Bangladesh budget: More concessions to investors, increased austerity for poor

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The Bangladeshi government's budget, presented on June 4, featuring corporate tax rate cuts, is aimed at attracting foreign investment and propping up big business. While the budget was presented as seeking to reduce poverty and ensure "social justice," it intensified the austerity measures against the working class and poor.

Finance Minister Abdul Muhith said expenditure would rise to 2.95 trillion taka ($US38 billion), an increase of almost 23 percent compared to the current fiscal year ending in June. The increased spending, however, will not be used to fund social services. Instead, there will be deeper attacks on the poorest layers of society, through the imposition of new taxes and social spending cuts.

The budget will slash spending from the health and family welfare ministry, allocating approximately 127 billion taka, or just 4.3 percent of total budget allocations. This is a drop of 0.51 percent from the current fiscal year, and the lowest proportion of budget expenditure since 2010-2011.

Even before the cuts, per capita health spending was only $27, half the $54 recommended by the World Health Organisation. Private or "out-of-pocket" spending now makes up 63 percent of total health expenditure in Bangladesh. According to the 2011 National Health Account, between four and five million people are pushed into poverty every year.

The allocation of 316 billion taka to education accounts for 10 percent of total budget expenditure, and comprises only 1.8 percent of gross domestic product (GDP), the lowest level since 2009-2010. By official estimates, 30 percent of the population is illiterate. At the same time, the government has allowed private education institutes to flourish.

In a further regressive attack on the poor, a supplementary tax will be imposed on mobile phone calls, text messaging and Internet services.

The number of people who pay income tax will expand from the current estimate of 1.1 million people to three million. The budget also included a 10 percent value-added tax on tuition and other fees charged by private universities and colleges, where mostly middle-class students learn.

No mention was made in the budget of any wage increases, including for highly-exploited garment workers, who are paid less than anywhere else in the world. Attempting to save face, Finance Minister Muhith claimed that the government employees' salaries "will increase soon."

The main concern of the government and local capitalist class is to attract foreign investors. Foreign direct investment fell in 2014 to $1.52 billion from $1.6 billion the previous year.

Substantial allocations were made for infrastructure, especially in the power and transport sectors. These allocations totalled 263 billion taka ($3.4 billion), up by about 40 percent from the previous fiscal year. Further measures were proposed for the development of special economic zones (SEZ). Both infrastructure and concessions for SEZs have been longstanding demands of local and foreign business.

As another concession, the budget proposed to "open more space for private capital," through so-called public-private partnership (PPP) programs. In an indication that the government will seek to carry out more privatizations of state-owned enterprises in the next year, it is reviving its stalled Privatization Commission.

Muhith said the "merger of the Board of Investment and the Privatization Commission will soon be completed." It would also consider "use of surplus land

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belonging to state-owned enterprises on the basis of lease/sale/PPP." The budget proposes to expedite the 2015 PPP Bill.

Further incentives for big business include a corporate tax rate cut of 2.5 percent for publicly traded banks, and insurance and financial institutions, to 40 percent. The tax rate for other institutions listed on the stock market will be cut by 2 percent to 25 percent. The budget also raised the tax-free threshold on dividend income to 25,000 taka and removed a 5 percent tax on income earned from interest on treasury bonds and treasury bills. In addition, it proposed tax holidays for the automobile, tyre and heavy industries.

The Bangladesh Bureau of Statistics estimates that economic growth for next year will increase to 7 percent from 6.51 percent. To achieve this increase, total investment as a proportion of GDP would have to rise from 28 to 30 percent, which some experts have noted is unlikely.

The government has only been able to sustain growth via exports and remittances from expatriate workers. Export revenue grew 2.83 percent during from last July to this May. Remittances from expatriate workers are projected to bring in a record $15 billion, an increase of 7 percent compared to the current fiscal year. The government intends to send more workers abroad. At present, an estimated 6 million work overseas, mostly in the Middle East.

However, due to the US-led wars and tensions across the Middle East, this remittance revenue is highly vulnerable. There has been also a tendency for a drop in the number of expatriate workers due to the exploitative working conditions in those countries.

On June 15, the World Bank (WB) office in Dhaka welcomed the measures aimed at boosting investment, but warned that "achieving 7 percent growth will be a challenge." Earlier, the WB forecast a growth rate of 6.3 percent. Finance ministry officials said they would seek a $500 million loan from the WB to minimise the budget deficit. Any such loans would be made conditional on the imposition of further austerity measures.

The Federation of Bangladesh Chambers of Commerce and Industries, the main big business group, hailed the budget as "business-friendly." However, the group lamented an increase in the tax-at-source rate on garment exports from 0.3 to 1 percent. Facing ever-sharpening competition in the international market, business is concerned that even a minor increase may affect exports. A June 9 editorial in the *Dhaka Tribune* declared that "the proposed increase risks hampering the export growth of the ready-made garment sector and should be reconsidered."

In his budget speech, Muhith boasted that the "rate of poverty has decreased to 24.3 percent from 40 percent [in 2005] and that of ultra-poor has dipped to 9.9 percent from 24.2 percent." Such comments, which celebrate the vastly understated, and still high, official poverty rates only underscore the contempt of the entire political establishment toward the basic social needs of the workers and poor. This includes the ruling Awami League-led ruling coalition of Prime Minister Sheik Hasina and the opposition Bangladesh National Party.

The real poverty levels are far deeper than indicated by official figures. In its 2014 report, based on the most recent publicly available data, from 2011, the United Nations Development Program stated that 49.5 percent of the population is "multi-dimensionally poor" and a further 18.8 percent are "near multi-dimensional poverty."

Multi-dimensional poverty is a more realistic indicator of poverty, as it includes the likelihood of child mortality and malnutrition, access to education and other contributors to the overall quality of life: access to electricity, drinking water, sanitation, flooring, cooking fuel and assets.

Despite the government's pledge to eradicate child poverty by 2016, the *Dhaka Tribune* reported on June 12 that "3.2 million children, aged between five and 17, were engaged in active labour. At least 1.3 million were involved in hazardous jobs, with boys accounting for 91 percent of them."

The government's attempts to create even more profitable conditions for international finance capital are only deepening the attacks on the living conditions of the workers and poor.

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