Policy Research Centre (PRC) 2012-2013 Budget Review

by **Prof. Dr. Akbaruddin Ahmad**

Introduction: PRC had researched and presented a pre-budget document for 2012-2013 that was circulated to all concerned. Now it aims to analyze the budget and express the views for the consideration of the authorities. Finance Minister AMA Muhith proposed a Tk 191,738 crore budget for the fiscal 2012-13. The proposed budget is saddled with a high level of deficit. With such a huge deficit, the government will have to go for excessive borrowings from the banking channels which will create liquidity crunch and squeeze credit flow to the private sector. If the government fails to receive expected foreign loans, the bank borrowing pressure may increase further and without improving project implementation, expected foreign loan might not come through. As a result, overall investment in the country would decline, creating problems in achieving GDP growth rate which in turn would affect employment generation. The government may have to face a big challenge in implementing the budget, especially in terms of financing. Achieving the optimistic 7.2 per cent GDP growth in the coming fiscal may not be possible.

Increasing Revenue: The government will be able to collect a significant amount of revenue if it introduces an automation system in revenue collection and increases the number of taxpayers. The government can possibly reduce its dependence on the banking system.

Confrontational Politics: There is a possibility of worsening political situation in the coming days and the government might have to borrow more from the banking sector. These two things will have a negative impact on investment prospects.

Bank Borrowings: The expansion of private sector would be hampered in the coming fiscal year as the government had made a target of borrowing Tk 23,000 crore from the banks for deficit financing. The overall deficit financing of the proposed budget would be Tk 52,068 crore, of which the government would borrow Tk 23,000 crore from the banking source to make up the deficit. Due to higher borrowing target from banking source, the banks would fall into a severe liquidity crisis and the interest rate on loan disbursement and deposit collection might be increased. Under the circumstances, the credit flow in the private sector will reduce and as a result the country's industrialization process would be severely affected. The government had initially made a borrowing target of Tk 18,957 crore from the banking source for FY2011-12, but the target was eventually surpassed within first half of the outgoing fiscal year.

Tax at Source: The budgetary measure to increase the tax at source on export goods to 1.2 per cent from 0.6 per cent would affect exports. This amounts to about 17% tax on profit, a significant increase from the existing level. The country's export sector is now facing a crisis due to the economic recession in Europe and the proposed tax at source will be the last straw. We request the government not to increase the tax at source.

Investments: In the current context where FDI and general investment has slowed down, it is worthwhile to allow the facility of whitening black money.

Budget Implementation: The implementation of the proposed budget for fiscal year 2012-2013 would be difficult as there is no clear-cut indication on how the government will address the issues like inflation, investment, employment, and power and energy crisis.

Tax Burden: The budget will also increase tax-burden on regular taxpayers as minimum tax rates have been increased without increasing the ceiling of tax-free income for individuals.

Energy Crisis: In the budget, there is no clear picture on energy crisis which will also lead to lower-than-expected investment.

Growth Rate: Achieving 7.2 per cent GDP growth and reducing inflation to 7.5 per cent may not be achievable. In May, overall point-to-point inflation remained very high compared to the target set by the government for the current fiscal year.

Achieving the target of 22 per cent growth in revenue earnings may also prove difficult in the context of some internal and external factors such as possibility of declining import. The main challenge of the proposed budget would be to increase investment, pursue austerity measures in government expenditure, improving government's fiscal management and proper coordination between fiscal and monetary policy. The export sector would face problems in the coming days with the government going for increasing the tax at source.

Interest Earnings on Life Insurance: The move to collect tax from the interest earnings of the life insurance policyholders comes in Finance Minister AMA Muhith's budget proposal for the coming fiscal year. The minister proposed a deduction of 10 percent tax on incomes in excess of premiums paid by a policyholder at the time of maturity of the policy. It will discourage people, especially who are in rural and semi-urban areas, to buy life insurance policies. The government should review the decision considering the poor coverage of life insurance in our country. The imposition of tax may discourage long-term savings as it will act as a disincentive to the policyholders. Life insurance can be a protection for low- and mid-income people as social security is low in Bangladesh. From that perspective, the step does not seem appropriate. Currently 19 life insurers, including state-owned Jiban Bima Corporation and foreign Metlife Alico, are in operations in Bangladesh.

Surcharge on Mobile Phone Calls: The government plans to impose surcharge on mobile phone users at the rate of Tk 0.15 to 0.20 per call. The move, which comes on top of a 2 percent tax on mobile talk-time proposed by the finance minister in his budget speech, is aimed at creating an energy fund. Many poor people now use mobile phone. Imposition of such tax or surcharge on mobile phone calls will not be justified. As of April this year, 9.63 crore people in the country use mobile phones, according to Bangladesh Telecommunication Regulatory Commission.

Power Tariff Hike: Currently, production cost of per unit electricity is Tk 6.8 while it sells Tk 4.02 on an average. A proposal to hike power tariff by Tk 2 a unit is under consideration of the Bangladesh Energy Regulatory Commission. If approved, the fresh hike will bring down the annual deficit to Tk 3,500 crore, according to the ministry document.

Fuel Subsidy: In the current fiscal year Bangladesh Petroleum Corporation sought about Tk 28,000 crore in fuel subsidy, citing price hike on the international market. However, the government eased the pressure by increasing fuel prices thrice in the last nine months. Even so, the government will have to count a huge subsidy on fuel. In the current FY the government already spent Tk 9,000 crore in fuel subsidy. For fiscal 2012-13, the government has allocated Tk 6,200 crore for energy subsidy and Tk 6,400 crore for power.

Rental Power Plants: The government should reconsider its decision on rental power plants if the fuel price continues to spiral in the world market. If the price does not increase further there is no need to assign more subsidies.

Tax on Interest Income: A proposal to hike tax on interest incomes of bank-account holders with no tax identification numbers will hurt small savers and Bangladesh's financial inclusion effort.

The government announced plans to increase tax at source on bank interests to 15 percent for those without TIN from the current 10 percent, a uniform rate for all account holders with or without TIN.

It contradicts with the central bank's effort to encourage banks to open farmers' accounts with only Tk 10. It would be an attempt to squeeze money out of the general people. It could also discourage thousands of pensioners, housewives, students and other professionals to park their money with the banks.

Personal Taxable Income: Personal income tax thresholds remains at Tk. 180,000, but minimum tax has been increased from Tk 2,000 to Tk. 3,000. In Bangladesh, per capita income has increased. Despite one should keep in mind that this is a threshold income level, below which one is believed not to be in a position to pay taxes. In a view, the unchanged threshold and the increased minimum tax is social injustice. Individual taxpayers bear the brunt of increased cost of living due to inflation. Under the circumstances, it is necessary to hike the tax-free income limit.

TIN not Mandatory for Stock Investors: It was a wrong decision for the government not to make TIN mandatory for stock investors. All stock investors must have TIN. In principle, the people who are investing in the stock market are not small earners.

Tax Rate for Merchant Banks: In Budget tax rate is reduced for merchant banks (from 42.5% to 37.5%) while other banks continue to pay 42.5%. It is mentioned as an incentive to the capital market. But it doesn’t match the Bangladesh Bank’s view reducing merchant banks’ exposure to the capital market.

Tax Rate for Cigarette Companies: Tax rate increased for cigarette companies (for non-listed: from 37.5% to 42.5%, for listed: 27.5% to 35%) – is a right measure for revenue collection.

Land Tax: Depending on the location of property, 3%-5% tax to be deducted at source for sale of land by developers. This will lead to hike land price from the consumers’ perspective as the additional tax burden will be shifted to them.

Imported Refrigerators and Motor Cycles: 20% regulatory duty has been withdrawn. This will hurt the local manufacturers.

Value Added Tax (VAT): A uniform VAT rate of 15 percent is applicable for both goods and services. 15 percent VAT is applicable for all business or industrial units with an annual turnover of Taka 2 million and above. Turnover tax at the rate of 4 percent is leviable where annual turnover is less than Taka 2 million.

Edible Oil: Total tax burden (including import duty and VAT) on edible oil decreased from 38% to 16% is a positive move, likely to impact significantly on its prices.

Air Conditioners: Total tax burden (including import duty and VAT) on air conditioners increased from 152% to 213%. Considering electricity situation, it's a positive move.

Agriculture Credit and Incentive: The target of agriculture credit in FY 2012-13 is set at Tk. 14,143 crore while in FY 2011-12, credit disbursement was 73.9 percent up to April, 2012 against a target of Tk. 13,800 crore. It's essential to reach the target group by finding out the obstacles of not achieving the target. Measures for ensuring incentives for farmers (farm level price for agricultural commodities higher than production cost) are absent.

Agriculture Insurance: "Crop Insurance", has been introduced on pilot basis in one Upazila under the district of Habigonj. No specific allocation and modalities has been mentioned for crop insurance.

Fisheries and Livestock: Prospects of marine fishing has increased due to establishment of the legal rights in the sea. No specific allocation has been mentioned for marine fishing to tap the unlimited resources. As a priority basis, government is implementing a project titled "Modernization of Vaccine Production Technology and Extension of laboratories". Very little has been mentioned to address the loss incurred by the poultry farmers, as a short term priority. It is expected that fish production, meat production and milk production will be increased significantly with proper research, legal framework and incentives. However, for FY2012-13, no new inducement has been added to accelerate the rate of production.

Women Entrepreneurs: Proposed allocation of Tk. 100 crore for women entrepreneurs and 15% of SME loans to the women entrepreneurs will positively contribute towards flourishing of women entrepreneurship.

ICT: It is good to see that the budget for the new fiscal year has an allotment of Tk. 294 crores for information and communication sector in the annual development plan. There is, however, no indication which specific areas will enjoy this allotment.

Tax on Private Universities: We want the abolishment of contradictions in the Private University Act 2010. It is a theoretical contradiction that the government addresses private universities as non-profit organisations, and yet impose taxes on them. Private universities, according to government regulation, cannot be profitable organisations, as they have to spend the surplus of their income for the development of their respective universities. Thus, being non-profit organisations it will be difficult to pay the proposed 15 percent VAT on operating surplus and 15 percent VAT on rented buildings. To stem 'brain drain', the government should meet the growing demands of higher education.

Conclusion: The budget relies on generating nearly 60 percent of the expenditure through increased revenue collection. Specific steps are needed against the backdrop of the sluggish business and investment scenario and other risks. The government's huge tax collection target will put extra tax burden on individual taxpayers and entrepreneurs affecting economic growth.

Exports and imports will need to grow by 50 percent to achieve the budgetary targets. Instead of taking measures to increase exports, the government plans to hike taxes on exporters' income, impose duty on raw materials and expand the net of value added tax payers. These measures will discourage trade and investments. It’s a bold step to fix the budgetary targets at 7.2 percent economic growth and also contain inflation. The implementation of the budget would be at stake due to the growing risk of political stalemate. The impasse in politics might affect garment exports, a lifeline for the country's economy. The government's various promises and measures including digitisation and automation, e-governance, and formulation of law for public private partnership (PPP) for the next fiscal year are noteworthy.

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