

FROM THE EDITOR

Bangladesh Finance Minister AMA Muhith Thursday, 10 June unveiled a Tk.1.32 trillion national budget for 2011 fiscal aimed at spurring higher economic growth, aided by increased spending on energy and power and also encouraging private investments.

Laying out a record spending plan, the minister said the economy would chalk out a 6.7 per cent growth in 2010-11 financial year, helped by global economic recovery, continued growth in agriculture, and sustained domestic demand.

He said that the upward growth projection was influenced by enhanced flow of private investment and a competitive external sector such as foreign trade, aided by a stable exchange rate.

The economy has continued to slow down since 2007, with growth slumping to 5.5 per cent in June – the lowest in seven years – as manufacturing and agriculture fared poorly.

"Expected progress will be achieved by augmenting revenue collection, crowding in private sector investment through ADP implementation," Mr Muhith said in his budget speech.

The economic planner designed spending as a way to draw more private investment in the infrastructure sector, particularly in energy and power. Private investors have almost shunned energy and electricity business for years, thanks to the low levels of public investment that has hovered at 4.0 per cent for years.

The finance minister Mr Muhith, arguably a spendthrift, will find it difficult to finance his big budget, although he is sure to bet on higher revenue growth – as high as 20 per cent.

It is still unclear how he will boost revenues from value added tax (VAT) or income tax as he outlined no major reform steps.

It also remains to be seen whether the National Board of Revenue's efforts would be effective to rope in half a million new taxpayers in view of its abortive past record.

The finance minister wants to tax real estate developers, institutional investors in the capital market and the wealthy who are often blamed for evading taxes.

The minister will ask for Tk.611 billion for the energy and power sector given the severe energy and

electricity crisis, which has not only mounted public sufferings, but also slowed down industrial output and sapped trade.

In his budget document, he laid out a five-year roadmap to produce 9,425 megawatt of electricity by 2015 with furnace oil and diesel as new fuel sources apart from natural gas.

The finance minister is hopeful that the gap between the demand and supply of electricity will be closed by 2012 and the energy and power crisis will not remain as an obstacle in the development process from 2015 onwards.

The roadmap is expected to allow citizens to monitor the latest state and development of specific power projects as part of the sector's reform, often plagued with graft.

The budget has allocations for the state-owned energy companies to conduct oil and gas exploration and also develop gas grid.

Despite his profligate spending plan, Mr Muhith has promised to keep his budgetary deficit within 5.0 per cent of gross domestic product (GDP), relying mainly on domestic borrowing from banks and non-banking sources.

He also expects to receive Tk.156 billion – or 2.0 per cent of GDP – in foreign aid to help close the budgetary gap, but he may find it difficult to bring in such a big amount as donors' purses strained in the wake of the global recession and the current sovereign debt crisis in Greece and other Euro-zone area.

Like in the maiden budget, the minister left no stone unturned to give a human face to the new budget by increasing support for grey-haired groups, disables, pregnant mothers, widow and divorced women, street children, orphans and beggars.

Building on the current success, the budget has requested Tk 10 billion for fostering jobs for the ultra-poor who make up 40 per cent of the population.

Mr Muhith took up a Tk 385 billion Annual Development Programme (ADP), which will focus on regional parity, improved infrastructure and quality of spending.

In the proposed ADP, top recipients will be human resources sector, followed by agriculture sector, power and energy.

To sustain farm growth, the budgetary measures have placed an emphasis on agricultural productivity and diversifying agri-products.

Farm subsidies, however, will amount to Tk 40 billion, down from Tk 49 billion in the revised budget.

In the proposed budget, physical infrastructure will get over 30 per cent for the outlay, while 23.9 per cent will go to human development and technology.

To develop skilled manpower, the budget has set aside Tk 315 billion, with major portion going to education, health and information and communication technology sectors.

But whatever may be the allocation, implementation will – as always – prove to be a key to achieving the target of ADP spending.

The budgetary measures are unlikely to build up inflationary pressure, even though the potential spike in international commodity prices could have a bearing on it.

The budget has promised to keep inflation at 6.5 per cent in the next year and "gradually lower it in the coming years."

The minister said the Bangladesh Bank has increased both the margin of cash reserve requirement and statutory liquidity ratio of the banks in order to reduce inflationary pressure arising from excess liquidity in the banking sector.

In this context it may be mentioned that in the country's 40-year political history the main opposition political party presented its thoughts and proposals on the national budget formally before announcement of national budget by the government.

BNP Chairperson and former premier Begum Khaleda Zia suggested Monday, 7 June not to hike tax rates in upcoming national budget and stressed for modernising tax collection mechanism to ensure higher revenue growth.

"Higher tax rates slow down revenue collection," she said adding, "tax administration should be revamped and the net be widened if necessary."

Bangladesh Nationalists' Party (BNP) believes in a legitimate tax policy, which would not make people feel shy of paying taxes, she said while placing the party's view and proposal over the next budget in a

city hotel.

Putting forward a set of proposals for the 2010-11 budget, scheduled to be placed in the national parliament Thursday, 10 June, the BNP chief proposed that the tax-free income be fixed at Tk 240,000 instead of the existing Tk. 165,000.

Regarding agro-sector Khaleda Zia, who is also the leader of the opposition, suggested introduction of insurances for crop, fish, poultry and livestock to help the farmers avert risks and assist them in farming.

"The government should set up a fund worth Tk 1.0 billion dedicated for agro sector insurances," she said.

Former prime minister also suggested construction of at least one cold storage in every Upazilla or more to check perishing of agro-products.

"I propose establishment of a dedicated fund worth Tk 2.0 billion in this connection," said the BNP chief.

She also proposed increased subsidy on fertilisers in the next budget to bring down production cost of farmers.

Khaleda Zia suggested withdrawal of tax at source on different saving instruments to encourage savings.

Regarding power and energy sector Khaleda Zia suggested for building coal-based and nuclear power plants to ensure sustainable electricity at cheap rates.

It should rather put emphasis on renovation of the aged power plants from where around 700 megawatts (mw) of electricity could be available within seven to eight months, she added.

The government should draw out a long-term plan to ramp up generation of around 20 per cent of electricity every year, she said.

The BNP chairperson proposed launching of a state-run television channel dedicated to broadcast education related programmes alone.

She also suggested allocating Tk 2.0 billion for research works at university level to ensure world standard education.

Khaleda Zia suggested for continuation of zero duty

benefits for ICT related equipment to accelerate growth.

She also stressed for strengthening road, rail and waterway infrastructure to ensure quick and smooth transportation across the country.

The BNP chief suggested introduction of a sizeable quantity of double deckers in Dhaka and Chittagong and a circular waterway around the capital.

For development of small and medium enterprises (SMEs) Khaleda Zia suggested easing of loan terms for the entrepreneurs with minimum interest rates.

development programme (ADP).

Khaleda Zia also pleaded for a hike in social safety net allowances by 20 per cent per head in the next fiscal to help the poor.

In his budget speech Finance Minister MA Muhith said about 50 percent of BNP's budget thought announced by the party's chairperson Begum Khaleda Zia had been included in the budget proposal for the next financial year and 20 percent had been accommodated partially.

She also suggested strengthening of development administration for quick implementation of annual

Europe posts record unemployment

Debt-laden Europe posted a record unemployment rate recently and its core currency and shares plummeted amid a worrying industrial slowdown.

The unemployment rate hit 10.1 per cent in April, its highest since the euro came into being in 1999 and just one of a series of blows recently to the eurozone economy after a brief lull in market pressure.

Almost 16 million people were out of work across the 16 countries that share the euro, the European Union said.

The numbers reached more than 23 million in the 27-nation EU as a whole, including non-euro giants Britain and Poland, 2.4 million more than one year earlier.

The euro sank to a new four-year low of 1.2115 dollar on concerns about the European financial sector's ability to weather the region's debt and deficit crisis.

European stock markets also fell sharply, as market reports said the European Central Bank had made known new asset write-downs by eurozone banks.

Meanwhile, new data further showed that private sector manufacturing output growth slowed in May to a level not seen since the collapse of Lehman Brothers in late 2008.

Leading economy Germany recorded a 'significant slowdown' in its growth rate, with the overall trend reflecting 'the speed with which uncertainty surrounding the sovereign debt crisis appears to have hit business activity,' according to Markit research boss Chris Williamson.

Analysts noted that the number of new jobless in the eurozone, at 25,000 in May, was the smallest monthly rise since last November, and well down from the previous month.

However, 'the rise in the number of eurozone jobless spiked up to 287,000 in the first quarter of 2010 from 137,000 in the fourth quarter of 2009,' London-based IHS Global Insight economist Howard Archer underlined.

'Despite April's much reduced rise in unemployment, we remain doubtful that the eurozone labour market is on the brink of turning around,' he stressed.

The latest figures show US unemployment running at 9.9 per cent, and Japan's just 5.0 per cent.