Bangladesh finance minister to revise country's budget

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In late June, the Bangladesh parliament passed the Awami League-led government's 2017-18 national budget. Three weeks later, Finance Minister A.M.A. Muhith announced that the budget would probably be revised in February, five months ahead of schedule.

Muhith's decision appears to have been taken in response to criticism from the International Monetary Fund (IMF) over the government's decision to delay the imposition of a 15 percent uniform Value Added Tax (VAT). Currently the rate varies from 1.5 percent to 15 percent. The IMF and the World Bank have been calling for the higher rate since 2012.

Muhith originally included the 15 percent VAT proposal when he first announced the budget, a decision that the IMF and World Bank publicly welcomed.

However, Prime Minister Sheikh Hasina, fearful of the popular opposition to her already discredited government, intervened and postponed the VAT increase for another two years. Sections of big business also opposed the tax hike, concerned that the increase would undermine their competitive edge in export markets.

Hasina's coalition faces national elections at the end of 2018 or early 2019. A July 1 *New Age* editorial said the government "appears to have suspended" the VAT "not because ordinary people would suffer, but because of the national elections."

Expressing "regret" over the VAT postponement, the IMF warned that the government would face a 200 billion Takas ($US2.46 billion) shortfall in tax revenue, widening the budget deficit. Both the World Bank and the IMF claimed it would be impossible to achieve the government's much-hyped estimate of 7.4 percent economic growth without the 15 percent VAT.

The IMF's concern is not economic growth but lowering the fiscal deficit by pushing up consumption taxes and imposing other austerity measures. According to World Bank figures released in May, Bangladesh's growth is slowing because of declining exports, falling remittances from workers overseas and food price inflation. Last year's 7.2 percent growth is expected to fall to 6.7 percent this year and 6.6 percent next year.

It is not clear whether Muhith's revised budget will impose the postponed VAT or cut social spending to cover the revenue shortfall. Either way, there will be a heavy impact on workers and the poor. Annual inflation stood at 5.4 percent in the past financial year, and food inflation was 6 percent, up from 4.9 percent from the previous year. The food inflation rise is mainly due to price hikes for rice, meat, edible oil, milk and other basic items.

Government expenditure in the current budget will rise to 4 trillion Takas, an increase of almost 25 percent on the previous fiscal year. This, however, will do nothing to ease the poverty and social burdens confronting workers. The funds will be used to expand the military and build infrastructure to attract foreign investment. The budget did not announce any wage rises for government or private sector workers.

During his initial budget speech, Muhith boasted that the government would "expand the scope of education and health systems, making them pro-people, and encourage pro-poor socio-economic activities."

Education spending is supposed to rise by 14 percent to 504 billion Takas. In reality, education and health spending is only about 2 percent of the gross domestic product (GDP), so this is a cosmetic increase, aimed at hoodwinking the population ahead of the next election. Promised increases in education spending last year, moreover, proved false. The education budget was cut by 10 percent.

Big business is particularly concerned about the declining export growth, which has dropped to a 15-year low. Last fiscal year, exports rose by only 1.7percent, compared to the previous year. Garment exports, which account for 82 percent of total exports, declined by 0.2 percent to $28.14 billion.

Prime Minister Hasina has declared that work on 10 economic zones will commence this year as part of the government's 14-year plan to build 100 such cheap labour zones.

While the budget offers a 10-year Public Private Partnership income tax exemption on large infrastructure projects, the government is still struggling to attract foreign direct investment (FDI). According to the 2016 World Investment Report, FDI inflows into Bangladesh increased by just 4.3 percent to $2.33 billion, compared to 2015.

The ongoing global economic instability has seen Bangladesh's balance of payments drop from a surplus of $3.7 billion in 2015-16 to a deficit of $1.8 billion in the first 10 months of the last fiscal year.

Geopolitical tensions in the Middle East have hit remittances from migrant workers. Eight million Bangladeshis are working abroad, but recorded remittances are expected to fall for the second consecutive year, the first time in three decades, according to the *Daily Star* .

Finance Minister Muhith claimed that poverty and extreme poverty rates have been reduced since 2005-06 from 38.4 and 24.2 percent respectively, to 23.2 and 12.9 percent in the last fiscal year. But a *Financial Express* editorial noted on June 30, that "at least 40 million people live below the poverty line in Bangladesh. The number may go up to 80–110 million if $US2 a day is taken as the poverty line."

Muhith has insisted that high GDP growth targets above 7 percent would solve unemployment and "absorb the additional workforce." However, around 1.6 million workers enter the job market annually. According to a Labour Force Survey cited by the Bangladesh Center for Policy Dialogue, less than half a million people secured jobs annually between 2013 and 2016. This was down from 1.3 million annually between 2010 and 2013 and 1.7 million annually between 2006 and 2010.

These figures underscore the intense economic problems and volatile political situation. Hasina's government has responded to increasing poverty, unemployment and other social tensions by adopting more autocratic and repressive forms of rule.

Last December and in early January the government used its notorious Special Powers Act to detain dozens of protesting workers calling for higher wages. Police have brutally assaulted garment workers striking for higher salaries and better working conditions.