

# An Analysis of the National Budget for FY2006-07

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CENTRE FOR POLICY DIALOGUE (CPD)  
B A N G L A D E S H  
*a c i v i l s o c i e t y t h i n k - t a n k*

House 40C, Road 11, Dhanmondi R/A, Dhaka-1209  
Tel: 9141734, 9141703, 9145090; Fax: 8130951  
E-mail: [cpd@bdonline.com](mailto:cpd@bdonline.com); Website: [www.cpd-bangladesh.org](http://www.cpd-bangladesh.org)

## **CPD-IRBD 2006 Team**

### **CPD Core Research Team**

*Debapriya Bhattacharya*, Executive Director  
*Mustafizur Rahman*, Research Director  
*Anisatul Fatema Yousuf*, Head, Dialogue & Communication  
*Uttam Deb*, Senior Research Fellow  
*Fahmida Khatun*, Senior Research Fellow  
*Khondaker Golam Moazzem*, Research Fellow  
*Syeed Ahamed*, Senior Research Associate

### **Data Management and Analysis**

*Kazi Mahmudur Rahman*, Senior Research Associate  
*M Golam Mortaza*, Senior Research Associate  
*Syed Saifuddin Hossain*, Senior Research Associate  
*Shanjida Shamsheer Elora*, Senior Research Associate  
*Nafisa Khaled*, Research Associate  
*Md. Ashiq Iqbal*, Research Associate  
*Mohammad Shafiqul Abedin*, Research Associate  
*Sharif Rasel*, Research Associate  
*Qamarullah Bin Tariq Islam*, Research Associate  
*Towfiqul Islam Khan*, Programme Associate  
*Imrana Sharmin*, Programme Associate  
*Arup Kumar Saha*, Programme Associate  
*Hasanuzzaman*, Intern  
*Ananta Zakaria Neelim*, Intern  
*M Shafiqul Islam*, Joint Director (Admin and Finance)  
*A. H. M. Ashrafuzzaman*, Senior System Analyst

### **Word Processing Support**

*Md. Hamidul Hoque Mondal*, Senior Administrative Associate  
*M Abdul Quddus*, Administrative Associate

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## 1 INTRODUCTION

The Finance Minister Mr M Saifur Rahman has placed the National Budget for the fiscal year 2006-07 (FY07) and the Revised Budget of FY06 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 FY07 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 severely undermined the transparency of the state of the economy.

Within the above constraint, the present review examines the proposed budget in the context of current trends in the Bangladesh economy. The review first establishes the benchmark conditions of the budget in Section 2 by identifying the challenges for FY07, guided by the macroeconomic scenario of the elapsing year. Economic growth and income, saving and investment trends are discussed in Section 3. A brief assessment of the delivery of the Poverty Reduction Strategy (PRS) (in its first year of implementation) has been undertaken in Section 4. Issues related to public finances have been discussed in Section 5. The fiscal measures and social safety net programmes proposed in the budget for FY07 have been analysed in the next Sections 6 and 7 respectively. The review ends with some concluding observations in Section 8.

## 2 BENCHMARK CONDITIONS FOR BUDGET 2006-07

### 2.1 Macroeconomic Scenario of FY2006<sup>1</sup>

Having started with a decent growth rate of 5.38 per cent in the FY05<sup>2</sup>, the economy of Bangladesh has scaled up its growth rate to 6.71 per cent in the FY06, showing its resilience to a number of odds including the phasing out of quota for apparel export. The graduation of the Bangladesh economy to this growth trajectory has been possible due to an impressive performance of the real economic sectors, *viz.* agriculture and manufacturing as well as buoyant growth of two major sources of foreign exchange earnings, *i.e.* exports and remittances. There has been certain amount of improvement in the collection of domestic revenue achieved through both NBR- tax revenue and non-NBR and non-tax revenue. The trade deficit came down during July-March of FY06 compared to July-March of FY05 due to high export performance and restrained import growth. The impressive growth of remittance flow also helped to ease the pressure on the current account during July-April of FY06.

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<sup>1</sup> For a fuller version, see *State of the Bangladesh Economy in FY2006 and Outlook for FY2007: Second Reading*, CPD, 3 June 2006.

<sup>2</sup> The GDP growth rate for FY05 has been recently revised upward to 5.96 per cent. See Section 3 for issues relating to GDP growth estimation.

Conversely, FY06 started off with a stressed fiscal balance (due to revenue expenditures outpacing revenue receipt) and stretched balance of payment (due to imports outpacing exports). The macroeconomic fundamentals were further strained as the economy was hit with a double whammy: low *net* flow of foreign assistance and FDI. The kickbacks from the shocks generated in the external balance was transmitted through high public borrowing to meet shortfall in financing the overall budget deficit. In the meantime, cost pushed inflationary trend as well as the government's borrowing need were further fuelled by global price hike of commodities (particularly of petroleum and food).

As a matter of fact, FY06 was plagued by poor economic governance manifested in shabby public policy management (e.g. distribution of fuel, fertilizer and seeds) and inability to manage external variables for maintaining macroeconomic balances (e.g. very low net inflow of foreign aid and foreign direct investment). Thus, all the incremental successes achieved in the economy in the recent past were overshadowed by developments such as price hike of essential commodities, increase in rate of interest, electricity shortage and depreciation of Taka.

## **2.2 Towards a Fiscal Year of Three Governments**

Curiously, the upcoming fiscal year (FY07) is going to witness the reign of three successive governments, i.e. the outgoing government (July - October 2006), the caretaker government (November 2006 - February 2007) and the new government (March - June 2007). As can be seen that the major part of the proposed budget period will be in the hand of the new political government the caretaker government will only have to hold the fort during its three months tenure, investing overwhelming part of its efforts in holding national elections.

However, the outgoing government, apart from designing a budget, will have to deal with a number of critical issues such as price hike, fuel price, power shortage, unrest among the RMG workers and decision on Tata investments during the remainder part of its tenure. The government is not expected to aggravate the economic situation for the incoming government(s) through the so-called election oriented behaviour. However, even after the possible damage control measures, many of the emerging economic pressures will be felt by the new political government which has to take the ultimate challenge of implementing the budget of FY07, possibly in a revised format.

## **2.3 Challenges and Outlook for FY07**

In view of the above economic and political realities, the challenge before the national budget for FY07 is not only to maintain the macroeconomic balance within the framework of PRSP but also to address several other structural challenges which may pose serious threats to the economic horizon of the country. Some of these challenges, which have been identified below were expected to be addressed through the budget for FY07.

*i. Ensuring Distributive Growth:* Translating economic growth to greatest benefit for the largest section of the society, that is, for the poor and disadvantaged groups is the prime task of the government. Income generation through gainful employment for the rural and

urban poor, addressing the problems of seasonal unemployment and of people such as those who have lost homes due to river erosion remain a major challenge. This distributive growth is to decrease the severe income disparity afflicting the economy and society.

**ii. Controlling Price Hike:** One of the major economic challenges in the FY07 will be to control high inflationary trend in view of high prices of essential commodities including food grains at the international market. Government will have to undertake special measures to increase the production of crops through ensuring availability of quality inputs (seed, fertilizer) and subsidies to the farmers. Reduction of various duties and tariffs from some commodities (such as sugar) will be necessary to ensure their supply. Another major challenge for the government is to control oligopolistic market system (and syndication) through effective monitoring and supervision.

**iii. Intensifying Domestic Resource Mobilisation:** The government has to increase its historically low revenue-GDP revenue through an active revenue collection drive. In doing so the challenge is not only to increase the number of tax payers, but also to take a number of initiatives. These are: reducing the gap of corporate tax between the listed and unlisted companies, extending the coverage of the highest corporate tax slab by including other high-profit industries, rationalising the duty structure of different products imported under the category of capital machinery, intermediate products and raw materials, rationalising the structure of existing investment incentives, and improving auditing system for augmenting more transparent corporate governance.

**iv. Management of the Public Expenditure Programme:** Allocation and implementation of ADP has always been a challenge for all governments. There is a need to not only control the volume of revenue expenditure but also to ensure the quality of the expenditures. Therefore, selection of demand driven projects and their effective implementation are the basic requirements for better management of the public expenditure programmes.

**v. Safety Net Programmes:** Safety net programmes should be expanded in terms of coverage, allocation and implementation for diverse to group of population having limited and constrained access to the benefits of incremental growth.

**vi. Human Resource Development:** The basis for a sustainable development lies in human resources development. Providing qualitative education and basic health services to all remain to be a major task for all time to come.

**vii. Maintaining Safe Foreign Currency Reserve:** In the era of floating exchange rate maintaining a safe level of foreign currency reserve has become a challenge for the government, particularly in view of growing imbalance in the current and capital accounts.

**viii. Access and Disbursement of Foreign Aid:** Low disbursement of foreign aid is a major concern for the government. Although the importance of foreign aid in the overall economy has been declining, increasing foreign aid flow for the development of infrastructure and human resource development need to be ensured.

**ix. Ensuring Greater Net Flow of FDIs:** Apart from taking immediate decisions on the large scale FDIs such as Tata and Asia Energy, ensuring greater net inflow of FDIs is crucial for Bangladesh. This is particularly important in view of the growing concern over repatriation of huge amount of foreign exchange by foreign companies, especially by telecom companies, which has created a negative impact on the BOP.

**x. Solving the Power Crisis:** The challenge of the incoming government will be to go for immediate and provisional measures, such as renting portable power plants, although at a high cost. As a long term measure, the challenge is how quickly the government can take

necessary steps to establish medium-scale (500 MW) power plants in a targeted time schedule and arrange for the necessary funds.

***xi. Taking Measures to Increase Fuel Price:*** Increasing fuel price is a tricky and sensitive issue in Bangladesh. However, in view of rapid rise of petroleum products in the global market and foreign exchange reserve situation, current government should raise domestic fuel price to reduce the huge debt burden. How the price rise will be rationalised among different consumer groups according to the use of fuel types will be a major task for all governments.

***xii. Tackling the Crisis in the RMG sector:*** Immediate implementation of the agreement between the entrepreneurs and workers, and monitoring and supervision of the implementation of the agreement should be an important responsibility of the government to save the RMG sector.

***xiii. Contingencies:*** Special budgetary measures for rehabilitation programmes are needed to face natural calamities such as flood and drought which are common in Bangladesh. Besides, providing sufficient fund for the upcoming national election 2007 will be an additional necessity this year. Updating voter list based on the list of 2001, appointing competent officers and extensive media campaign are some of the important activities of the Election Commission.

***xiv. Policy Management and Governance:*** The sustainability of the macro-stability depends on proper policy management and good governance. Both the outgoing and ensuing governments will have to take sincere efforts to coordinate and implement policies to avoid wastages of resources and keep the growth momentum on-going.

***xv. Intergenerational Equity:*** Increased public debt becomes a liability for the future generation as it keeps increasing through interest accumulation year after year. The increasing rural–urban gap in terms of access to resources, opportunities for quality education, and environmental and resource degradation are also some of the concerns which have negative impact on the intergenerational equity.

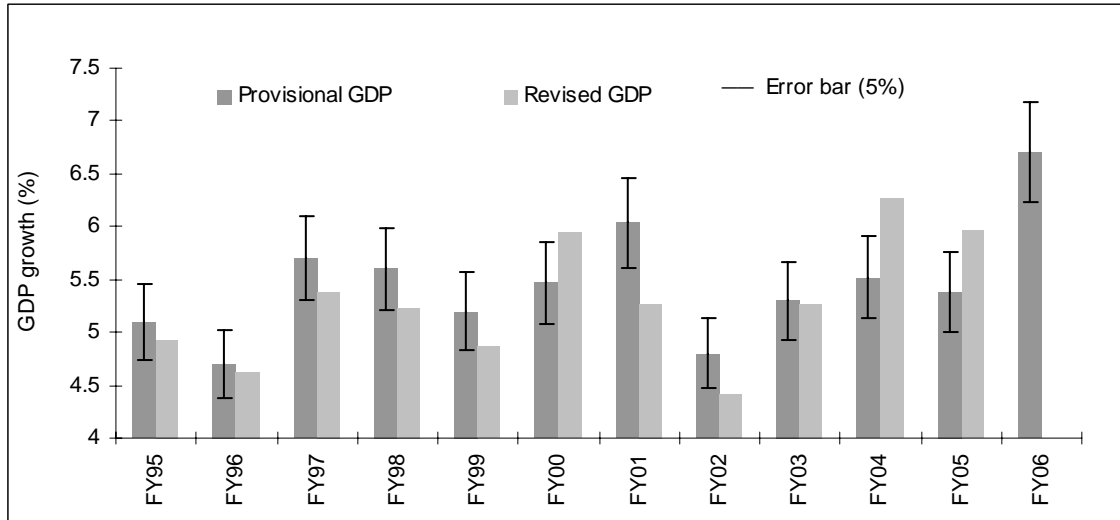
### **3 GROWTH, SAVINGS AND INVESTMENT**

#### **3.1 GDP Growth**

According to preliminary estimates, Bangladesh economy posted 6.71 per cent GDP growth in FY06. This preliminary estimate was however made on the basis of six to seven months' data of the current fiscal year, when the economy was going through a momentum of high credit expansion, high export, high import, high industrial production and high inflation. To ease the pressure on fiscal and external balance, government took a number of measures such as increasing the lending rate and controlling import. All proxy indicators suggest that the economy, as a result, was slowed down during the last quarter of FY06. Hence, we anticipate that the initial growth estimate may be revised downward, once data for full fiscal becomes available.

Moreover, it is becoming a practice that an outgoing government usually registers highest GDP performance in its last year, whereas the new government coming to power revises such estimates downward.

**FIGURE 1  
GDP GROWTH IN BANGLADESH**



According to latest documents, the BBS has revised upward the GDP growth rate for FY05 from 5.38 per cent to 5.96 per cent. However, the current preoccupation with GDP growth may very well be a statistical artefact given that BBS has discontinued the accounting of regional GDP estimates, industrial contribution based on QIP, which has a 17 year old base (1988-89) and there is an inordinate delay in finalising CMI. The BBS could never start estimating quarterly growth rates of GDP. CPD repeatedly mentioned that, since there is no dependable information for cross-checking the GDP estimates (e.g. investment and employment) such big revisions raise questions about the empirical basis, estimation methodology and process transparency of the national income accounts of Bangladesh for a number of reasons.

### **3.2 Sources of Growth**

One of the positive features of this year's (FY06) growth is the increased contribution of real economic sectors that posted a notable 7.08 per cent growth. In the incremental GDP of FY06, industry contributed 38.66 per cent and agriculture 14.30 per cent, whereas service sectors accounted for 45.70 per cent. Among the major contributors, manufacturing sector added about one quarter (24.64 per cent) of the total added growth.

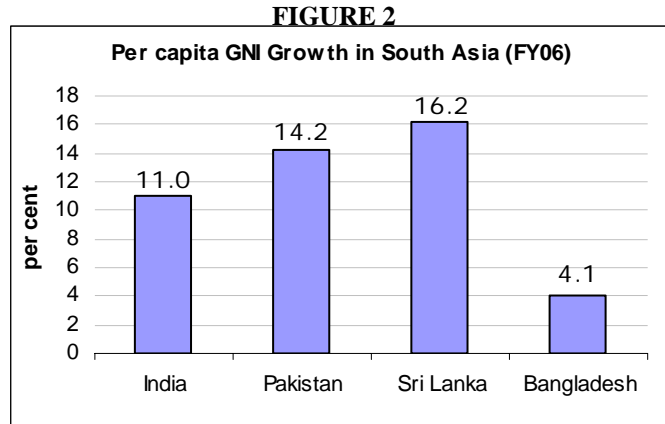
Highest sectoral growth was also observed in the manufacturing sub-sector, in which large and medium industries recorded 11.04 per cent growth. Small industries and construction also registered notable growth of 9.04 per cent and 8.37 per cent respectively.

Within the agriculture sector, crop contributed the highest in the incremental share (7.52 per cent), though it recorded a moderate 4.21 per cent growth. Agriculture sector as a whole grew modestly at 4.49 per cent, recovering from the post flood low base.

### 3.3 Per Capita Income

Per capita GDP stood at US\$456 in FY06, while per capita GNI stood at US\$482, recording 3.4 per cent and 4.10 per cent annual growth rates respectively. Thus, per capita GDP grew by \$15, i.e. by Taka 1000 during the last fiscal year. In other words, a person, on average, earned about Tk 82 more in each month of FY06, which is equal to the price of one kg of rice and one kg of lintel. However, one should not forget that these averages conceal a high degree of skewed income distribution.

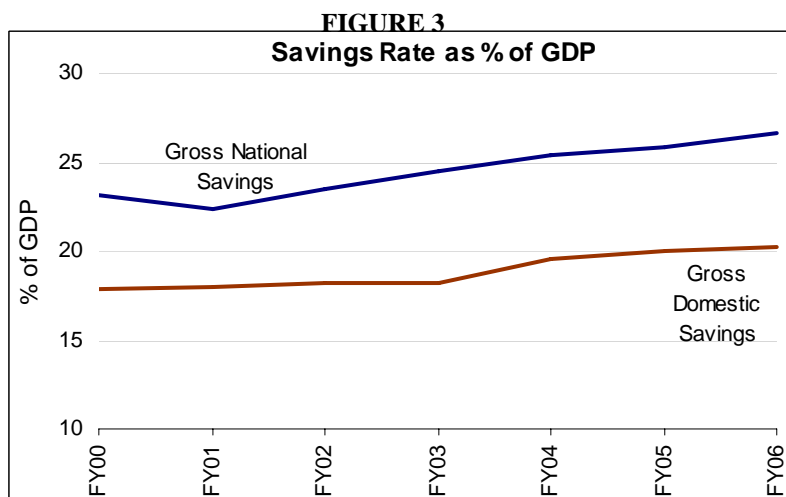
The gap between per capita GDP of Bangladesh with other South and Southeast Asian countries has widened during the past one and half decade. The income differential with China has increased from 1.35 times in 1990 to 2.70 times in 2003. With Malaysia and Thailand, the income differential has increased from 9.31 times to 10.15 times and from 5.32 times to 5.76 times respectively, during the same period.



Bangladesh's per capita GNI growth is also lower (4.1 per cent), when compared with India, Pakistan and Sri Lanka that experienced 11.0 per cent, 14.2 per cent and 16.2 per cent GNI growth respectively in FY06.

### 3.4 Savings

Domestic savings in Bangladesh is experiencing stagnation as the rate increased marginally from 20.01 per cent in FY05 to 20.26 per cent of the GDP in FY06, registering a miniscule 0.05 per cent increase as a share of GDP. Increasing the domestic savings rate is a major challenge facing Bangladesh at the present economic transition.



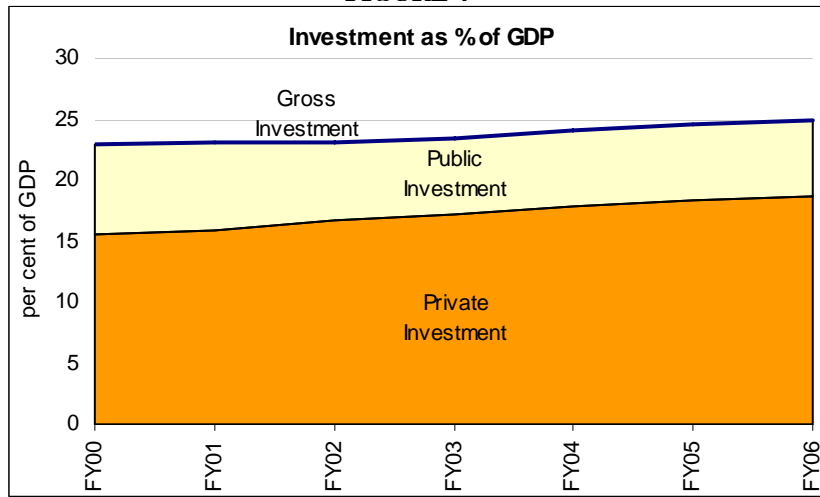
A comparison with the neighbouring countries reveals that the share of domestic savings in GDP were 29.1 per cent (FY2005) in India (i.e. about 43.63 per cent more than Bangladesh) and 14.4 per cent (FY2006) in Pakistan (i.e. about 28.92 per cent less than Bangladesh) according to the latest available statistics. Thanks to remittances,

national savings rate demonstrated encouraging movements in FY05. The share of national savings to GDP increased significantly further in FY06 to 26.61 per cent of GDP as against 25.84 per cent in FY05, registering an impressive enhancement of 0.77 per cent of GDP.

### 3.5 Investment

During the last five years (FY02-FY06), the gross investment rate has increased by only 0.38 per cent of the GDP. Gross investment was 23.09 per cent of GDP in FY01, whilst it crawled up to 24.97 per cent in FY06. This is marginally lower (by Tk. 12484.64 crore)

FIGURE 4



than the MTMF target of PRSP which was set at 25 per cent. However, the achieved rate is significantly lower than that of India (30.1 per cent in FY2005), although it is higher than that of Pakistan (20 per cent in FY 2006).

Public investment continued to decline, though it marginally recovered from its

historic low rate of 6.19 per cent of GDP in FY04 to 6.30 per cent in FY06. The slack left behind by Annual Development Programme (ADP) was however somewhat picked up by “other public investment”. The share of other public investment in total public investment increased from 6 per cent in FY96 to about 18 per cent in FY06.

Private investment as a share of GDP increased from 18.3 per cent in FY05 to 18.7 per cent in FY06.

Bangladesh continues to remain an under-invested country while her national savings rate (26.6 per cent) remains higher than the gross investment rate (25 per cent) indicating greater availability of idle investible surplus.

According to the budget of FY07, the incremental capital-output ratio (ICOR) is 3.72 with gross domestic investment rate 25.0 and a GDP growth rate 6.7, although the target ICOR in the PRSP (3.85) was higher than the actual. It is very surprising that the ICOR in FY06 has dropped significantly from a high ICOR (4.52) in FY05. In the PRSP, it has been stated that the economy will grow by 6.8 per cent in this fiscal year 2006-07. The question could arise whether lower investment growth or over-estimated GDP growth is responsible for that. To achieve the target growth rate of 6.8 per cent, gross domestic investment rate has to increase from 25.0 per cent in FY06 to 25.5 per cent of GDP in FY07 (assuming a very favourable ICOR of 3.7).

## 4 ASSESSING THE PERFORMANCE OF PRSP IN FY2006

### 4.1 Assessment of the MTMF

Based on the fiscal indicators presented in the budget for FY07, a comparison of MTMF targets and actual performances has been made. An overall assessment shows that while GDP growth surpassed the PRSP target, most of the indicators failed to achieve PRSP targets.

Overall balance remained lower than the PRSP target, while government failed to implement the ADP target by 0.73 per cent of GDP. Average inflation was also higher for the period as it reached 7.04 per cent in contrast to PRSP target of 6.5 per cent. Gross domestic investment (24.97 per cent), total revenue (10.78 per cent) and tax revenue (8.69 per cent) all fell short of PRSP targets by (-) 0.03 per cent, (-) 0.22 per cent and (-) 0.31 per cent of GDP respectively. Borrowing from banking sector was 0.28 per cent higher than the PRSP target. Higher current expenditure and interest payments with respect to PRSP target (0.30 and 0.11 per cent respectively) put pressure on the balance of payment.

TABLE 1  
MEASURING BUDGET PERFORMANCE WITH PRSP TARGETS (FY06 AND FY07)

Macroeconomic indicators	FY06 (PRSP)	FY06 (Actual)	Change	FY07 (PRSP)	FY07 (Budget)	Change
Real GDP growth (per cent)	6.50	6.70	0.20	6.80		
CPI inflation (average)	6.50	7.04	0.54	6.00		
Gross Domestic investment (% of GDP)	25.00	24.97	-0.03	25.50		
Total revenue	11.00	10.78	-0.22	11.30	11.29	-0.01
Tax	9.00	8.69	-0.31	9.30	9.22	-0.08
Non-tax	2.00	2.09	0.09	2.00	2.07	0.07
Total Expenditure (as per cent of GDP)	15.50	14.67	-0.83	15.70	14.99	-0.71
Current expenditure (% of GDP)	8.60	8.90	0.30	8.80	9.09	0.29
of which: interest payments	1.70	1.81	0.11	1.70	1.64	-0.06
ADP (as per cent of GDP)	5.90	5.17	-0.73	6.20	5.59	-0.61
Other expenditure	1.00	0.60	-0.40	0.70	0.31	-0.39
Overall balance	-4.50	-3.89	0.61	-4.40	-3.70	0.70
Financing (net)	4.50	3.89	-0.61	4.40	3.70	-0.70
Domestic financing	2.00	1.96	-0.04	1.90	1.90	0.00
Banking system	0.90	1.18	0.28	0.80	1.17	0.37
Non-bank	1.10	0.78	-0.32	1.10	0.73	-0.37
Foreign financing	2.50	1.93	-0.57	2.50	1.80	-0.70

Source: PRSP Documents and Budget for FY07.

On the other hand, government's total revenue and tax revenue targets in the budget for FY07 are also lower than their PRSP targets, whereas non-tax revenue target is higher than that of PRSP target. The budget targets for total expenditure (14.99 per cent of GDP), ADP (5.59 per cent of GDP), overall deficit (-3.7 per cent of GDP) and foreign financing (1.8 per cent) are all below their respective PRSP targets. However, current expenditure (9.09 per cent of GDP) and domestic financing from the banking system (1.17 per cent of GDP) are higher than their PRSP targets (8.8 per cent and 0.8 per cent of GDP respectively).

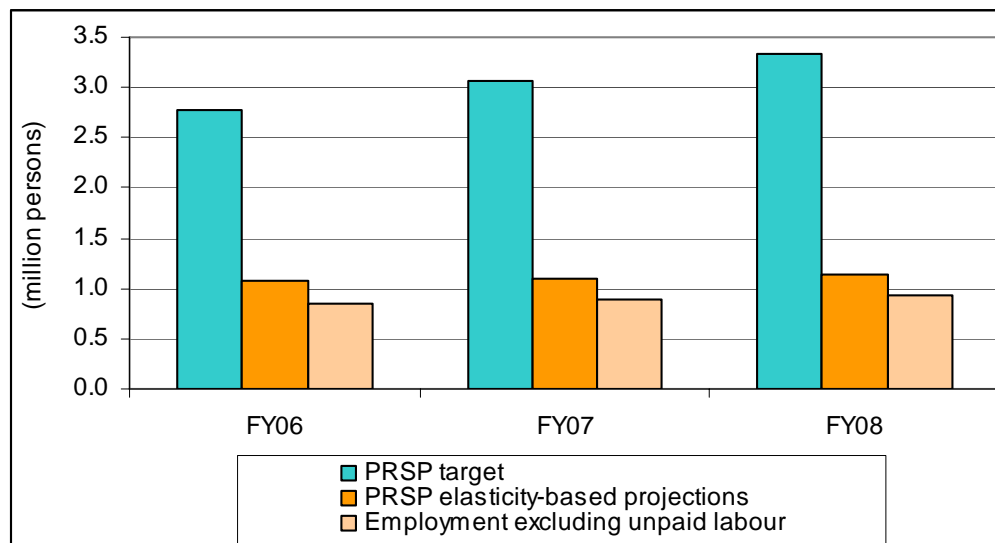
In sum, target was singularly achieved in terms of GDP growth rate. Achievement observed in various degree, in case of gross domestic investment, non-tax revenue, financing (net) of budget deficit and domestic financing. Targets were not achieved in case of such important indicators as CPI inflation, total revenue collection including tax revenue, total public expenditure including ADP. Borrowing from the banking sector was much beyond the targetted limit.

Under the circumstances, there is now a serious need to revisit the MTMF. One would have expected that the budget for FY07 to be designed under such a revised reference point.

## 4.2 Employment

A labour market analysis based on PRSP indicates that there is a gap of total number of employment between the PRSP employment projections and PRSP-indicated employment-GDP elasticity based projections as shown in Figure 5. According to the elasticity approach, a total of 1.09 million new jobs have been created in FY06, which is 1.69 million lower than PRSP projections. However, using the GDP-employment elasticity approach on all employment excluding unpaid family helper, it has been observed that a total of 0.86 million new paid jobs may have been created during FY06 which is even lower than the job projected by the GDP-employment elasticity approach. However, a total of 1.2 million population have been added in every year in the total labour force.

FIGURE 5  
TOTAL EMPLOYMENT: FY06-FY08

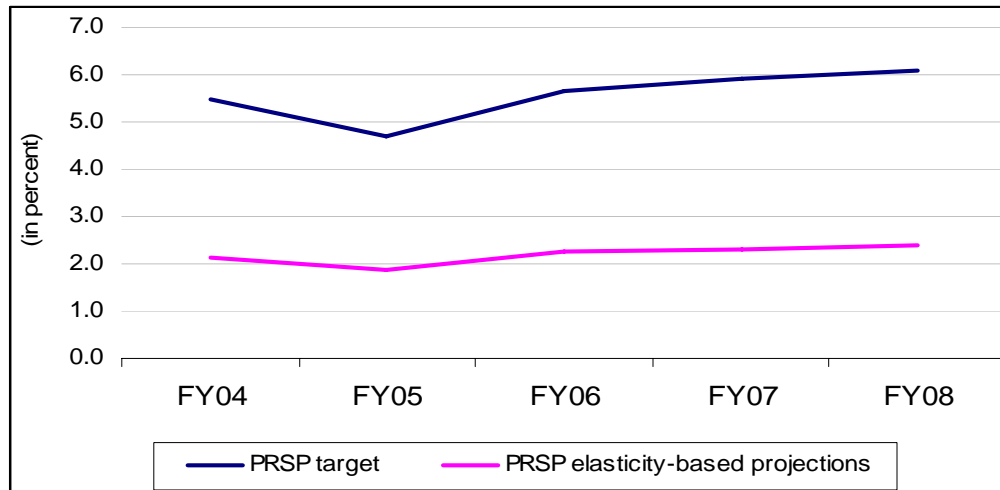


Source: CPD Projections

A wide gap is also observed in the growth rate of employment between those two as shown in Figure 6. According to the PRSP projections, the growth rate of employment is 5.66 per cent in FY06, whereas it is only 2.28 per cent according to the elasticity approach. In both cases, it is observed that PRSP employment projections and its growth rates are over-

estimated when one considers an employment-GDP elasticity of 0.34 as the base case indicated in PRSP (page 47).

FIGURE 6  
GROWTH RATE OF TOTAL EMPLOYMENT: FY04-FY08



Source: CPD Projections

### 4.3 Pro-pooriness of the Growth

From a wide range of macro and micro level monitoring indicators, we have selected eight crucial promises of PRS to assess the performance of the targets in FY06 as set out in the PRSP document (Table 2).

TABLE 2  
ASSESSING THE PERFORMANCE OF FY06 FROM PRS REQUISITES

PRSP Targets	Development Till December 2005
1. Adoption of a “pro-poor” growth strategy is favoured over “growth maximization” as a means of achieving faster decline of poverty (p. 19).	<ul style="list-style-type: none"> <li>• While MTMF projected a 6.5 per cent growth in FY06- an increase from 5.5 per cent in FY05</li> <li>• Achieving a higher growth per se has become the main target;</li> <li>• There is no mechanism to relate the growth figure to improvement of livelihood conditions of the poor.</li> </ul>
2. The long-term strategy for food security requires actions on income distribution that provides adequate purchasing power in the hands of the poor (p. 99).	<ul style="list-style-type: none"> <li>• National income attributable to the poorest 10 per cent declined from the miniscule proportion of 1.7 per cent in 1999 to 1.5 per cent in 2004;</li> <li>• Gini-coefficient deteriorated from 0.42 in 1999 to 0.45 in 2004;</li> <li>• Indirect taxes, such as VAT, which is not mean-tested, is growing at a rate faster than direct taxes;</li> <li>• Recent growth of direct tax (income tax) due to the contribution of middle and upper middle class wage earners, while corporate and top business people remain heavily underreported.</li> </ul>

3. The future growth process must generate employment opportunities for the poorer sections of the population and the returns from employment must generate adequate earnings for them so that they can break out of poverty (p. 76).	<ul style="list-style-type: none"> <li>• New GDP estimate suggests, growth process is still service sector dominated, which fails to generate employment opportunities for the poorer sections of the population. Waged jobs are increasing at a slower rate.</li> </ul>
4. With the increasing role of the private sector in the economy, the future prospect of employment generation depends mostly upon employment-friendly growth of the private sector (p. 77).	<ul style="list-style-type: none"> <li>• The MTMF on the contrary projects a negative (-0.3 per cent of GDP) growth in the private sector investment;</li> <li>• Heavy government borrowing squeezed the share of private sector credit;</li> <li>• Higher lending rate may retard private sector growth.</li> </ul>
5. During the PRSP period (FY05-FY07), 8.02 million new jobs are estimated to be created in the economy with 5.39 million in rural and 2.63 million in urban areas (p. 80).	<ul style="list-style-type: none"> <li>• Annual target of 2.7 million incremental employments;</li> <li>• Achievement of FY05 was not reported in any government document; (Not achieved according to our estimate).</li> <li>• There is no mechanism to estimate the number of jobs created in a year and how much of that went to the poor.</li> </ul>
6. The development of an appropriate regulatory framework which empowers the micro-credit sector to further improve its performance (p. 49).	<ul style="list-style-type: none"> <li>• Proposed regulatory framework for the micro-credit sector is yet to be enacted.</li> </ul>
7. Discouraging land-grabbing and better utilization of urban <i>khas</i> land for community objectives is also a priority (p. 57).	<ul style="list-style-type: none"> <li>• Illegal land grabbing has intensified;</li> <li>• Poor people have been uprooted from many government <i>khas</i> lands by many real estate agents and corrupt land grabbers.</li> </ul>
8. Effective policy initiative on a holistic approach to social protection will require a sharper profiling of risks such as <i>monga</i> and seasonal poverty (p. 59).	<ul style="list-style-type: none"> <li>• A fund was allocated in the budget of FY06 to aid the seasonally disadvantaged poor;</li> <li>• The fund remains unused till date;</li> <li>• Even the modality of expenditure has not been finalised yet.</li> </ul>

Latest available information shows that the government failed to implement most of the targets. For instance, national income attributable to the poorest 10 per cent declined from 1.7 per cent in 1999 to 1.5 per cent in 2004; Gini-coefficient also deteriorated from 0.42 in 1999 to 0.45 in 2004. GDP estimate suggests that service sector is an important source of economic growth (45.7 per cent in FY06) that generally does not create much wage employment opportunities for the poorer sections. Illegal land grabbing has intensified and poor people have been uprooted from many government *khas* lands, by many real estate agents and powerful individuals. The proposed regulatory framework for the micro-credit sector is yet to be enacted. A fund was allocated in the budget of FY06 to aid the seasonally disadvantaged poor, but it remained unused. Growth in the private sector investment seems to be retarded by recent heavy government borrowing and higher lending rate.

Given the state of data availability, one is not sure that the government is well equipped to report on the progress of implementation of these PRS objectives. However, the available indirect information suggests that progress in these areas is not so exciting.

## 5 PUBLIC FINANCE

### 5.1 Revenue Earnings

Revenue-GDP ratio failed to achieve the PRSP target of 11 per cent, though it marginally increased from 10.64 per cent in FY05 to 10.78 per cent in FY06. Tax-GDP ratio stood at 8.7 per cent in FY06, which is however lower than that of Pakistan (10.4 per cent) and Sri Lanka (14.7 per cent) but higher than India (Central Government only) (7.7 per cent).

The ambitious revenue target for FY06, which was set at 16.6 per cent higher than the realised figure of FY05, marginally fell short of target by (-) 1.9 per cent. The realisation in FY06 was 14.4 per cent higher than the corresponding figure of previous fiscal year. Tax component grew by 13.2 per cent during this period, while NBR and Non-NBR components grew by 13.0 per cent and 18.6 per cent respectively. The

incremental contribution of VAT in total revenue growth was about 31.6 per cent, while tax on income contributed only 19.6 per cent to the added revenue intake.

FIGURE 7

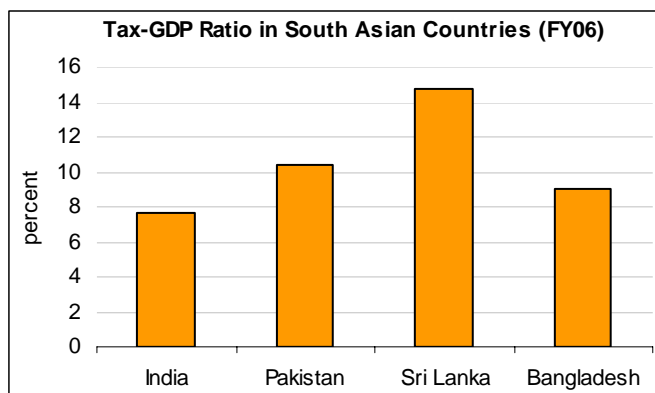


TABLE 3  
GROWTH OF REVENUE COLLECTION FY05-FY06

Description	Average Annual Growth FY95-06	Growth FY06 over FY05		Growth FY07 (B) over FY06(R)	
		Annual	Incremental	Annual	Incremental
<b>Tax Revenue</b>	<b>11.5</b>	<b>13.2</b>	<b>75.4</b>	<b>18.6</b>	<b>87.8</b>
NBR Component	11.7	13.0	69.8	19.2	86.0
<i>Taxes on Income</i>	12.7	19.0	19.6	22.1	20.1
VAT	13.4	16.9	31.6	18.8	30.4
Custom Duty	9.3	2.9	5.0	15.2	16.3
<b>Non-NBR Component</b>	<b>8.4</b>	<b>18.6</b>	<b>4.7</b>	<b>8.2</b>	<b>1.8</b>
Taxes on Vehicles	17.2	24.0	1.13	15.4	0.7
<b>Non-Tax Revenue</b>	<b>11.8</b>	<b>19.9</b>	<b>25.5</b>	<b>10.7</b>	<b>12.2</b>
Total	11.4	14.5	100.0	17.1	100.0

Source: Estimated from CPD Database.

To match the high reaching expenditure target in a pre-election year, the government has set a new height in its revenue target. According to the new target of revenue earnings, the government will have to collect 17.1 per cent more revenue in FY07 whereas NBR will have to record a 19.15 per cent growth. Given the past record of revenue collection, this is just an unachievable target! It seems that the government (average 11.5 per cent) first decided on a high spending outlay and then tried to make adjustment for the financing sources leading to improbable resource projection.

## 5.2 Public Expenditure

Total revenue earnings registered 14.5 per cent growth in FY06 as against a 9.8 per cent growth in total public expenditure. Revenue expenditure registered a whopping 17.3 per cent growth against a 4.9 per cent ADP growth. Given the poor utilisation of ADP, a moderate budget deficit (3.89 per cent of GDP) was also observed. For FY07, the government has set the growth of public expenditure at 14.2 per cent, which is lower than the projected growth of revenue earnings (17.1 per cent). Target of ADP growth has been set at 20.9 per cent in FY07 as against a 14.1 per cent growth in revenue expenditure.

### *Block Allocation*

The most disturbing feature of public expenditure in FY07 has been the high growth of “Block Allocation”. In the budget for FY07 an amount of Tk 6124 crores has been kept as block allocation, which is about 9 per cent of the total national budget. Among the total block allocation, Tk 2001 crores have been allocated for revenue expenditure, while the rest Tk 4123 crores have been kept in the development expenditure (of which Tk 2839.9 crores as sectoral allocation).

The 428 projects which have been included in the ADP without approval and allocation, will seek to use this block allocation to get into the mainstream projects.

TABLE 4  
UNAPPROVED PROJECTS IN THE ADP

	Unapproved	Japan Cancellation	Total
Road Construction/Repair	38	2	40
Power Plant	4		4
Miscellaneous procurement	7	2	9
Miscellaneous construction and maintenance	57	7	64

It is apprehended that such flexibility in decisions pertaining to allocation may breed indiscipline in public spending during the last three months of an outgoing government i.e. first three months of the next fiscal year.

It can be recalled that CPD in its IRBD 2005 commented about an outgoing government’s inclination to commit “eight sins”, of which adverse selection of projects and allocating discretionary funds in ADP was one of them. One needs to watch how carefully the government manages this huge fund in the first quarter of the fiscal year.

### *Overview of Sectoral Allocation*

In terms of total expenditure (development and non-development), education and technology has retained last year’s top position with an allocation of Tk 11,093 crores which is 15.9 per cent of the total expenditure and 19.7 per cent higher than the revised budget of 2005-06.

Public service, with a gigantic growth of 52.2 per cent, has received the highest increment in expenditure (of Tk 2909 crores) and stood at Tk 8496 crores (12.2 per cent of total expenditure). The major portion of this expenditure is accounted for by the 71.4 per cent growth or Tk 2446 crores increment in the non-development expenditure of Finance Division which includes allocation for civil pension, parts of subsidy, unexpected expenditure and block allocation for new recruitment.

TABLE 5  
SECTOR-WISE DISTRIBUTION OF TOTAL EXPENDITURE (NON DEVELOPMENT AND DEVELOPMENT)

Sectors	2005-06 (Revised)		2006-07 (Proposed)		Change in FY2007 B over FY2006 R	
	Amount (crore Tk)	Share (per cent)	Amount (crore Tk)	Share (per cent)	Amount (Crore Tk)	Growth (per cent)
Education and Technology	9265	15.17	11093	15.91	1828	19.73
Public Service*	5577	9.13	8486	12.17	2909	52.16
Transport and Communication	6123	10.03	7371	10.57	1248	20.38
LGRD	6503	10.65	6795	9.74	292	4.49
Agriculture	4494	7.36	5806	8.33	1312	29.19
Defence Services	4486	7.35	4904	7.03	418	9.32
Health	4112	6.73	4784	6.86	672	16.34
Fuel and Energy	3770	6.17	4286	6.15	516	13.69
Public Order and Safety**	3463	5.67	3677	5.27	214	6.18
Social Security and Welfare***	2939	4.81	3253	4.66	314	10.68
Recreation, Culture and Religious Affairs	740	1.21	875	1.25	135	18.24
Industrial and Economic Services	680	1.11	629	0.90	-51	-7.50
Housing	636	1.04	605	0.87	-31	-4.87
Total Expenditure	61058	100	69740	100	8682	14.22

Notes: \* includes Office of the President, Parliament, Prime Minister's Office, Finance Division, IRD, Planning Division etc.

\*\* includes Ministry of Home Affairs, Ministry of Law, Justice and Parliamentary affairs, Supreme Court, Anti Corruption Commission

\*\*\* includes Ministry of Social welfare, Ministry of Food and disaster Managements, Ministry of Women and Children Affairs

Among others, Transport and Communications, Agriculture, Health and Recreation, Culture and Religious Affairs have posted a significant growth of 20.4 per cent, 29.2 per cent, 16.34 per cent and 18.2 per cent respectively. However, LGRD has received Tk 6795 crores in the proposed budget, which is only 4.5 per cent higher as compared to the revised budget of FY06.

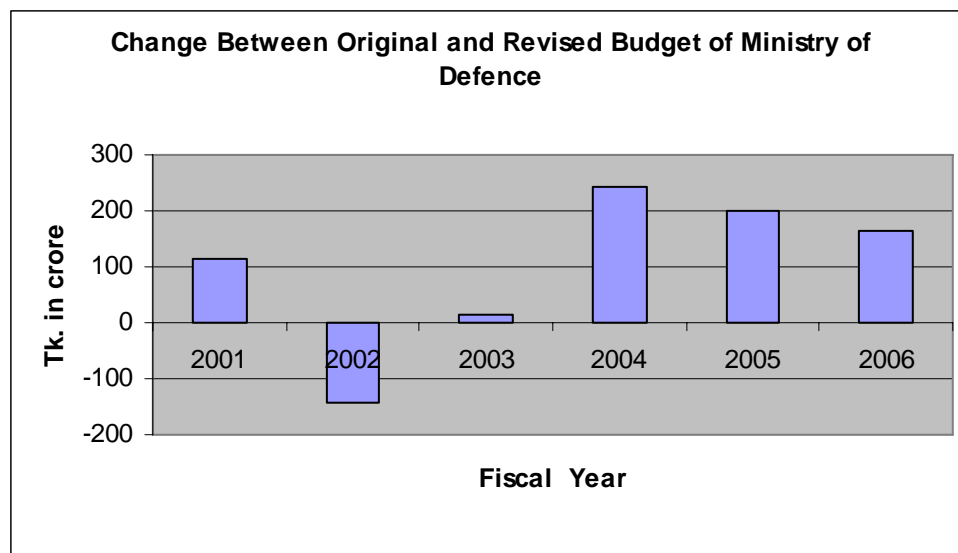
### **Defence**

Defence Services is expected to grow 9.32 per cent in the proposed budget of FY07 with an incremental allocation of Tk 418 crores. However, its share in total allocation declined from

7.4 per cent in FY06 to 7 per cent in FY07. Lack of information and transparency in other defence oriented allocations under the Defence Ministry inhibits proper analysis of defence spending in Bangladesh.

The historical experience reveals that the revised allocation in the Defence Services usually increases over its original allocation. For instance, in FY06 the allocation on account of Ministry of Defence increased by 166 crores taka.

FIGURE 8



The source of this increase mainly comes from the non-development allocation. In FY06 the non-development allocation experienced a growth of 3.91 per cent. However, development allocation also played a crucial part in budget FY07. With Tk 83 crores additional allocation in the ADP, defence ministry registered a 110.67 per cent growth over the revised allocation of FY06. While non-development allocation posted 7.59 per cent growth, overall allocation for the defence was 9.32 per cent higher than the revised budget of FY06.

### ***Revenue Expenditure***

The targeted amount of revenue expenditure for FY06 was Tk 35,523 crores which has been revised at Tk 34805 crores. Though the revised revenue expenditure for FY06 is only 2.0 per cent lower than its target, it is however 10.2 per cent higher than the revised figure of FY05.

Economic analysis of the composition of revenue expenditure indicates that the three heads which account for more than 80 per cent of the total revenue expenditure, accounted a 12.6 per cent growth in FY06, over the corresponding figures of the previous year. *The share of these three heads increased marginally from 79.1 per cent in FY05 to 82.6 per cent in FY06.*

**TABLE 6**  
**ECONOMIC ANALYSIS OF REVENUE EXPENDITURE: FY05-06**

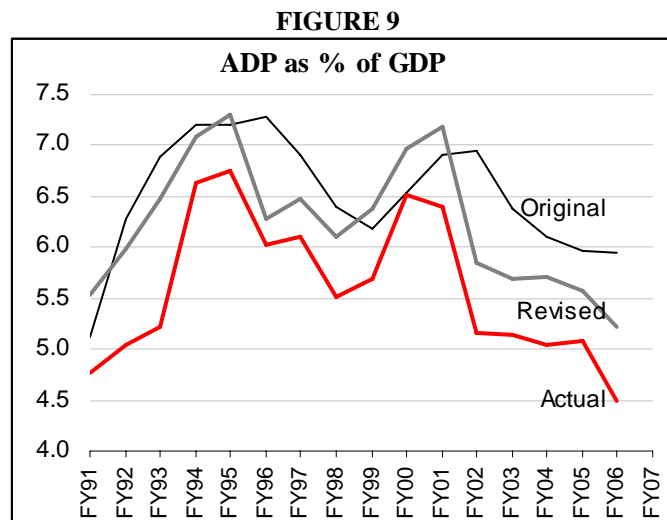
	Sectoral Share		Annual Growth		Incremental Contribution	
	FY06	FY07	FY06 over FY05	FY07 over FY06	FY06 over FY05	FY07 over FY06
Pay and Allowances	29.1	29.6	15.5	15.8	42.3	33.8
Pay of Officers	3.0	2.8	22.1	5.8	5.9	1.3
Goods and Services	17.8	16.2	7.1	3.0	12.7	3.9
Repairs, Maintenance, Rehabilitation	6.8	6.6	5.4	9.4	3.8	4.7
Interest Payments	21.7	19.3	16.0	1.2	32.4	1.9
Domestic	17.9	15.9	17.8	0.8	29.3	1.1
Foreign	3.7	3.4	8.3	3.1	3.1	0.8
Subsidies and Current Transfers	31.8	31.7	6.1	13.4	19.8	31.3
Block Allocations	1.8	5.1	-2.1	222.2	-0.4	29.2
Total	100.0	100.0	10.2	13.6	100.0	100.0

Within these three heads, “Salary and Allowances” registered a 15.5 per cent annual growth in FY06, of which “Pay of officers” increased by 22.1 per cent. According to the target for FY07, salary and allowances and other would increase by 15.8 per cent over the augmented figures of FY06. The “pay of officer” is projected to be increased by 5.8 per cent in FY07. “Subsidies and transfers” registered a 6.1 per cent growth in FY06, while “interest payments” accounted a 16.0 per cent growth during this period.

Interest Payment (domestic) during FY06 accounted a significant growth of 17.6 per cent, while Interest Payment (foreign) recorded an 8.3 per cent growth. Among others, “Goods and Services” registered a moderate growth of 7.1 per cent in FY06.

### **Annual Development Programme (ADP)**

*Historic Low ADP Implementation in FY06:* ADP for FY06 was set at Tk 24500 crores which has recently been revised downward by 12.2 per cent and set at Tk 21500 crores. Latest ADP expenditure record shows that only 44.7 per cent of the total fiscal allocation was spent during the first nine months of FY06. As percentage of allocation, this is one of the lowest expenditure in recent past. CPD projects that the actual implementation will be even lower, between Tk 19500



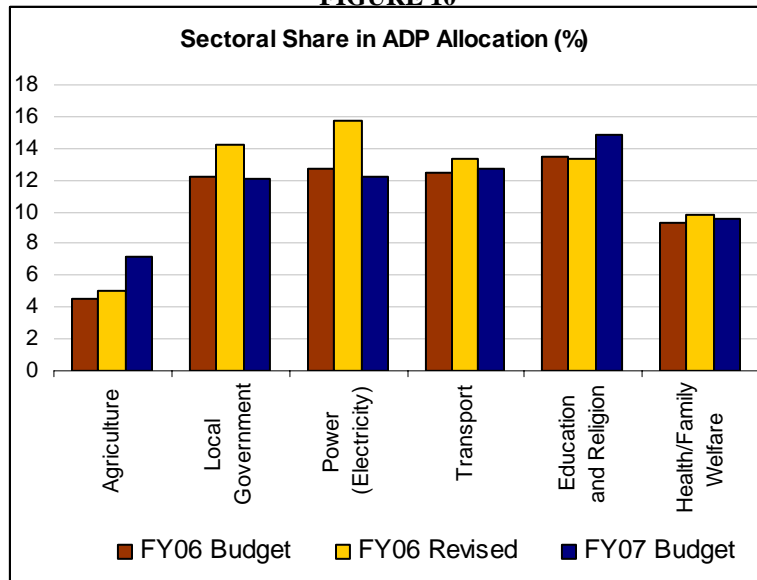
crore to Tk 20000 crore, which will be about 83 per cent of the original target. In terms of share of GDP it will be the first below 5 per cent of GDP since 1991, against the projection of PRSP which was set at 5.9 per cent of GDP.

*New ADP for FY07:* The government has set the new ADP target for FY07 at Tk 26000 crores, which is respectively 6.12 per cent and 21 per cent higher than the original and revised ADP of FY06. A number of 51 new projects have been included in the new ADP, of which 43 are investment projects (including 15 Japanese projects) and 8 are technical assistance projects. A total number of 886 projects have been included in the ADP. Another 428 unapproved investment projects have been included in the ADP without any allocation. A number of 296 projects are scheduled to be completed during FY07.

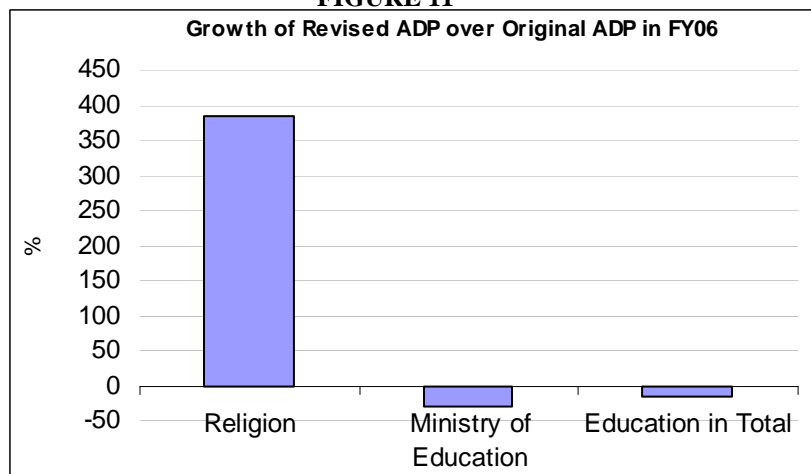
*Sectoral Shares in ADP:* In terms of share in the new ADP, education and religion (14.9 per cent) followed by transport (12.7 per cent), power-electricity (12.2) and local government (12.1) got the most allocation for FY07. Within the top six shareholders, agriculture and education-religion experienced the highest increase in allocation by 70.9 per cent and 34.8 per cent respectively compared to the revised ADP of FY06. However, as shown in the above figure, share of education and religion was revised downward in the ADP of FY06, whereas allocation on account of local government and power (electricity) were revised upward. Interestingly, despite the present power crisis, allocation in the Power (Electricity) shows a negative growth of (-) 6.54 per cent in the new ADP for FY07.

*Augmenting Education Sector Share:* Putting education sector on top of ADP allocation has become a political stance for the government. Since share of education sector is declining in total ADP, government is taking various tactics to broadcast an augmented share of education sector. One tactic is to add non-education sectors while reporting the allocation for education sector. For instance, education sector is now reported

**FIGURE 10**



**FIGURE 11**



with the 'religion sector', not separately<sup>3</sup>. Besides, expenditures for constructing Military institutes in Cantonments are also adjoined with education sector<sup>4</sup>. Sectoral share of education would be 12.49 per cent of ADP, if unspecified block allocation and expenditures on account of ministry of religion and ministry of defence are excluded from the total. Moreover, allocation of education ministry was revised downward in FY06, while allocation of ministry of religion increased by three items.

The government is aiming to finance 57 per cent of total ADP of FY07 from the domestic resources, whereas the rest 43 per cent will be financed by foreign resources. Within the total ADP, 66 per cent will be financed by local currency, and rest 34 per cent will be financed by project aid.

### **5.3 Budget Deficit and Financing**

Budget deficit as percentage of GDP was targeted to be 4.74 per cent in FY06. According to the revised estimate, it has come down to 3.89 per cent of the GDP, the lowest budget deficit in past seven years. But it is more due to default-failure to implement fuller ADP and inability to access foreign assistance.

Domestic financing experienced a compositional change in FY06, in the context of a declining foreign aid flow. The share of foreign financing decreased from targeted 55 per cent to 50 per cent in FY06, which eventually filled up by increase in domestic financing. Within the domestic resources part – the major source was net borrowing through banking system, 60 per cent of total domestic financing (Tk 4911 crores). Rest 40 per cent (Tk 3229 crores) was borrowed through non-bank instrument. Within the foreign resources component, 69 per cent was channelled as loan, while only 31 per cent came as grant.

The budget deficit is projected to remain lower (at 3.70 per cent of GDP) in the new budget for FY07, which is lower than the PRSP projection of 4.4 per cent.

## **6 FISCAL MEASURES**

### **6.1 Restructuring the Tax Administration**

In view of growing importance of domestic sources (as against external trade related taxes) in the context of mobilizing resources, it is imperative to improve the tax administration by developing its capacity, extending its outreach etc. There are some efforts observed in the proposed budget to enhance the efficiency of the tax administration.

- 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.

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<sup>3</sup> Renovation of National Mosque has been reported under the 'Education and Religion Sector' of new ADP of FY07.

<sup>4</sup> For instance, construction of Military Institute of Science and Technology (under Bangladesh Army Headquarter) at Mirpur Cantonment is reported under the education sector of ADP for FY06. The new ADP for FY07 also reports construction of such institutions in Banderban Cantonment under the education sector of ADP.

- 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 good step.
- Although government, now for some time, has announced introduction of improved version of Automated System of Customs Data, ASYCUDA++ & Direct Traders Input (DTI) at Dhaka, Chittagong and Benapole Customs Houses to make appraisement, 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 is a good one.
- Making it mandatory for the income tax practitioners to be members of any registered Taxes Bar Association for working as an authorised person, may enable to bring more accountability of the profession.

## **6.2 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. 120000 i.e. monthly Tk. 10000 and 1800 Tk. remains as the minimum amount of tax.

However, allowable investment level for tax rebates has been increased from Tk. 2 lakh to 2.5 lakh This will benefit those whose yearly earning ranges from Tk. 1000000 to 1250000.

Besides, annual tax-exemption limit of conveyance allowance in cash has been increased from Tk. 12000 to 18000 for computing income of salaried persons. This will only benefit those whose annual gross income will be 600000.

TABLE 7  
**INCOME TAX RATE FOR INDIVIDUAL  
ASSESESSES FOR THE INCOME YEAR 2006-2007  
(TAX ASSESSMENT YEAR 2007-08)**

Income	Rate	Per Month Salary (Tk.)	Tax (Tk.)
			2005-06
Tk.120,001		10,000	1,800
Tk.370,000	10%	30,833	25,000
Tk.670,000	15%	55,833	70,000
Tk.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 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 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 user of credit cards 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 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 perquisite for companies from Tk. 1 lakh 92 thousand to Tk. 2 lakh *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 thousand or more. *It will restrict misdeclaration of income and expand tax base.*

### ***Special Tax Benefit***

- Given the investment incentives (effectively of Tk. 7500) allowed to the highest income bracket, it would have been only proper to raise the tax exemption base from Tk. 120000 to Tk. 1500000 without raising the minimum income tax of Tk. 1800.
- 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 of 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 make the privilege to continue scope 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 raise 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), from 13 per cent to 12 per cent (intermediate goods). This will help accessing of 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.
- Enhancement of allowable depreciation from 15 per cent to 20 per cent in assessing reconditioned motor vehicles will help to raise revenue.
- *There is a problem in the existing 4-slab system, especially in case of capital machinery, as only selected industries have the benefit of importing capital machineries at zero duty. There is also differentiation amongst 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 rationalize 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 VAT 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 from turnover system. However, there are diverse categories of consumers of these services and there will be some discriminatory burden.
- Beside extension of coverage under VAT, there needs effective tax administration to collect VAT from the specified business activities.

### ***Outstanding Proposals***

- *There is demand from BGMEA/BKMEA for having provision of VAT exemption from utilities, especially electricity. Government may consider this proposal.*
- *Coverage of VAT stamp/band roll can be extended by reintroduction of payment of advance income tax during annual renewal of vehicles fitness certificate.*
- *It has been proposed that professionals from other different categories such as physicians and lawyers have to be covered under VAT.*

## **6.3 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 specially 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 (b) imposition of supplementary duties (SDs). The proposed increased 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, 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 rationalization of supplementary duty levied on certain printed plastic materials including printed plastic sheet.
- With a view to encouraging local electronics industries, budget proposed that import duty on diodes, transistors, semi-conductor device and compressors be reduced from 13 per cent to 5 per cent.

## 6.4 Sectoral Measures

### Agriculture

#### *Crop Sector*

- Allocation for agricultural credit, subsidies, and agricultural research has been increased in the budget for FY07. Total allocation (revenue and development) to the Ministry of Agriculture in FY07 is Tk 3149 crores which is 31.26 per cent higher than the revised allocation (Tk 2399 crores) in FY06 and 42.29 per cent higher than budget allocation (Tk 2213 crores) in FY06. *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 1100 crore to Tk 1200 crores. There is also an allocation of Tk 244 crores 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 crores (Budget and Revised budget of FY06 and Budget of FY07). *Allocation of subsidy is a necessary condition to benefit farmers, but not a sufficient one. Although there was subsidy for agriculture (fertilizer and electricity used for irrigation) in FY06 but farmers faced severe problems for agricultural inputs including fertilizer and irrigation. This year government is going to import fertilizer and then market those at subsidized 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 crores 'Fund for Assistance to Small Farmers Affected by Natural Disasters'. *This is a welcome measure considering various types of new risks such as possibility of epidemic diseases like "bird flu". However, the amount is very low.*
- The government has exempted fertilizer, 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 curve 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 MT at the importation stage which is expected to bring down the price of sugar by nearly Tk. 6,000/- per MT. *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 FY07 a total of Tk 1466 crores, revenue and development combined, for the Ministry of Water Resources, which is 29.6 per cent higher than the revised allocation for FY06 (Tk 1131 crores) and 18.8 per cent higher than the proposed Tk 1234 crores in budget of FY06. *Only 27.43 per cent of the allocated amount in FY06 was spent until February 2006.*

### ***Fisheries and Livestock***

- The government proposed an allocation of (development and revenue combined) Tk. 578 crores 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 crores) and 36.3 per cent higher than the revised allocation of Tk 424 crores. *In FY06, 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 crores in FY07 for the Ministry of Environment and Forest, which is 41.97 per cent less than the proposed allocation for the current fiscal year (Tk 417 crores) and 11.68 per cent less than revised allocation (Tk 274 crores). *Only 25.5 per cent of the allocation was spent during the first eight months (until February'06) of FY06. 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 Custom 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 for increased allocation for credit support under the ‘Agro-based Industries Programme’ from Tk 100 crores in the previous budget to Tk 150 crores.
- Budgetary allocation under the ‘Equity Development Fund’ has been increased from Tk 100 crores the revised budget of FY06 to Tk 200 crores in FY07. *So far, 212 proposals have been financed under the programme where agro-based and Food Processing sector received the lion share (81.56 per cent). Fish Hatchery and Fishing is the highest receiving sub-sector (17.80 per cent) followed by Poultry and Fish Feed (15.24 per cent), Grand Parent & Hatchery (7.64 per cent) and Potato Flex (7.37 per cent).*
- The government has extended the benefit of tax exemption and rebate to agro-processing, jute and textile industries up to 30<sup>th</sup> June 2008 (previously up to 30<sup>th</sup> 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, specially for the knit industry but for the overall wellbeing of this sector, the support for RMG sector was rather weak. One positive move is that import duty of spare parts, and raw materials have been reduced. In FY07, the government allocated additional Tk 30 crores for the purposes of retraining of retrenched garment workers in continuation to 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 crores 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 garments industry also indicated a need for special training for the workers management relations which could be incorporated in the budget. Sri Lankan budget mentioned to establish an “Academy of Labour Relations” to promote harmonious labour relations in work places with the cost of Tk 800 crores.
- 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 crores 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 was not put forward 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 for it being a net receipt to the exporter and treat the deduction as final settlement of tax liability. This will have positive implications to the exports.
  - 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 treat plant. This will increase domestic products 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 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 were allowed up-to 30th June 2006. The budget for FY07 proposed to extend these benefits till 30th 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 FY07. India has increased its allocation for the handloom sector from Tk 312 crores to Tk 386 crores. Sri Lanka also proposed a number of actions in the budget. For example, Tk 5.13 crores were 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 FY07, allocation to the Technology Up-Gradation Fund (TUF) has been enhanced to INR 5.35 billion (\$120.5 million) from INR 4.35 billion (\$98.0 million). In order to create a viable backward linkage industry this TUF could be viable option for Bangladesh.

### **Telecommunication**

- This year's budget has proposed to enhance this allocation for telecommunications to Tk.1574 crores, an increase of (1426 crores in FY06) 10 per cent in FY07.
- 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.
- This year's budget also proposed to reduce tax from Taka 900 to Taka 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 the consumers, reduction of tax on SIM will reduce their burden. However, considering their huge profit, the government may increase tax rate from Tk 800 to Tk 1200 in order to raise revenue.

### **Jute industries**

- With a view to developing jute industries benefit of tax exemption and rebate was allowed up-to 30th June 2006. The budget proposal has been placed to extend these

benefits till 30th June 2008. The recent export performance on 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 FY07, 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 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 of this, 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 it did 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 implemented.

### **Vehicle**

- In the budget for FY07 tax rates for purchase of motorcar under Section **19BBB** was 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 FY07, supplementary duty of 15 per cent was imposed on 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 making to reduce 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 are much lower than in Bangladesh with 6 per cent in Pakistan, 5 per cent in Nepal and India and 2.5 per cent in Sri Lanka.

### **SMEs**

- Providing credit to SMEs through refinancing scheme is a welcome step. A total of Tk.100 crores 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 crores for the development of agro based and software industries which is Tk 50 crores 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, complies more with agro-based industry. It

seems that *EDF may contribute more if rules and regulations of this fund are updated 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 of which taxable income does not exceed Tk 32 lacs (Rs. 50 lacs), from 20 per cent to 15 per cent.
- India has increased the corpus of the Credit Guarantee Fund from Tk 1742 crores (Rs. 1,132 crores) at end-March 2006 to Tk 3849 crores (Rs. 2,500 crores) in five years. There is a proposal to provide a sum of Tk 181 crores (Rs. 118 crores) 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 issue**

##### **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 government 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.3586 crores, which is merely 5.5 per cent higher than the revised budget of FY06. 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 crores 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.
- However, 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.
- On the other hand, India and Sri Lanka have taken several initiatives in order for rural areas to be electrified. In FY07, 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 household within the next 3 years and Rs. 50 crores (Tk. 34 crores) 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 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 Tk. 43) and Octane has been increased to Tk. 58 (earlier 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. 73.13 (Rs. 47.49) per liter. Similarly price of diesel has increased to Tk. 49.97 (Rs. 32.45) 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 crores for this Fund in FY07. There has been an increase of 12 per cent in the total amount spend 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 not adequate supply of fund to do 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. 3000 crores (Tk.45 crores). 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 utilization 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, since 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. However, foreign companies may contribute more to the domestic economy.
- 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 and raise a part of their capital, which will increase confidence on these companies at the domestic level. In this context, Tata's proposal of floating a part of their 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 for FY07 the proposal is the withdrawal of the conditions so imposed. These measures are positive solar energy can contribute positively to cater the energy need 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 on 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 due to lack of investors' confidence.

### **6.5 Local Government, Rural Development and Rural Infrastructure**

- The budget for FY07 has proposed an allocation (Development and non-development) of Tk 6427 crores which is only 4.74 per cent more than the revised budget and 6.89 per cent than the proposed budget of FY06. *It may be mentioned that only 27.3 per cent of allocated amount in FY06 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 FY 06 Union Parishad was 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 2676 per Union Parishad, if there is 4484 UPs in Bangladesh) but this is a recognition that local governments need to be supported for development.*

## **7 SOCIAL SECTORS AND SAFETY NET PROGRAMMES**

In this section, we review the fiscal measures envisaged for the Education and Health sectors. The section also takes a look at the proposed measures for safety net programmes.

### **7.1 Education**

- Similar to the previous two budgets, education has been given the "highest sectoral allocation" in the proposed budget for FY07. This year's allocation of Tk. 10891 crore is 15.61 per cent of the total budget. As has been proposed, out of this total, Tk. 3786 crore (34.76 per cent) will be spent from development budget.
- This year's allocation is Tk. 1789 crores (19.7 per cent) more than the revised budget for FY06 and 14.8 per cent more than that of the proposed budget.
- The development budget for FY07 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 FY06.
- 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. 5000 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 FY07 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 lakhs female students. In FY07, the proposal is to increase the allocation to Taka 52 crores by increasing the total number of scholarships to 101000.
- Three Polytechnic Institutes only for the women are in 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 socio-economic development of the country
- The proposal is to allocate a total of Tk 11093 crores (development and non-development together) in FY07 which is 20 per cent higher than the allocation made in the revised budget of FY06 (9265 crores). *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 folks. However, it is a matter of regret that the budget did not come up with any such proposals.*

## **7.2 Health**

- The budget for FY07 has allocated Tk. 4784 crores in the health sector. This amount is 6.86 per cent of the total budgetary allocation. Besides, this year’s allocation is Tk. 672 crores (16.34 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 32450 crores.
- Currently, in 105 upazilas, 2 crore 90 lakh people have been brought under a nutritional service programme through 23000 social nutrition centres
- In FY07, the proposed allocation for health sector is Tk 4784 crores (development and non-development together), which is 16 per cent higher than the allocation made in the revised budget.
- 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.*

### 7.3 Social Safety Net

Towards targeted poverty reduction, social safety net and employment generation programmes, the budget for FY07 proposed an additional allocation of Tk 935 crores. 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 crores is allocated for FY07, which is 4.18 per cent less than the previous fiscal year.

TABLE 8  
SOCIAL SAFETY NET

<i>(Crore Taka)</i>			
Existing Programmes	FY06 (P)	FY07 (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
Food for Works Programme (Cash: Crore Tk)			
<b>Total</b>	<b>921.00</b>	<b>935.00</b>	<b>1.5</b>

- A “Seasonal Unemployment Reduction Fund” of Tk 50 crores was created under non-development budget in FY06 to mitigate the seasonal unemployment of the unprivileged poor people in some specific areas caused by natural and geographical constraints (specially in Monga prone areas). The proposal is to make a further

- allocation of Tk 55 crores to this Fund. *However, the concern would be utilization of this fund as the fund allocated for FY06 was not spent at all.*
- In this regard, we can take lesson from India's National Rural Employment Guarantee Scheme (NREGS) with an allocation of Rs. 14300 crores (Tk 22022 crores). NREGS 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 FY07, the proposal is made to allocate an additional Tk.30 crores to the fund for the programme introduced in FY05. However, the already allocated fund 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 FY07, the proposal is to allocate Tk. 20 crores to create Skill Development Fund for the Readymade Garments Workers.

#### 7.4 Special Credit Programmes for Employment Generation

The government has proposed an additional Tk. 940 crores for the 7 existing credit programmes for employment generation.

TABLE 9  
NEW ALLOCATIONS FOR CREDIT PROGRAMMES

Credit Programmes	FY05-06 (Crore taka)	FY06-07 (Crore taka)
Government departments/agencies	200	148
PKSF	281	217
NGO Foundation	100	25
Employment generation for the hard-core 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
<b>Total</b>	<b>981</b>	<b>940</b>

## 8 CONCLUDING OBSERVATIONS

1. As FY06 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 has quite inadequately treated this issue. Rather it

becomes a swan song of the minister long on claims, short on delivery, 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. An 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 FY06 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 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 speed much in the next three months. The budget for FY07 can, in fact, be termed as *A budget for everybody, but for nobody*.
6. The proposed fiscal measures in general indicate an attempt to liberalize the trade regime further and to make inputs available at a globally acceptable price. Some discrete attempts to provide protection to emerging domestic industries are also visible. However, current tariff structure continues to protect specific interest group as it is in the case of newsprint.
7. The assumed inflation rate for FY07 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 neither recognises 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.

Admittedly, 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 10 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 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 FY07. 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 destabilization in terms of inflation rate, import rate 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 PRS, FY07 may very well be over. Thus, one should be prepared to see phased downward revision of the proposed budget as the regime changes successively.