EquityBD Dated 19th June 2012
Report on the CPD Seminar on post (budget 2012-13) consultation

The Seminar was held on feed back consultation and national budget 2012-13 organized by CPD (Center for Policy Dialogue) on 16th June 2012. The seminar is participated with prominent figure of politician, jurist, economist, business men and also participated with few social activist and campaigners.

1. Objective of the feed back consultation

The main objective of this consultation was to draw the comment on the proposed national budget 2012-13 and also focusing the following issues;

- What are the strategic and policy diverse in the national budget 2012-13 taken by the government
- Challenges and opportunities in implementing the budget

The seminar was moderated by former finance minister M Syeduzzaman, now a member of CPD's Board of Trustees, in which parliament member Rashed Khan Menon, Hafiz Uddin Majumdar and Maidul Islam were among the discussants. Besides, M Kamal Hossain, a jurist, Wajed-ul Islam Khan, SKOP's coordinator, Shirin Akhter, one of JSD's central leaders, Haider Akbar Rano, a presidium member of CPB, Anwarul Alam Parvez, a former president of the BGMEA and M Tamim, a former energy adviser, also took part in the discussion.

Planning minister AK Khandaker addressed in the seminar as chief guest and Amir Khasru Mahmud Chowdhury, a standing committee member of the BNP, and adviser of the last caretaker government Mirza Azizul Islam were present as special guests.

2. Output and conclusion from the discourse

CPD has presented an elaborate diagnostic on the proposed national budget and especially focused on the macro economic issues in the context of existing national and international economic trend. Apart from this, CPD also present and focused on two development sector especially agriculture and energy for better understanding.

In the discourse, CPD has articulated the positives of country economic performance during the tenure as;

- Encouraging performance of NBR for revenue collection
- Steady growth in our agriculture which is support the government keeping food price in control
- Stable remittance inflow.

At the same time he criticize the government performance on

- Fail to proper prediction and control the fiscal management effectively which is one of the major cause of high level of borrowing and declining and stagnation the domestic and foreign investment
- Prevailing high inflation during the whole year and cause of suffering poor people and price hike uncontrolled.
- Energy debate and slow progress in infrastructure that a cause of
- Slow down of economic growth, and
- Unstable pressure of BoP (Balance of Payment) that might be continue in next budget

2.a Detail CPD analysis on the budget and economic scenario

i. Outlook for GDP Growth for FY-2013

As is known, the gross domestic product (GDP) growth target for FY2013 has been set at 7.2 per cent. This will demand a significant improvement on this year's provisional growth performance (6.3 per cent) a rise of almost one percentage point. Of the 7.2 per cent overall growth in FY2013, agriculture is to contribute 0.8 per cent (0.5 per cent in FY2012), industry sector's contribution is projected to be 3 per cent (2.8 per cent in FY2012), and that of the services sector is planned to be 3.4 per cent (2.9 per cent in FY2012). As may be recalled, over the period of the past ten years, average addition to the GDP growth rate was to the tune of 0.2 percentage point per annum. In view of this, rise of almost one percentage point in one year will be a challenge that will call for significant improvement in many key performance indicators. A crucially important contributing factor will have to be investment share of which in the GDP will need to rise by 4.6 percentage points from 25 per cent of GDP in FY2012 to 29.6 per cent of GDP in FY2013.

ii. Inflation Outlook for FY-2013

The rate of inflation in FY2013 is planned to be contained within 7.5 per cent, similar to the target that was set for FY2012. However, throughout FY2012 inflation continued to remain a major concern for the policymakers and the levels turned out to be significantly higher, to reach double-digit. As per the budgetary targets, inflation rate will need to be reduced by 3.8 percentage points in FY2013 to attain the target of 7.5 per cent. Whilst thanks to good Boro harvest and downward swing in the global food prices, food inflation may be somewhat moderated in FY2013. The prospect of this moderation is likely to be affected by the fact of the non-food (core) inflation being sticky downwards and also the likely upward revision of the administered prices of power, fuel and gas.

iii. Revenue Earnings

Budget for FY2013 has targeted revenue earning of Tk. 139,670 core which implies that an additional Tk. 24,785 core will need to be mobilized in FY2013 when compared to the revised budget target of FY2012. As a result, revenue-GDP ratio and tax-GDP ratio are expected to increase to 13.4 per cent and 11.2 per cent respectively in FY2013 from previous year's revised matched figures of 12.6 per cent and 10.5 per cent. The planned revenue collection structure is prepared with almost unchanged revenue income structure (100.0 per cent) among the three heads, NBR tax (80.3 per cent), non-NBR tax (3.3 per cent) and non-tax revenue (16.4 per cent).

Within the NBR component, tax collection efforts from value added tax (VAT) and supplementary duty will need to be intensified to attain the targets of 18 per cent and 23.1 per cent respectively. In view of the proposed fiscal measures, expected improvement in revenue collection efforts, and high price levels, it would appear that these targets should be within the reach.

iv. Public Expenditure

The highest growth in terms of resource allocation has taken place in the 'Public Services' sector over the revised allocations of FY2012. Total allocation for Public Services is set to increase by 38.5 per cent, driven partly by subsidies (including for export), allocation for public-private partnership (PPP) and lump allocation for development programmes financed from the revenue budget (Table 2.1). In contrast, allocation for Agriculture has remained almost unchanged compared to the revised budget of FY2012. Interest Payments remains the sector with second highest allocation, which is also likely to post significant rise (by 17.7 per cent). The allocation of Defense increased by 5.4 per cent in Taka terms, but its share has fallen from 7.6 per cent (revised budget FY2012) to 6.7 per cent (FY2013).

About 43.1 per cent of total incremental revenue expenditure will be on account of the envisaged rise in Interest Payments, particularly from domestic interest payments (42.6 per cent). Interest Payments is expected to increase by 17.7 per cent in FY2013 over the revised budget target. Interest Payments for domestic borrowings is expected to make a significant growth of 19.1 per cent, while foreign interest payments will increase by 2.8 per cent. In contrast, Pay and Allowances and Subsidies and Current Transfers are expected to grow by only 6.6 per cent and 2.6 per cent and both are set at a lower level, and may require an upward revision at the end of the year.

v. Budget Deficit and Financing

In the FY-2013, a deficit of Tk. 52,068 core has been projected which is expected to be within 5.0 per cent of the GDP (Table 2.5). However, in view of the growing subsidy requirement and increased demand for investment on account of infrastructure, a deficit equivalent to 5.0 per cent of GDP does not appear to be high.

vi. Annual Development Program (ADP)

The ADP for FY2013 has been targeted at Tk. 55,000 crore (5.3 per cent of the projected GDP). The new ADP will be 34.1 per cent higher than the revised ADP and 19.6 per cent higher than the original ADP of FY2012. According to CPD estimates, the proposed ADP for FY-2013 could turn out to be 1.5 times of this year's actual ADP expenditure.

Overview of Fiscal measures

vii. Direct Tax Measures

A number of direct tax measures have been proposed in the budget with a view to broadening the base of direct tax and raising higher taxes. The tax proposals in FY-2013 budget are expected to increase the share of direct taxes in total tax.

Personal Income Tax: The budget has proposed to maintain the existing threshold for personal income tax, which was set at Tk. 180,000 in the budget for the previous years. On the other hand, minimum tax has been raised from Tk. 2,000 to Tk. 3,000. It has been mentioned in the budget speech that the earlier threshold remains in view of the income growth that has taken place alongside inflation. However, even after acknowledging the fact that per capita income has indeed increased, one also needs to keep in mind that, if this is a threshold income level below which one is assumed not to be in a position to pay taxes, those who belong to this group despite the income growth will effectively have a lower real threshold limit due to the high inflation experienced in the past year.

Corporate Tax: Two mentionable changes have been brought in the existing corporate tax structure. First, corporate tax rate has been increased for listed cigarette companies from 27.5 per cent to 35 per cent. Corporate tax rate for non-listed cigarette companies will remain at 42.5 per cent. Although this is perhaps primarily guided by revenue mobilization concerns, it is also a socially desirable step if the interest of discourage smoking is kept in mind. Second, reduced tax rate has been maintained for non-listed merchant banks (37.5 per cent instead of 42.5 per cent as with other banks). This measure has been mentioned in the budget speech as an incentive to the capital market.

viii. Indirect Tax Measures

A number of indirect tax measures have been proposed in the budget whose primary objective appears to be to raise taxes. However, in the process, the effective rate of protection and the state of anti-export bias in the economy have also changed for a number of industries. Indeed, one would expect that proposals for new indirect taxes would have considered the trade-offs here with a view to finding optimum solutions.

Value Added Tax (VAT): Uniform trade VAT of 4 per cent has been proposed to be imposed on all levels of wholesale and retail sales, including advance VAT, abolishing the existing multiple rates of VAT. However, provision has been kept for traders willing to pay VAT on actual value addition, who may opt to pay 15 per cent. Doubts remain as to whether this could act as a regressive measure falling back to the earlier abolished ‘sales tax’.

Import and Supplementary Duties: A number of positive changes have been proposed with regard to import and supplementary duties. For example, total tax burden (including import duty and VAT) on edible oil has been reduced from 38 per cent to 16 per cent, which is likely to have positive impact on prices. Total tax burden (including import duty and VAT) on nutritional supplement for pregnant women and lactating mothers is reduced from 90 per cent to 59 per cent, which is a welcome measure. Total tax burden (including import duty and VAT) on air conditioners has been increased from 152 per cent to 213 per cent; a positive move both from the considerations of the current balance of payments and the power situation. On the other hand, larger increase in supplementary duty for importers of parts (from 45 per cent to 60 per cent) compared to imports by VAT-registered manufacturers (from 20 per cent to 3 per cent) will provide support to local assemblers.

Sectoral measures

ix. Agriculture

Subsidy: Budget FY-2013 earmarks Tk. 6,000 crore as agricultural subsidy. The total amount is 7.7 per cent less than the allocation in the revised budget for FY-2012, and 33.3 per cent higher than the proposed budget for FY-2012. The revised budget for FY-2012 is 44.4 per cent higher than the proposed budget for the same year. It is to be noted here that, the subsidy pressure is likely to increase further in the coming year in the backdrop of the upward trend in the prices of fertilizers in the international market. Due to price changes in international market, per unit cost of imported urea and MoP increased by 55 per cent and urea is 25 per cent between the periods of April 2011 to April 2012. Given that the total demand for fertilizer is about 4.67 million metric tones (MT), as estimated by the Ministry of Agriculture, an amount of Tk. 8,225 core will be required in FY-2013 on account of fertilizer subsidy, assuming that the stock will remain the same.

3. Common perception on the budget and economy

Former energy advisor Tamim said that the costly rental power plants are subversive for our economy as these are having money and profit without production.

Mirza Azizul Islam said that macro economic pressure will be continue as usual and attaining the GDP target of 7.2 per cent and containing inflation at 7.5 per cent is impossible because of too much dependence on bank borrowing and foreign aid. I will be happiest man if my prediction becomes wrong,

Amir Khasru Mahmud Chowdhury pointed out that, ‘We must say loudly that the scheme of costly rental power plants is a scam, and we demand a white paper on it,’ he said, adding that Pakistan had banned rental power plants and also filed cases against the alleged culprits. He said that people have no faith in the judiciary and regulatory bodies as the anti-graft body is giving clean certificates to corrupt ministers and thousands of marginalized investors became penniless because of the worst-ever stock crash which was the result of manipulation.

4. EquityBD role and participation in the discourse

There are major difference between CPD analysis and EquityBD approach on national budget. As CPD analysis the budget focusing growth oriented where we can use the learning for our pro-poor approach of budget analysis. Nevertheless we have raised the issue of climate change impact on our development plans and integrating with the national budgetary planning.

Thank You
Aminul Hoque