternity Allowance for the Poor Lactating Mothers: To ensure safe motherhood, and better health and nutrition of hardcore poor mothers as well as safe birth and sound upbringing of infants. An allocation of Taka 17 crore has been proposed for the expecting poor mothers who will get an allowance of Tk 300 per month. About 45, 000 mothers of 3,000 unions will be brought under this programme.

- Rural Employment Opportunities for Protection of Public Property: Proposed targeted employment creation for 24,000 destitute women in 387 unions.

- The budget has proposed construction of flats for freedom fighters and the Freedom Fighter Park. However, no targets are mentioned.

- Rehabilitation of the uprooted people, and slum dwellers, by constructing 15,000 flats on khas land in Dhaka has been proposed.

- Allocate Tk 5 crore for the education of mentally and physically challenged children.

6.5 Special Credit Programmes for Employment Generation

The budget has proposed an allocation of Tk 550 crore for the existing microcredit programmes to help the marginalised poor (monga and river erosion) in FY2008. It has also proposed Tk 20 crore as allocation for microcredit to generate employment opportunities for women.

7. CHALLENGES OF IMPLEMENTATION

Our aforesaid analysis of the various aspects of the budget for FY2008 has pointed out to the strengths of the prepared budget for FY2008 and also some of the anomalies and conflicting aspects in the proposed budget. The CTG has proposed a large number of measures in the budget for FY2008 which should have positive impact on the economy. Through resource allocation, income redistribution and overall macroeconomic impact on growth, the proposed measures in the budget could potentially bring about positive results in terms of poverty alleviation, higher GDP growth rate and reduced income disparity. However, much will hinge on the ability of the CTG to implement those measures, both in the area of revenue mobilisation and also expenditures on account of revenue budget and development budget.

Some of the major challenges in various areas and initiatives that need to be taken, in the context of above discussion, are perceived to be the following:

Revenue Generation

- Maintain the current momentum of revenue mobilisation
- Emphasis on assessee-friendly institutional issues
- Introduction of universal self-assessment as early as possible
- Simplification of VAT registration

Foreign Aid Flow

- Form a Task Force for accelerated disbursement of held-up project aid
- Negotiate new budgetary support for development finance
- Given the comfortable BOP situation, a new loan agreement with IMF is not advisable in the current context

Government Bank Borrowing

- Avoid volatility in bank borrowing to avoid pressure on private borrowing

Annual Development Plan

- Energetic kick-off from the very first quarter
- Develop a strategic approach focusing on e.g. power sector
- Quality must be ensured while including new projects
- Strengthen linkage with local government for project implementation
- Enhanced public-private and government-NGO partnership
- Gear up foreign aided projects
- Focus on power sector

Strengthened Monitoring of Implementation and Greater Transparency

- Periodic review of implementation status
- Mid-course speedy correction if and when deviations are detected
- Public-private partnership to monitor progress in key areas

Need for Quality and Real Time Economic Data and Improved Access

- Computerisation of tax mobilisation activities
- Generation of regular and periodic updates on key budget related indicators
- Putting in place a system whereby budget related data and information is easily accessible to stakeholders.