

Bismillahir Rahmanir Rahim

Dear Countrymen
Assalamu Alaikum

1. This is for the second successive year that I appear before you as Advisor for Finance of the Non-party Caretaker Government to present the supplementary budget for FY 2007-08 and the budget proposals for FY 2008-09.

2. As you are aware, the solution to the multifarious problems of our populous and poverty-stricken country rests largely on the country's economic prosperity. During our brief tenure, we have, therefore, been relentlessly striving to establish a solid foundation for an economy based on equality and fairness, and free from corruption and poverty. Our efforts were often constrained by various obstacles, we nevertheless remained focused on our ultimate goal. In the last one year, prices of many of our imported commodities doubled in the international market and, in certain cases, even trebled. This obviously exerted a negative impact on our economy.

3. Simultaneously, this year we had to encounter the damages caused by two successive devastating floods and the cataclysmic cyclone Sidr – all in a space of six months in 2007. Our fiscal management and macroeconomic stability thus became subject to unprecedented external and internal shocks. However, the Government, with the support of the indomitable spirit of our countrymen, successfully encountered these disasters and managed to keep its negative impacts to a minimum. I convey my heart-felt sympathy to all those who were affected by the two floods and the cyclone Sidr.

Economic Scenario

Global Perspective
Dear Countrymen

4. The price of crude oil spiraled from \$50 a barrel in early 2007 to \$100 at the start of 2008, and by now has reached \$130 a barrel. The price of fertilizer increased by more than two times during same period. The price of rice increased from \$300 to \$1000 per metric ton and wheat from \$200 to \$400 per metric ton. Simultaneously, accelerated economic growth in a

number of densely populated countries and demand for alternative use of food grains caused major increase in aggregate demand. As a result, food prices soared and food security came under threat, globally.

5. Over and above, the problems in the US economy arising from its real estate sector around the middle of 2007 gradually affected the financial sector of the other economies causing adverse impact on the real economy around the world. Growth rate of the world economy is currently displaying a downward trend. It is estimated that there will be a deceleration of growth in the world economy to 3.7 percent in 2008 from 5 percent in 2006.

Country Perspective

Growth

Dear Countrymen

6. I have already mentioned that various external and internal shocks have caused a negative influence on our macroeconomic performance. However, the Government, through its all out efforts aimed at agricultural rehabilitation and introduction of a range of programmes to boost business and investment has been able to minimise the negative impact. The *boro* production is expected to exceed 1.75 crore metric tons this year.

7. The growth of GDP in the current fiscal year which is estimated to be 6.2 percent is slightly lower than previous year's growth. But the deceleration in growth is still satisfactory compared to many countries in Asia. Based on recent macro-economic indicators, we may reasonably expect that Bangladesh will achieve 6.5 percent growth in FY 2008-09 assuming that that there would be no major natural disaster.

8. The total investment for the current fiscal year is estimated to be 24.2 percent of GDP which is slightly less than that of last year. Although private sector investment registered a slight increase by 0.2 percent of GDP, the public sector investment is estimated to have fallen by 0.4 percent of GDP. The Gross National Savings meanwhile increased by 1 percent of GDP reaching to 29.5 percent of GDP. Hence, the expectation that Bangladesh will achieve 7-8 percent growth in the medium term is highly probable.

Inflation

Dear Countrymen

9. In the wake of lower production of food grains in FY 2007-08 coupled with soaring price of food grains in the international market, I would not hesitate to admit that food inflation has significantly affected the life of the common man. In December 2007, the inflation reached a high of 11.6 percent on a point to point basis. However, it is heartening to note that there has been a downward trend of inflation in Bangladesh of late. We have to bear in mind that there exists a high inflationary trend across the world, including our neighbouring countries.

10. The Government has been implementing different measures to curb inflation. Short-term measures included ‘*Dal-Bhat* Programme’ of BDR, open market sale of food grains at subsidized price, withdrawal of customs duty on the import of food grains and edible oil, increasing the amount of food grain imports, lowering of interest rate against import credit of food grains, regular monitoring of markets, and fixation of maximum retail price for edible oil.

11. Medium-term measures include increase of production and distribution of food grains through creation of wholesale markets in various places including Dhaka and taking initiatives for introducing **Consumers’ Rights Protection Ordinance**. To contain inflation, Bangladesh Bank is pursuing a production-oriented and market-friendly monetary policy. It is hoped that with the current bumper harvest coupled with the forecast of increased global food grain production by the second half of 2008, the average inflation would come down to 9.0 percent in FY 2008-09.

Fiscal Outturns

Dear Countrymen

12. With a view to meeting the ever-increasing need for growth-supportive pro-poor development expenditure, strengthening domestic resource mobilisation efforts is an inescapable necessity. Our revenue-GDP ratio is low compared to most countries of the world. In Bangladesh, it is around 11 percent which is half of the revenue-GDP ratio of many neighbouring countries. In consequence, our expenditure-GDP ratio also remains comparatively low.

13. The need to increase our revenue-GDP ratio was highlighted during formulation of budget for FY 2007-08 as well. Fortunately, we have been able to achieve an unusually robust revenue growth. As against original target of Tk. 57,301 crore, it is estimated that the revenue collection will reach Tk. 60,539 crore. This constitutes 11.3 percent of GDP which is 1 percent higher than the actual collection of FY 2006-07. This additional revenue earning of Tk.3,238 crore over original budget estimate amounts to 0.6 percent of the GDP.

14. It is worth mentioning here that such a pronounced increase in revenue earning was possible mainly due to a number of reform-oriented policy interventions. Among these were identification of large taxpayers, opportunities given for declaring undisclosed income earned legally for a specified time, special drive for collection of income tax, enhancing social awareness regarding payment of taxes voluntarily and intensive monitoring of the functioning of Chittagong Port under the supervision of the Joint Forces.

Dear Countrymen

15. Expenditure also registered an increase this year from the original estimate of Tk.79,614 crore (15 percent of GDP) to Tk.86,085 crore (16.1 percent of GDP). As a result, deficit in the budget for FY 2007-08 (other than BPC liabilities) increased from 4.2 percent to 4.8 percent of GDP. A major portion of this budget deficit is being financed by soft-term foreign credit which amounts to 2.5 percent of GDP. The remaining portion would be financed from domestic sources. This would imply a slight increase in domestic financing from the original estimate of 2.2 percent of GDP.

16. Despite the increase of price of petroleum products in the international market, no corresponding price adjustments were made in the domestic market. This resulted in additional quasi-fiscal costs of Tk.15,991 crore (3 percent of GDP). A sizeable chunk of the quasi-fiscal costs amounting to Tk. 11,836 crore (2.2 percent of GDP) could be met from cash resources of the revised budget of FY 2007-08 because of the increase in revenue earnings during the year. And this was possible even after meeting the expenditure involved in the Sidr and flood rehabilitation activities.

17. Government has further assumed the liability for paying BPC's accumulated losses up to 30 June, 2007 to the tune of Tk.7,523 crore (1.4 percent of GDP) by issuing long-term Treasury Bonds in FY 2007-08. Thereby, the Government has to bear the overall hidden quasi-fiscal costs estimated to be 3.6 percent of GDP in the current year's budget.

18. In FY 2006-07, the total debt stock of the Government was calculated to be 46.5 percent of total GDP. By any measure of sustainability, the debt stock can be deemed to be acceptable. The debt-GDP ratio is expected to come down further in the current fiscal year to around 45 percent of the GDP.

Monetary and Financial Sector Policy

Dear Countrymen

19. An accommodative monetary policy was pursued to maintain the momentum of the economy. Credit flow to the private sector up to March 2008 recorded an increase of 21.4 percent compared to the growth of 16.6 percent during the corresponding period of FY 2006-07. On the other hand, during July to March of current fiscal year, the long term industrial loan disbursement increased to 66.1 percent which was only 26.4 percent during the corresponding period of FY 2006-07. Disbursement of agricultural credit also registered an increase of 56.7 percent during July-April of FY 2007-08 compared to the 7.8 percent negative growth of disbursement during the corresponding period of the previous year.

Capital Market

20. Up to January 2007, market capitalisation of all listed securities in the Dhaka Stock Exchange was Tk. 31,709 crore (7 percent of GDP). This increased more than double to Tk. 88,195 crore (16.4 percent of GDP) by May, 2008. In January 2007, the share price index in Dhaka Stock Exchange was 1582, which climbed to 3168 by the end of May 2008. Government has started the process of off-loading the shares of a number of State Owned Enterprises from the energy, telecommunication and industrial sectors in the capital market. It is expected that this initiative would positively contribute to employment generation and industrialisation in the country.

External Sector

Dear Countrymen

21. Import expenditure has increased this year due to import of huge quantity of food grains. Imports increased by 23.9 percent during July-March 2007-08. The estimated import growth this year is calculated at 25 percent. After recording a negative growth trend for most of the first half of FY 2007-08, our export sector made a remarkable turnaround. Exports registered a 12.4 percent increase during July-March, 2007-08. Export growth is estimated to reach 15 percent during the current fiscal year.

22. The robust growth in the remittance as seen in recent years continues this year too. During July-April 2007-08 remittance increased by 31.5 percent over the corresponding period of FY 2006-07. In FY 2006-07, export of manpower stood at almost 6 lakhs, which is the largest number ever recorded in a single year.

23. Current Account in the Balance of Payment registered an overall surplus of \$390 million during July-March period of FY 2007-08. In May 2008, foreign exchange reserve stood at \$ 5.3 billion. This high level of reserve has helped to maintain the stability of Taka against Dollar.

Legal and Institutional Reforms

Dear Countrymen

24. One of the major commitments of this Caretaker Government is to set in motion the process of good governance in the country and prepare the stage for building a corruption-free society. Keeping this end in view, we need to modernise our administrative machinery with emphasis on modern outlook and technological excellence. Extensive reforms in institutional and legal framework are also essential. You will be pleased to know that in a relatively small period of eighteen months our Government introduced as many as 62 Ordinances and policies in a bid to revitalise governance.

25. As you are well aware, this Government finally implemented the long-awaited constitutional obligation of **separating the judiciary** from the executive. **Supreme Judicial Commission** has already been formed to ensure the appointment of neutral and competent Judges. **Criminal**

Procedure Code (Amendment) Ordinance, 2007 has been in effect since November, 2007. Judicial Magistrate's Courts have started functioning in the Chittagong Hill Tracts districts like other areas of the country.

26. **Anti-Corruption Commission** has been reconstituted under an amendment of the Act. The Commission has already earned a great reputation at home and has also created a positive image abroad for its activities.

Dear Countrymen

27. The **Election Commission Secretariat** is being reconstituted. With the introduction of **Election Commission Secretariat Ordinance 2008**, the Commission is being provided with an independent institutional framework. The Election Commission is implementing various measures to prepare an accurate voters' list. **Voters' registration** using modern technology is almost at the final stage with the co-operation of the Armed Forces. A central database has been developed. The voters' list is being prepared with photographs and an Ordinance titled **Voters' List Ordinance, 2007** has already been promulgated. In order to provide National Identity Card for all citizens, the **National Identity and Registration Authority Ordinance, 2008** has also been approved. It is expected that the Election Commission will complete the final voters' list shortly. This programme of the Commission will go down as an important milestone in our democratic process.

28. I take this opportunity to inform you that the Bangladesh Public Service Commission and the University Grants Commission have also been reconstituted.

Dear Countrymen

29. The Government has decided to modernise and reform the existing rules and regulations of the public sector to make them simplified, relevant and pro-people. **Regulatory Reforms Commission** formed to this effect has already started the work of examining the rules, regulations and executive orders followed in different government organisations and autonomous bodies, in order to provide recommendations for necessary modifications.

30. Recognising the importance of forging closer cooperation between public and private sector, the Government has formed **Bangladesh Better**

Business Forum. This forum will facilitate businessmen to exchange views and ideas about the business sector freely with senior government officials at the policy-making level. The Government has decided to allocate funds for the capacity enhancement of various chambers of district towns. It is my firm belief, that this initiative of the Government will go a long way in adding momentum to private sector business and investment.

31. **Public-private partnership** is essential for meaningful development. Based on this strategy, two export processing zones at Munshiganj and Feni are being established. A number of institutions in the health sector are being presently managed by Government jointly with the private sector. In the tourism sector a number of facilities have been handed over to private operators to raise their performance. A set of guidelines has also been prepared to construct residential flats on government land in partnership with the private sector. To this effect, a thousand residential flats have been handed over to the shelterless slum dwellers and low income families in FY 2007-08. This programme aims to hand over another 5 thousand residential flats to the underprivileged families by December 2008.

Dear Countrymen

32. The Government has taken a decision to provide bonded warehouse facilities to all **hundred percent export-oriented sectors**. In the last few years, the Government allocated Tk. 700 crore on an average towards export subsidy. In the current fiscal year, the revised allocation for this purpose has been enhanced to Tk. 1,270 crore to meet the payment of arrears. In FY 2008-09, it is proposed to allocate Tk.1,050 crore as export subsidy. Introduction of an ordinance to strengthen the regulatory framework of the **Insurance Industry** is almost at the final stage. Steps have also been taken to strengthen the WTO cell in the Ministry of Commerce to facilitate sharing of information relating to international trade and initiate prompt actions accordingly.

33. Efforts are underway to update all extant land related laws, ordinances, rules and regulations in a bid to bring much needed **reforms in land administration**. A committee drawn from experts in this area is already working in this regard. Forms related to transfer of land have been simplified. Provision has also been made for registration fees to be payable by Pay Order. To address the difficulties faced by small plot owners of

Dhaka city, the Dhaka Metropolitan Building Construction Rules has been amended.

34. Steps have been taken to reconstitute the institutional structure of the Directorate of Land Records and Survey. A programme has been taken up in Dhaka district on a pilot basis to modernise the obsolete land management system by using modern information technology. Based on the result of this pilot programme, the system will be extended to other parts of the country in phases. A total of 25,000 acres of khas land has been recovered from unauthorised occupation since the present Government assumed office.

35. In the existing legal system, it has become increasingly difficult for the Government to manage and successfully contest a large number of long-pending cases lying in different courts of the country. The Government is thus losing huge assets because of illegal transfer of title to fake owners. To address this problem, the Government has recently provided the legal framework for introducing **Attorney Service**. Another step taken by the Government is the decentralisation of the issuance of Marriage Registrar's license to the Deputy Commissioners at the district level.

Dear Countrymen

36. With the objective of modernising the **Police Act of 1861** and to making it consistent with the aspirations of the people, opinion is being sought from all quarters about the draft **Police Ordinance, 2007**. The concept of **Open House Day** has already been introduced at the Thana level to develop a cordial relationship between police and the people. A number of police stations have been upgraded as **Model Thanas** to deliver better service. The activities of **community policing** have been strengthened. **Service Delivery Centres** have been formed in all police stations in the Dhaka Metropolitan area.

37. The Government has recovered Tk. 1,219 crore from its **anti-corruption drive** and the amount has been deposited in the Government Exchequer. To prevent transfer of illegal money, the **Money Laundering Prevention Ordinance, 2008** has been promulgated. Meanwhile **Anti-Terrorism Ordinance, 2008** has also obtained approval of the Government. These initiatives will contribute towards facilitating

international co-operation in recovering the money illegally transferred to foreign countries. A national level committee headed by the Law Adviser and an inter-agency Task Force headed by the Governor, Bangladesh Bank have been formed to retrieve the illegally transferred money.

38. To remove the harassments in the issuance and renewal of passports, the responsibility for receiving and processing of passport application forms has been entrusted to 15 regional passport offices, 17 Deputy Commissioner's offices, 17 Trust Bank booths and also the head post offices of the country. It is hoped that in a very short time, it would be possible to process passport applications in all the districts of the country.

Dear Countrymen

39. A range of reform measures has been taken by this Government to transform Chittagong Port into an efficient and modern sea-port. The Dock Labour Management Board has since been abolished. The number of trade unions has been trimmed. Relevant laws, rules and regulations are being modernised and updated. Average turnaround of ships has been reduced from 9 days to 2.9 days this year. The average clearing time of containers has come down to 14.8 days. The overall efficiency of the management of Chittagong Port has enhanced by 40 percent to 45 percent. The construction of **New Mooring Container Terminal** has been completed and arrangement has been made to operate this terminal entirely through private management. The second phase of technical and financial feasibility study of the construction of a **deep sea-port** at *Sonadia* in Cox's Bazar is in progress.

40. I informed you last year that the **Mongla Port** has resumed functioning after a lapse of eight years. A number of projects are now being implemented for the overall development of Mongla Port. Prominent among them are the dredging operations and procurement of suitable vessels and cargo-handling equipment for the port. Steps have been taken to manage the operation of the two under-construction jetties on a Build, Operate and Transfer (BOT) basis.

Dear Countrymen

41. Of the 13 land ports of the country, development and operation of 12 excepting Benapole, has been decided to be done on BOT basis. Some of the land ports are already being managed and operated on that basis.

42. The requirement to get prior clearance before calling Bangladeshi ports by cargo-vessels of countries where Bangladeshi ships do not have any shipping links have been done away with by amending **Bangladeshi Flag Vessels (Protection) Ordinance, 1982**.

43. It is also worth mentioning that the water-route distance between *Dhaka-Mongla* and *Chittagong-Mongla* has been reduced by 300 km. with the development of *Gabkhan* canal. A new unit called **Traffic Management for Safe Waterways** has been formed in the Bangladesh Inland Water Transport Authority (BIWTA) to minimise the occurrence of accidents in the river ways. The Government has also taken steps for the procurement of two high powered modern salvage vessels for effective salvage operation.

44. One of the vital areas of the reform programmes of the Government is the balancing and right-sizing of the excess workforce in the public sector and bringing down losses by reducing expenditure. This year, 19,272 employees in the public sector have proceeded on voluntary retirement.

45. The Government has initiated a long-term strategic reform programme to turn **Bangladesh Biman** into a profitable organisation from its present state of colossal losses. Bangladesh Biman Corporation has been converted into a public limited company and the Board of Directors has been reconstituted to include professionals of high repute. Biman has taken the initiative for purchase of 8 aircrafts from Boeing to resolve the crisis of its existing fleet. It is expected that such initiatives will contribute a long way towards transforming Biman into a profitable organisation.

46. Decision has been taken to convert the **Bangladesh Telegraph and Telephone Board (BTTB)** into a public limited company to ensure its success as a commercially viable organisation. Illegal business of Voice Over Internet Protocol (VOIP) which was assuming rampant proportions has been clamped down effectively. In its place, voice circuits with a number of countries have been restored within a regulatory framework. Revenue earning in the telecommunication sector, as a result, is visibly increasing.

Dear Countrymen

47. Three Nationalised Commercial Banks (NCB), **Sonali, Janata and Agrani** have been converted to public limited companies and their Boards

of Directors reconstituted to include professionals and experts. Massive reform initiatives including greater use of ICT have been taken up in these banks. Government has approved the restructuring of capital of these banks.

48. As part of the process of banking sector reforms, the **Banking Companies (Amendment) Act, 2007** has been introduced to infuse dynamism in the activities of the banks, improve loan administration, reconstitute their Boards of Directors. 50.1 percent share of Oriental Bank Ltd. has been sold to a foreign investor through competitive bidding under a scheme to revamp the crisis-laden bank. The bank has become operational under its new name ICB Islamic Bank Limited. The merger of **Bangladesh Shilpa Bank (BSB)** and **Bangladesh Shilpa Rin Sangstha (BSRS)** in a bid to convert them into a public limited company is under process.

49. Steps have been taken to formulate **Financial Reporting Ordinance, 2008** to constitute a Council to regulate and oversee the financial reporting activities of the Public Interest Entities (PIEs) including corporate sector entities.

50. Micro-credit operation of Grameen Bank has been extended to urban areas as well by amending the **Grameen Bank Ordinance, 1983**.

Dear Countrymen

51. In my budget speech last year, I had mentioned that the shares of a number of State-owned Enterprises (SoEs) and government shares of various private companies will be off-loaded to increase the supply of shares in the capital market. I wish to inform you that as part of this process, shares of the nationalised Jamuna Oil Company Ltd. and Meghna Oil Company Ltd. are already in the capital market and the shares of Titas Gas Transmission and Distribution Company Ltd. are in the process of being off-loaded. Decision has also been taken to off-load government shares of 9 SoEs in the power sector, 10 SoEs in the industries sector and 2 enterprises of the telecommunication sector. Government has also taken steps to introduce Book Building System in the capital market to attract private companies having strong financial foundation.

Accountability and Transparency in Administration

Dear Countrymen

52. I am pleased to inform you that all Government departments and autonomous bodies have framed their **Citizens Charter** and are displaying the same in their respective offices to improve the quality of service and to mitigate sufferings of clients from harassment. A client can now know from the Citizens Charter the procedures and time frame of service delivery expected in a given organisation. In the event of any problem faced by the client, provisions exist in the Charter for its redressal. The draft of the **Right to Information Ordinance, 2008** has been published for public opinion.

53. All ministries and important government organisations have been instructed to open their own website for the benefit of clients and stakeholders. A large number of ministries/offices have already done so. Under the **E-Citizen Service** programme, all government forms used in ministries/departments have been posted in the website (www.forms.gov.bd).

54. Following the last year's budget pronouncements, the website of IMED is now providing the list of priority projects and the website of Finance Division is displaying information about sector-wise and region-wise allocation and utilisation of resources. At the same time, the quarterly performance reports of 3 major losing SoEs (BPC, BPDB & BCIC) are being posted in the website of Finance Division. It is expected that regular updating of information posted in the websites will enhance the performance, accountability and transparency of the concerned organisations.

Planning and Budget Management Reforms

Dear Countrymen

55. The tenure of implementation of the first Poverty Reduction Strategy Paper (PRSP) titled **National Strategy for Accelerated Poverty Reduction (NSAPR)** comes to an end in June 2008. Meanwhile, the work of the formulation of the second NSAPR is almost complete and its term will begin from July 2008. We have to ensure its implementation in order to

achieve the MDGs by 2015. I urge upon all concerned to engage themselves proactively with the PRSP process.

56. In line with MDGs, Bangladesh has achieved remarkable success in the areas of reducing gender disparity in primary and secondary education with increased enrollment, advancement of female education, widening sanitation coverage and reducing child and maternal mortality. At the same time, our achievement in reduction of poverty is no less significant.

57. Currently, the Government is implementing Medium-term Budget Framework (MTBF), a modern and dynamic budgeting system that reflects the priorities set out in the NSAPR. So far, we have brought 16 ministries/divisions under MTBF. These ministries/divisions utilize around 48 percent of resources allocated in the budget. The new budget process links resource allocation with policies and performance of the Government and helps in feeding the results back into policy formulation.

Dear Countrymen

58. In my budget speech last year, I mentioned that the **gender sensitivity** in budget ensures transparency and accountability about the share of expenditure for women development in public expenditure planning. In our continued efforts to reform the budget process, we have made our budget gender-sensitive and we continue to reflect this dimension in allocation of resources. It is worth mentioning that in the budget for FY 2007-08, gender expenditure accounted for 23.5 percent of the total budget. We propose to raise it to 26.3 percent in this budget.

59. A monitoring committee titled '**Women in Development**' (WID) involving all relevant ministries with the Ministry of Women and Children Affairs in the lead, is at work to monitor the implementation of **National Action Plan** for Women Development. The Government has already fixed the target of recruiting 60 percent female teachers in the primary schools. In addition, the Government has recently prepared a document titled National Women Development Strategy and also put in place a set of policies to make overseas employment of our women workers safer and well-regulated.

60. A Macro-Economic Wing is being set up in the Finance Division to keep closer watch on evolving macro-economic development, monitor budget implementation and use the findings in the resource allocation

process. I trust that this process will bring about greater realism and better implementation of the budget.

Dear Countrymen

61. The Constitution stipulates that the deposit into and the withdrawal of public money from the Consolidated Fund and the Public Account of the Republic shall be regulated by an Act. At this stage no such law is in place. The Government is in the process of introduction of an ordinance titled **Public Resources and Budget Management Ordinance, 2008** to this end.

62. The provision of accurate, reliable and timely information to the users at various levels is important for improving the quality of budget implementation and enhancing its transparency. To address this, an Integrated Budgeting and Accounting System (iBAS) is now in place connecting all the Chief Accounts Offices (CAOs) and all the downstream District Accounts Offices with the central servers. This ensures online transmission of government budget and accounts data on a daily basis between field offices, Finance Division and the Controller General of Accounts. I believe that the successful implementation of this system will greatly improve the financial management of the Government.

63. We have already introduced 15-year and 20-year treasury bonds in the market. We have abolished the system of upfront tax deduction on accruable interest from the holders of the bond to make the interest rates of the securities more market-determined. The primary auction process in the securities market has been made more transparent and competitive.

Dear Countrymen

64. A comprehensive computerized Debt Service Liability Management System is needed so that the Government can accurately manage and update all the loan portfolios lent by it to the autonomous and semi-autonomous bodies and SOEs. A computerized update of all lending based on each credit-line has been worked out. This system can potentially motivate the defaulting organisations to make regular repayment of debt obligations and could trigger the release of larger resources to the Government to reinvest them in productive activities.

65. You are aware that because of the persistent gap between the selling price and the procurement/production cost of petroleum, power and fertilizer, the Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB) and Bangladesh Chemical Industries Corporation (BCIC) continue to incur enormous losses. As a result, the huge accumulated losses are passed on to the Government as hidden quasi-fiscal costs. We are, however, reflecting this liability in the budget in a transparent manner. I have already mentioned that during this fiscal year Tk. 11,836 crore equivalent to 2.2 percent of GDP is being met as quasi-fiscal costs. I propose to allocate a total Tk. 13,648 crore in the next fiscal year on this account.

Regional Disparity

Dear Countrymen

66. In the past years, the economic growth across the country was not a balanced one. This resulted in disparity in terms of wealth and income distribution among different regions. The Government constituted a Task Force to suggest necessary measures to ensure a balanced development by assessing the depth and dimension of this disparity. The Task Force has published a vision paper titled, **A Strategy for Poverty Reduction in the Lagging Regions of Bangladesh**. The strategy paper broadly recommends the pursuit of a balanced development agenda based on both short-term and long-term policy measures and action plans. After a closer look at the long term policy recommendations, initiatives for implementation will be taken up. We have already started taking up the work of implementation of the short term action plans. In this fiscal year, we have increased allocation by Tk. 100 crore to extreme poverty-stricken areas through internal adjustments among various projects. Besides, we have provided special development assistance of over Tk. 20.6 crore to the 28 extreme poverty-stricken districts in Bangladesh. We propose to double the allocation in the next fiscal year.

67. The construction of Padma Bridge, development of Mongla Port, setting up of a fertilizer factory and a coal-fired power plant in northern region of Bangladesh, establishing vocational training institutes in *monga*-prone areas, extension of tourism facilities in the *Sundarbans* and *Kuakata* and giving priority to the project proposals and safety-net programmes for

the disadvantaged areas including *char* and *monga* prone areas would reflect the Government's commitment towards a balanced development.

Medium Term Budget Outlook

Dear Countrymen

68. As part of our Public Financial Management Reforms Programme, we are currently preparing budget following MTBF which is guided by a Medium Term Macro-economic Framework (MTMF). Looking at the potentials of our economy and global economic outlook, we have projected our economic growth to be in 7-8 percent range in medium term (FY 2009-11). The rate of inflation is expected to decelerate to the region of 6-7 percent. Investment in private sector will increase to 22.6 percent. We are fully aware of the need for private sector credit expansion. In the medium term, the annual growth of such credit is expected to be between 19-22 percent.

Budget Proposals FY 2008-09: A Document for Overcoming Crises

Dear Countrymen

69. The broad objectives of the proposed budget include maintaining macro-economic stability, accelerated growth and poverty reduction. Alongside these, priorities have been given to maintaining price level of essentials within tolerable limit, employment generation, widening and deepening of social safety-net programmes, reducing regional disparity, increasing agricultural production, ensuring food security, increasing power generation and the overall development of communication network including IT.

70. The total revenue for the FY 2008-09, has been estimated at Tk. 69,382 crore which is 11.3 percent of GDP. Out of this, the NBR revenue has been targeted at Tk. 54,500 crore which is 8.9 percent of GDP. Non-tax and Non-NBR revenues have been estimated at Tk. 12,593 crore (2.1 percent of GDP) and Tk 2,289 crore (0.4 percent of GDP) respectively. It

may be mentioned that following the corporatisation of T&T Board, non-tax revenue collection may decline in the following years.

71. Past trend of ADP utilization suggests that in recent years 20 percent of ADP has remained unutilised at year-ends. We have, therefore, determined the size of ADP at Tk. 25,600 crore (4.2 percent of GDP) in the next fiscal year based on historical absorptive capacity. Total outlay combining both non-development and development budget is targeted at Tk. 99,962 crore (16.3 percent of GDP).

72. The budget deficit will stand at 5 percent of GDP. Out of this, 2.2 percent of the GDP will be financed from foreign resources while the other 2.8 percent will be met from domestic borrowing. In view of a higher deficit, some people might label the proposed budget as an expansionary one. However, one must bear in mind that in the backdrop of the negative impacts of international price hike of oil, food and fertilizer together with internal shocks, an expansionary fiscal policy to protect the poor and the low-income group of the community has become an essential necessity.

Dear Countrymen

73. In the proposed budget, the estimated total expenditure has increased by Tk.20,348 crore over the original budget of current fiscal year which is 3.3 percent of GDP. The ADP, on the other hand, has been trimmed by Tk. 900 crore compared to FY 2007-08. This might prompt many to term this budget as one with lesser development thrust. However, basically, the dichotomy of development and non-development budget is an artificial one. A closer look into the structure of proposed non-development expenditure will reveal that Tk. 16,932 crore (2.8 percent of GDP) will be required for social safety-net programmes, Tk.13,648 crore (2.2 percent of GDP) will be spent on agricultural inputs subsidy, food subsidy and fuel subsidy and Tk.10,253 crore (1.7 percent of GDP) will be spent to meet salary expenses of teachers and doctors. All these expenditures are essentially developmental in nature. ADP eventually adds to expenditures of subsequent recurrent budgets. We spend a substantial portion of our recurrent budget on repairs & rehabilitation of infrastructure, pay and allowances of the manpower of completed projects and payment of interest. All these spending obligations essentially arise from the past ADPs.

Dear Countrymen

74. Consistent with our development goals, we have proposed allocations of 32.4 percent of the total budget for social infrastructure, 29 percent for physical infrastructure and 21.4 percent for public administration. Interest payments and net lending will constitute the rest.

75. The proposed budget, compared to current fiscal year, lays greater emphasis on poverty reduction. Therefore, 58.3 percent of the proposed budget (9.5 percent of GDP), non-development and development combined, will be spent on direct and indirect poverty reduction programmes.

Annual Development Programme: Priorities and Expenditure Structure

Dear Countrymen

76. We have determined allocation for our ADP bearing in mind the national priorities, regional parity and availability of resources. Broad agricultural sector (agriculture, rural development and water resources) will receive allocation of 29.7 percent, power and energy sector 15.7 percent, education sector 12.8 percent, transportation sector 12.7 percent and health sector 8.9 percent of the proposed ADP outlay. By increasing allocation against the projects being implemented in Rajshahi, Khulna and Barisal divisions, we are demonstrating our commitment towards ensuring regional parity.

77. Greater attention has been given to selection of quality projects and their speedy execution.

Social Safety-Net and Empowerment

Dear Countrymen

78. The incidence of impact of global food shortage has fallen on the poor and the lower middle class. Government is fully conscious about the need to provide social security to this section of the community so that their living standard does not deteriorate further. To this end, we have planned to widen and deepen our social safety-net programmes by increasing the total number

of beneficiaries and increasing the rates of subventions involving Tk. 16,932 crore (2.8 percent of GDP) in the next fiscal year which is 48 percent higher than the revised allocation of Tk. 11,467 crore (2.1 percent of GDP). I would like to place before you, in brief, the major initiatives under this programme:

Employment Generation

Dear Countrymen

79. The ultra-poor and the rural middle and lower middle class communities are worst affected by price inflation. The Government has taken appropriate measures to provide sufficient allocation in the budget to enhance their purchasing power. To this end, the Government plans to take up in the next fiscal year a new programme titled **100 Days Employment Generation** to ensure employment of the rural unemployed poor across the country for at least 100 days during the whole year and in particular during mid-October to mid-January and mid-March to mid-May periods. Under this programme, job opportunities will be created locally for 20 lakh unemployed poor. This programme will be designed as an employment guarantee scheme for the unemployed. For this purpose, I propose to allocate Tk. 2,000 crore in the next fiscal year. This will create an employment of 20 crore mandays with daily remuneration of Tk.100 per person. Of all the safety-net programmes launched so far, this will be by far the largest one.

80. Alongside, a further allocation in terms of food worth Tk. 1,578 crore is proposed for the **Food for Work Programme**. This will generate another 14.4 crore mandays of employment.

Self-Employment Generation

Dear Countrymen

81. The funds allocated by the Government to the Palli Karma Shahayak Foundation, NGO Foundation, Social Development Foundation and such other organisations are channeled through NGOs as micro-credit. The accumulated funds allocated to these organisations amount to Tk. 1,950 crore. In the next fiscal year, I propose to allocate another Tk. 526 crore for them.

82. Departments and agencies under various ministries/divisions also provide micro-credit from both development and non-development funds. In tandem with distribution of micro-credit, these organisations also impart training to the beneficiaries. Included among these institutions are the Department of Youth Development, Bangladesh Rural Development Board, Bangladesh Cooperative Bank Ltd, *Palli Daridro Bimochon Foundation*, Department of Women Affairs, Department of Social Welfare, National Women Development Council, Bangladesh Small and Cottage Industries Corporation, Ministry of Liberation War Affairs, Department of Relief and Rehabilitation, Departments of Fisheries and Livestock etc. The funds for such micro-credit accumulated over the years stand at Tk. 1,600 crore. In FY 2008-09, we propose to allocate another Tk. 131 crore for this purpose.

83. Employment for 1.5 crore families will be generated through these micro-credit operations.

Women and Children Welfare

84. In the next fiscal year, we target to increase the beneficiary coverage under **Allowances Programme for the Widowed, Deserted and Destitute Women** from 8,25,000 to 9,00,000 and raise the rate of allowance from Tk 220 to Tk 250 per person. This will result in an allocation of Tk. 270 crore which is 86 crore higher than the revised allocation of the current fiscal year.

85. We launched a new pilot programme titled **Allowance for Poor Lactating Mothers** in this fiscal year. The idea of introducing this assistance has been widely acclaimed. In the next fiscal year, I propose to increase the number of beneficiaries from the existing 45,000 to 60,000. For this purpose, we propose to allocate in the next fiscal year, Tk 21.60 crore which is 27 percent higher than the current year's allocation.

Dear Countrymen

86. Alongside the above programmes being implemented in rural areas, there is a need to provide similar support to the poor and low-income workers particularly for working mothers of the garment sector. Therefore, I propose to allocate Tk. 20 crore for a new programme titled **Allowance for**

Poor Lactating Working Mothers in Urban Areas in the next year's budget.

87. Under the **Vulnerable Group Development (VGD) Programme**, the provision for distribution of 30 kg rice or wheat per head for 7,50,000 women will continue. This programme will be extended to provide a monthly allowance of Tk. 400 per head to an additional 40,000 underprivileged women of eight northern districts. A new programme titled **Rural Employment and Road Maintenance Programme (RERMP)** funded by GoB at a cost of Tk. 943 crore would be launched from next fiscal year. This would generate 50,000 jobs annually in 4,926 unions. Under this programme, Tk 190 crore will be spent in the next fiscal year. Besides, programmes such as Rural Employment Opportunities for Public Assets (REOPA), Maternal Health Voucher Scheme (MHVS) and Community Nutrition Programmes (CNP) would be strengthened further.

Dear Countrymen

88. The subsistence allowance for children of orphanages, *Shishu Shadan*, *Shishu Poribar*, *Chhotomoni Nibash*, Safe Home and similar other organisations was Tk. 1,200 per head at the beginning of the year. This has been enhanced to Tk. 1,500 from January 2008. The **per capita capitation grant** for the private orphanages has been enhanced from Tk. 600 to Tk. 700.

89. A programme titled *Amader Shishu* (Our Children) is being launched to rehabilitate 1,500 children orphaned as a consequence of Cyclone Sidr, in families of their close relatives. About 5 lakh primary school-going children of 3 *monga*-affected districts are being provided with nutrition-fortified food under the **school feeding programme**. This programme will further be expanded to another 10 districts of 6 divisions in the next fiscal year. In order to take away child-labourers from risky work environment, 30,000 such children have been brought under non-formal education programme by incentivising their parents with micro-credit.

Other Social Safety Nets

Dear Countrymen

90. We propose to enhance the monthly rate of **Old Age Allowance** from Tk. 220 to Tk. 250 and widen the beneficiary coverage from 17 lakh to 20

lakh. This will increase the allocation from existing Tk. 448.80 crore in FY 2007-08 to Tk. 600 crore in the budget for FY 2008-09.

91. We propose to enhance the monthly rate of **Allowance for the Wounded Freedom Fighters** by 20 percent at all levels and enhance the allowance for the **Insolvent Freedom Fighters** from Tk. 600 to Tk. 720. In the current fiscal year, there is an allocation of Tk. 99.3 crore and with the proposed increase, this will rise to Tk. 119.16 crore in the next fiscal year.

92. We also propose to enhance the monthly rate of allowance for the **Insolvent Persons with Physical Disability** from Tk. 220 to Tk. 250. Due to this increase, the total allocation for 2 lakh beneficiaries will rise to Tk. 60 crore in the next fiscal year.

Dear Countrymen

93. We have restructured and revamped the *Jatiyo Protibondhi Unnayan Foundation* (National Foundation for the Development of Persons with Disability) to bring the disabled persons to the mainstream of development. The Government has decided to provide an assistance of Tk. 150 crore to the Foundation.

94. There is an allocation of Tk. 5 crore in the current fiscal year to finance the newly introduced **stipend programme for the disabled students**. In FY 2008-09, we propose to increase the allocation on this account to Tk. 6 crore.

95. The Government has set up a National Committee for mitigating the sufferings of the people of *monga*-stricken areas. This Committee is tasked to ensure that the resources are spent for building infrastructure and for creating income generating activities. While allocating resources, emphasis has been laid on making the beneficiaries self-reliant rather than making them mere recipients of dole-outs.

96. Activities like raising of the level of 1 lakh homesteads, building of dirt roads, ensuring water supply, distribution of cattle heads and poultry are underway through **Char Livelihood Programme** to raise the living standard of 10 lakh people dwelling in the *char* areas comprising 150 unions of 28 *upazilas* of 5 districts along the flood plains of the Brahmaputra. Training is being imparted to selected young men and women of the *char* areas at the Vocational Training Centres at Bogra and Lalmonirhat.

Dear Countrymen

97. Under the **Hill Tract Village-Centre Programme**, socio-economic activities like education, health, sanitation, water-supply, nutrition, mother and child care are ongoing. Under the rural development projects the ongoing programmes of micro-credit operation, vocational training, employment-generation and socio economic development will continue in the next year. In the current fiscal year, there is a revised allocation of Tk 105 crore to finance three development assistance programmes in the Chittagong Hill Tracts area. We propose to allocate Tk. 80 crore in the next fiscal year for the same.

98. Bangladesh Bank administers a fund titled **Housing Fund for the Homeless** with an accumulated amount of Tk. 160 crore. There is a scope for providing concessional loans from this fund to the **victims of river erosion**. It is worth mentioning that the Government has adopted a special policy aimed at providing compensation to the victims of river erosion for their rehabilitation.

99. In the current fiscal year, the Government has leased out *khas* land to 10,000 **landless families** across the country. This programme will continue in the next year. The task of rehabilitating 65,000 landless families is well under way in the *Abashon* Project, being implemented under the supervision of the Chief Adviser's Office. In the next fiscal year, the project for construction of 6,500 barrack houses along with providing training and also micro-credit to 40,000 members of the landless families at a cost of Tk. 716 crore will be completed.

Food Security and Food Management

Dear Countrymen

100. Now I would like to throw some light on the state of food security and food management. You are aware that due to climatic change calamities like drought, wildfire and floods have reduced food production in many countries. Alternative use of crops to produce bio-fuels in the developed countries has reduced the food supply in the global food market. Besides, the phenomenal growth in some densely populated countries has increased the aggregate demand of food. At the same time, due to overly cautious

protectionist policy adopted by food-grain exporting countries, the price of wheat and rice increased rapidly.

101. Due to the hard work of our farmers along with the support of the government in the form of providing fertilizer and fuel, we had a bumper production of potato and wheat this year. This has largely reduced our vulnerability to food insecurity. In addition to the overseas procurement by the Food Directorate and BDR, efforts are continuing to import rice and wheat by incentivizing the private sector. An incentive pricing system for domestic procurement of wheat and rice will encourage our farmers in the production of more rice and wheat. Combined with this, our planned assistance in the form of providing fertilizer, irrigation, agricultural credit and seed can significantly mitigate the existing food gap. We shall continue to build up an adequate stock by importing food through advance planning.

Dear Countrymen

102. In the next fiscal year, there is a plan to procure a total of 32 lakh metric tons of food grains by the Government which include internal procurement and import of food grains including food aid. Against this, we have a comprehensive plan to distribute food to the tune of 30 lakh metric tons through Open Market Sales (OMS) at a concessional price, Food for Work, Vulnerable Group Feeding, Vulnerable Group Development, Test Relief and Gratuitous Relief programmes. By the end of FY 2008-09, the Government will still have a stock of 10 lakh metric tons of food grains. This will enable us to tackle any food security related risks.

103. The Government has taken necessary steps to keep the price and supply of essential food items like rice, wheat, edible oil, lentils, onion and garlic at a normal level at all times and especially during the month of Ramadan.

Agriculture and Rural Development

Agriculture

Dear Countrymen

104. Global food production has not increased commensurate with the scale of demand. This applies to Bangladesh as well. Anticipating this, I made a proposal in my budget speech last year to create an Endowment

Fund of Tk. 350 crore to strengthen research for increased agricultural productivity. I am pleased to let you know that the Fund has already become operational.

105. You will be pleased to know that the Government is taking initiatives to put in place a set of policies to minimise misuse of arable lands and to bring fallow lands under cultivation. Under this policy, steps will also be taken to build compact townships to ease the pressure on agricultural land arising from the growing population.

106. Although we have not enhanced the fuel price, we have, for the first time, provided cash subsidy to the farmers using diesel-powered irrigation pumps as an incentive. An amount of Tk. 250 crore has been successfully distributed among 65,93, 872 farmers having land holding of 45,63,000 acres across 484 upazilas. Reaching the cash subsidy directly to the beneficiaries is by itself a remarkable achievement. In order to reduce the pressure of price increase of diesel, I propose to allocate Tk. 540 crore as cash subsidy in the next fiscal year.

107. Efforts are underway to formulate upazila-based action plans for increased production of all kinds of crops. To bring about increased agricultural production, there are no alternatives but to strengthen efforts to innovate and apply HYV, ensure availability of quality seeds, introduce integrated crop management and widen irrigation facilities. To support this, the Government will take short-term and long-term measures. Apart from the regular allocation for agricultural extension and research, I propose to allocate Tk. 272.35 crore in the development and non-development budget for agricultural development assistance and rehabilitation.

Agricultural Credit

Dear Countrymen

108. In the current fiscal year, there was a target to disburse agricultural credit to the tune of Tk. 8,308 crore through various banks and financial institutions including Bangladesh Krishi Bank and Rajshai Krishi Unnayan Bank. Against this, an amount of Tk. 6,731 crore has been disbursed up to April 2008. This is 81 percent of the target and 57 percent higher than the disbursement of the previous year. In the next fiscal year, the target for disbursement of agricultural credit has been fixed at Tk. 9,000 crore.

109. In the current fiscal year, Tk. 500 crore and Tk. 200 crore have been provided by Bangladesh Bank to Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank respectively to refinance their credit disbursements. The Government has also allocated Tk. 383 crore to Rajshahi Krishi Unnayan Bank, Bangladesh Krishi Bank and Sonali Bank to ensure increased credit flows to the Sidr and flood affected areas. Moreover, the Government has spent Tk. 165 crore for agricultural rehabilitation in these areas. In addition, the Government channeled an additional amount of Tk. 130 crore to *Palli Karama Shahayak Foundation* (PKSF) to disburse credit to the small farmers and fishermen on highly concessional terms. Along with these measures, the Government has given directives to the relevant agencies to reschedule the loans disbursed earlier and to introduce new loan products consistent with the requirements of the affected people.

Fisheries and Livestock

Dear Countrymen

110. In FY 2007-08, the contribution of fisheries and livestock sub-sectors to GDP will be 4 percent and 2.9 percent respectively. Fish production in this year will rise to 25.4 lakh metric tons from 24.4 lakh metric tons of the previous year while the meat production will increase to 11 lakh metric tons from 10.4 lakh metric tons. The important programmes for fisheries development included stopping *Jatka* fishing, releasing fish fries, building fish sanctuaries and social fisheries management. In order to prevent the incidence of bird-flu epidemic this year, over 15 lakh poultries had to be culled and 20 lakh eggs had to be destroyed. The affected farmers have been provided with a compensation of Tk. 16 crore so far. Facilities like tax holiday and duty exemption for importation of equipment, medicine and vaccines have been extended to the farmers for development of livestock sub-sector.

Water Resource Management

Dear Countrymen

111. Water Resource Management is an important programme which supports our endeavours to revamp the national economy. While we can increase our agricultural production by building irrigation infrastructure and embankments, we can also protect flood and prevent environmental pollution using these infrastructures. In the current year, the irrigation

coverage of agricultural land has been widened from existing 80 percent to 81.7 percent. In flood controlled areas having drainage system, this coverage has been enhanced to 53.8 percent from 53.6 percent. In the areas free from the risk of salinity, such coverage has been widened from 46.3 percent to 46.8 percent.

Local Government and Rural Development

Dear Countrymen

112. Based on the report of a committee commissioned to formulate recommendations for the purpose of making the local government institutions across the country more dynamic and strong, a number of bold steps have been taken. Ordinances relating to local government institutions like Municipalities, City Corporations, District Councils, Upazilla Parishads and Union Parishads have already been approved. These ordinances will consolidate the local government institutions financially, administratively and legally which in turn will translate into reality the ideals of local level administration through local leadership.

113. In current fiscal year, the supply coverage of safe drinking water in rural areas has been widened to 87 percent from 83 percent whilst such coverage in the urban areas has been increased to 60 percent. Against the goal of providing 100 percent sanitation coverage by 2010, 81 percent has been achieved in rural areas and 85 percent in urban areas. Steps are being taken to supply safe drinking water through pipelines in 300 villages of arsenic-prone areas and to establish sources of arsenic-free safe drinking water in 200 villages and 5 municipalities. A comprehensive plan of the Local Government Engineering Department (LGED) to construct growth centres, union complexes, markets exclusively for women, roads, bridges and culverts at upazila and union levels is being implemented.

114. Attaching highest priority to the agriculture and rural development sector, I propose to allocate Tk. 16,411 crore in the next fiscal year which is 16.4 percent of the total budget outlay.

Physical Infrastructure

Power

Dear Countrymen

115. Although currently 43 percent of our total population enjoys electricity facilities, the per capita electricity consumption is low compared to many developing countries. In 2007, our per capita electricity consumption stood at 140 KWH while it was 325 KWH in Sri Lanka, 408 KWH in Pakistan and 665 KWH in India.

116. Currently our daily requirement of electricity is 4,500 MW on an average against which our average net generation is 3,600 MW. The huge investment that will be required to generate power to meet the deficit of 900 MW will be difficult to be mobilised by the Government alone. We have, therefore, taken short-term and long-term steps for involving the private sector for adequate generation of power. We are currently working to reach the target of meeting minimum requirement of power by 2008-09. According to the existing Master Plan, it is anticipated that by 2020 we would be able to reach the level of generation of power commensurate with the increasing demand.

117. In the current fiscal year, a total of 124 MW from public and private sector has been added to the national power grid. Another 210 MW will be added by June 2008. By December 2008, a total of 320 MW power will be generated on a rental basis in the private sector and another 166 MW will be generated by 10 small power producers. An agreement has been signed with captive power plants to purchase 27 MW of electricity of which 10 MW has already been put into the grid. To meet the emergency, we have increased generation of 318 MW of power by renovating the old power plants. In spite of all these efforts, inadequate gas supply disrupted the normal power generation.

Dear Countrymen

118. Construction of 4 large power plants has begun under private sector initiative. It is expected that these power plants will provide another 450 MW power by 2010. Apart from this, 3 more power plants in the public sector are being constructed with a production target of 380 MW. International Atomic Energy Agency (IAEA) has agreed to support the

proposed Rooppur Nuclear Power Generation Plant. Shortly, IAEA will field a mission to Bangladesh. Efforts are underway, to generate electricity from coal and renewable solar energy.

119. The Government has supplemented BPDB to the tune of Tk. 600 crore to foot the bills of Independent Power Producers (IPP). Another Tk. 399 crore has been provided from the Government budget as equity to finance pension and gratuity payments of the employees absorbed in the newly created power and transmission companies.

120. Alongside power generation, emphasis is being laid on demand side management as well. In order to optimise the use of electricity, prepaid metres have been installed in different locations and the system of holiday-staggering has been introduced in different industrial areas. Various steps have been taken to motivate the users to reduce power consumption.

Energy and Mineral Resources: Dear Countrymen

121. Currently, 75 percent of our commercial energy requirement is met from natural gas resources. The remaining 25 percent is being met from the import of petroleum by BPC, hydro-power of Kaptai and thermal power of *Barapukuria* coal-fired power plants. The proven reserve of natural gas in Bangladesh is 15.27 TCF. The current residual gas reserve stands at 7.86 TCF. Presently 1,700 million CFT gas is being extracted daily from the 23 gas fields. By 2011, the current reserve will be depleted to a precarious level, unless new gas fields are discovered. We have, therefore, put in place a huge investment plan for exploration of oil and gas. Over the next seven years, BAPEX will be provided with Tk. 3,200 crore to strengthen its exploration programme.

122. You will be pleased to know that the *Barapukuria* Coal Mine is now supplying coal to the 250-MW coal-fired *Barapukuria* Power Plant. Production has started in Madhyapara Hardrock Mine. Petrol, diesel and Liquefied Petroleum Gas (LPG) are being produced from NGL processing plants at Kailashtilla and Biyanibazar. Efforts are continuing to save foreign exchange by increasing the use of CNG. The Government will shortly declare a national coal policy.

123. In the non-development and development budget combined, I propose to allocate Tk. 4,340 crore for the power and energy sector in the budget for FY 2008-09 which is 4.3 percent of the total budget and 21 percent higher than the revised allocation of the current year.

Information and Communication Technology and Post & Telecommunication

Dear Countrymen

124. Information and Communication Technology (ICT) is our thrust sector. Taking into account this priority, the Government is formulating national e-governance strategy supported by a national ICT roadmap. The first phase of infrastructural work of a 231 acre hi-tech park at Kaliakoir near Dhaka will be completed by the end of this year. Efforts are underway to attract the private and foreign investors to make investment in this IT-park. In order to enhance investment in this sector, I propose to allocate Tk. 100 crore to IT Equity and Entrepreneurship Fund. To ensure easier access, relevant agencies including Bangladesh Computer Council will be involved in the process of channeling this fund.

125. The Government has also taken a number of bold steps in the area of information and broadcasting. A set of guidelines has been prepared to introduce community radio broadcasting system. The pay and allowances of the employees working in the news paper industry have been increased. The rates for publication of government advertisements in the newspapers have been enhanced.

Dear Countrymen

126. With the expansion of telephone facilities including mobile phone, the tele-density in Bangladesh has increased from 18 per 100 population in the previous year to 28 in the current year. Digital telephone exchanges have been established in 389 Upazilas and 17 growth centres. Work is underway to cover the rest of the Upazilas under digital exchange system. Meanwhile, Bangladesh has joined the information super-highway by connecting itself with international submarine cable system. Ninety-two internet service providers have now been connected with this system.

Communication Sector

Dear Countrymen

127. There is 0.7 km road for each square km land area in Bangladesh. We should now concentrate on widening the roads and enhancing their quality. A specific programme has been undertaken in the communication sector to enhance the efficiency and capacity of the Department of Roads and Highways alongside the development of road infrastructure. Besides, the Padma Bridge construction project has been approved at a cost of Tk. 10,162 crore. Currently, the design phase is underway for a quick start for the construction of this 5.58 km long bridge. The Sixth Bangladesh-China Friendship Bridge at Mukhtarpur over the river Dhaleswari was opened in February 2008.

128. A broad based reform initiative is in place to turn the Bangladesh Railway from a losing entity into a profitable one. A new railway track on the Dhaka-Chittagong route is being laid to reduce the travel time by 2 hours between Dhaka and Chittagong. This will undoubtedly have a far-reaching positive impact on our trade and commerce. As part of its ongoing reforms, Bangladesh Railway will be corporatised. It is heartening to note that Dhaka-Kolkata *Moitree* train service has begun from the 1st day of Bangla New Year.

129. Implementation of a strategic action plan is underway to build a cost-effective, sustainable and safer public transport system in Dhaka city. To reduce traffic congestion in Dhaka City, steps have been taken to construct link roads connecting Bijoy Sarani to *Tejgaon* Industrial Area, and Airport Road to Rokeya Sarani. Initiatives for the protection of *Hatirjheel* and *Begunbari* Canal have also been taken up in earnest. In the development and non-development budget combined, I propose to allocate Tk. 6,334 crore for ICT, telecommunication and communication sector in the budget for FY 2008-09, which is 6.6 percent of the total budget.

Industry Sector: Development of Small and Medium Enterprise (SME)

Dear Countrymen

130. In an attempt to promote SMEs, an SME Foundation has been established to implement the SME policies and strategies of the Government and to facilitate required reforms in this sector. Governed by a

Board of Directors based on the principle of public-private partnership, the foundation comprises of experts from public and private sector. The Foundation is providing recommendations to the Government to assist it in identifying problems in the SME sector and in determining strategies for their resolution.

131. To promote women entrepreneurship, the SME Foundation has constituted a forum titled **National Women Entrepreneurs Forum**. The Foundation has been asked to commence its credit operation to provide credit to the SME entrepreneurs at a low rate of interest. Besides, a programme has been taken up to create a database with the data inputs derived from a nation wide survey. Last year, the Foundation provided assistance to enhance efficiency of about five thousand entrepreneurs. SME helpline centres will be established in each district across the country. The Government allocated Tk. 100 crore to the SME Endowment Fund in FY 2007-08 to provide required assistance for the growth and development of SME sector in the country. In recognition of its great importance, a further allocation of Tk 100 crore has been proposed in the budget for FY 2008-09. In addition, funding for the SME Refinancing Scheme of Bangladesh Bank has been enhanced from Tk. 300 crore to Tk. 500 crore.

Human Resource Development

Primary Education

Dear Countrymen

132. Human resource development is one of the prime conditions for achieving a sustained economic and social development. Education and health are the major inputs for human resource development. I propose to allocate Tk. 21,112 crore in the proposed budget for human resource development which is 21.1 percent of the total budget.

133. The 6-year Second Primary Education Development Programme (PEDP-11) with an outlay of Tk. 1,800 crore is being implemented to widen primary education and to enhance its quality. Around 55 lakh students are receiving stipends annually. All these steps have helped achieving 50:50 ratio of male and female students at government primary schools.

134. In FY 2008-09, as many as 33,00,000 newly literate persons will be imparted job-oriented training to help retain their level of literacy and to raise their living standards. The ongoing programme will continue to bring down the current student-teacher ratio of 55:1 to 46:1 and to increase the rate of enrollment to 90 percent by 2009.

Secondary and Higher Education

Dear Countrymen

135. Ninety-eight percent of the secondary and higher secondary educational institutions are privately managed. In order to raise the quality of these institutions, the payment of MPO subvention has been linked to their performance. An institution based assessment system is continuing. The **Non-government Teachers' Registration and Certification Authority (NTRCA)** is at work for ensuring the recruitment of quality teachers.

136. The disparity that exists in the quality of education between the urban and rural areas is widening. In order to reduce this gap, steps have been taken to establish model high schools in those upazilas where there are no government schools. A selection process is underway to select 63 schools to convert them into model high schools.

137. Significant progress has been made in female education, following the increased enrollment of female students at secondary and higher secondary level by 52 percent. Against this backdrop, a stipend programme for the poor male students will also be introduced in next fiscal year in 121 Upazilas to increase the rate of enrollment of male students. Guidelines for female stipend programme will be revised to lay greater emphasis on quality education.

138. Only around 2-3 percent of the total students at the secondary and higher secondary level receive technical and vocational education. Consistent with national goals, vocational education at various levels is being introduced to equip our youth force with technical and vocational skills. I would like to mention that in this case as well we can emulate the example of gender parity of the primary and secondary level of education.

139. Over the past few years, there has been a huge expansion of tertiary-level education in the private sector. In order to retain the quality of

education in both the public and private sector, the Government has recently approved the **Private Universities Ordinance, 2008**. Under this Ordinance, an Accreditation Council will be constituted to compare our higher education system with the international standards to determine the standing of our public and private universities. In the current fiscal year, we allocated Tk. 10 crore to carry out research in the areas of physical, mathematical and biological sciences. In the next fiscal year, I propose to allocate Tk. 15 crore to this end.

Health and Nutrition

Dear Countrymen

140. Adequate and planned investment in the health sector is fundamental to human resource development. To this end, the Government is implementing a seven-year (2003-2010) Health, Nutrition and Population Sector Programme (HNPS) at an estimated outlay of Tk. 32,450 crore.

141. As a step towards updating the existing policies and laws, we are revising our National Health Policy, rules relating to hospital waste management, private medicare laws and the Essential Drugs Lists.

142. The Government is laying emphasis on increased involvement of private initiative in the health sector. Implementation of a programme is underway to outsource the management of 342 community clinics and 130 Union Health and Family Welfare Centres and Hospitals to the private sector.

Climate Change: Disaster Management and Environment

Dear Countrymen

143. On 15 November 2007, the super cyclone Sidr wreaked havoc in the *Sundarbans* and its adjoining coastal areas of southern Bangladesh leaving more than 4,000 people dead or missing and over 50,000 people injured. The estimated loss will be around Tk. 11,500 crore taking into account the damage caused to the houses, cattle heads, crops and other physical installations. Immediately before this disaster, two successive floods caused severe damage to the standing crops, cattle heads and infrastructure. The scale of international assistance to meet these disasters was quite

significant. On behalf of the Government, I convey my sincere gratitude to all friendly countries, national and international agencies and the members of the armed forces for their generosity and hard work in the service of the distressed humanity.

144. The recent floods and Cyclone Sidr are the inevitable results of global climate change. According to the UN Human Development Report—2007-08, 18 percent of the land mass would be submerged due to one metre rise in the water of the sea level, affecting 11 percent of the world population. In fact, Bangladesh is potentially one of the most vulnerable countries likely to be exposed to the risks arising from climate change. The Department of Environment has established a climate change cell which is conducting research to work out strategies to mitigate the adverse impact on the lives and livelihood due to climate change. A new programme has been introduced to ensure people's **participation in environment protection**.

Dear Countrymen

145. We are aware of the fact that we have to live with the risks of disaster arising from climate change. While it is not humanly possible to resist the climatic change, we have to enhance our adaptability to the changes and try to minimise the scale of damage and dislocation. To this end, we propose to create a fund titled **Fund for Climate Change** and allocate Tk. 300 crore for this purpose in the next year's budget. We urge upon all development partners and relevant agencies to come forward to contribute to this fund.

146. Based on our recent experience of floods and cyclones in the country, the Government has taken up a number of significant precautionary measures. Steps have been taken to construct more than 2000 **multi-purpose cyclone centres**. In addition, the Government has planned to establish a Disaster Management Training and Research Centre at the national level. In this centre, research on river erosion, flood, cyclone, earthquake and fire-accidents will be carried out in the first phase. Meanwhile, the Standing Orders on Disaster Management have been revised. Steps have also been taken to prepare a national disaster management plan.

147. Afforestation reduces the risks of disaster and checks the potential loss. The total forest area in Bangladesh is 2.52 million hectares which is

only 17 percent of the total land area of the country. Our goal is to bring 20 percent of the total land area under afforestation coverage soon. Since the assumption of office by the present caretaker government, a total of 4,557 hectares of forest lands have been recovered from the illegal occupants. Steps have been taken to bring these lands under an afforestation programme.

Revenue Mobilisation Program

Dear Countrymen

148. I will now elaborate on the government's proposed fiscal measures for mobilisation of domestic resources to meet the proposed expenditure. Prior to that, I would like to shed some light on the background of this proposed resource mobilisation program. As I have mentioned before, the continual price spiral of various commodities particularly food grains and petroleum in the international market and colossal economic loss resulting from back to back natural calamities during the last financial year have made our endeavour to formulate a balanced and pragmatic revenue policy even more difficult and challenging task. We have to face this challenge with a lot of courage, vision and objectivity.

149. As a matter of policy, I have attached great importance to private-public partnership in formulating the fiscal proposals. This year, NBR has added a new dimension by engaging in two-month long pre-budget dialogue with FBCCI and other stakeholders representing nearly every sector. I myself also held a series of pre-budget discussions with renowned economists, representatives of the civil society and media, major trade bodies, research organizations and visited six divisional towns to hold discussions with chamber leaders, academics and others representing various segments of the society. The discussions have been extremely beneficial as a large number of valuable suggestions were offered in these meetings. Besides, a considerable number of written proposals have been received. I went through each one of them very carefully and included only those in this budget proposal that turned out to be more pressing and realistic.

150. You are aware of the fact that our tax-GDP ratio is much below the desired level. The ratio is the lowest even when compared to our neighbours

in South Asia. Therefore, it has been our prime objective to raise tax-GDP ratio by strengthening tax collection efforts. We seek to achieve this objective of higher revenue generation by expanding our coverage by identifying new tax-payers and areas, by enhancing transparency, accountability and efficiency of revenue administration, and by creating a truly tax-friendly atmosphere rather than introducing new tax or raising the tax rates. To this end, we have initiated various measures to bring the tax payers and tax collection agencies closer. We have attached special priority to changing the mind-set of the revenue officials, elimination of discretionary powers to the maximum possible extent, developing a service-oriented attitude among the revenue officials, avoidance of all sorts of discriminatory provisions, simplification of revenue collection and payment procedure, administrative separation of tax collection from tax policy formulation, awareness building programs among both existing and the potential tax-payers to create interest among the tax-payers and official recognition of the genuine tax-payers.

Simplification and Reforms in Revenue Collection Procedure

Dear Countrymen

151. Many potential tax-payers are still out of the tax-net. To enhance awareness among the tax-payers and make the payment procedures simpler, Citizen's Charter and many guide-booklets providing necessary information on the provisions and procedures for tax payments have been published and a number of advertisements are being telecast on different TV channels of the country. Favourable outcomes resulting from such programs have already started to pour in. We have received unprecedented response from all strata of the society for allocation of TIN, submission of returns and payment of Value Added Tax.

152. To recognize payment of taxes as a symbol of high social prestige, government has decided to honour three highest tax-payers and two longest paying tax-payers from each district every year. The process will be executed on the basis of a pragmatic policy guideline.

153. To modernize the revenue administration, I propose necessary reforms, expansion and reorganization in the administrative structure of Income Tax, Value Added Tax and Customs Departments.

- (1) Computerisation of Income Tax Department is about to be completed. Comprehensive automation of Customs processing at the Chittagong Customs House is going ahead with the assistance of the Chittagong Chamber of Commerce and Industry. Process is underway for issuance of online registration for VAT. We expect that these measures should simplify the procedures of payment and collection of revenue and increase the efficiency, dynamism and transparency of revenue administration.
- (2) Currently mandatory pre-shipment inspection system is operational on most of the importable items. This was introduced with a view to ensuring faster clearance of imported cargo and preventing revenue pilferage. The tenure of the contract of service with the existing PSI Agencies will come to end on 31 August, 2008. There are widespread allegations of various malpractices of the PSI agencies and Government is fully aware of them. The activities of the PSI agencies are being monitored very closely and stern actions are being taken, including termination of contract, whenever any case of misconduct is detected. These measures shall continue. PSI system is not a permanent arrangement. In view of the existing reality, to facilitate trade, this system was introduced as a temporary measure. Currently, Customs Department has inadequacy both in terms of infrastructural and human resources capacity including acute shortage of officers and staff. In this backdrop, lifting of PSI system may cause complications in the customs assessment process. I am, therefore, proposing to continue with this arrangement through fresh appointments under a revised policy guideline for a limited period. This system shall be withdrawn as soon as the automation process and appointment of officers are completed.
- (3) At present, penal actions for detection of undisclosed income are quite elusive and harsh. Currently one is subject to a fine starting from zero to a maximum of five times of the evaded tax. I propose to revise the provision of imposing this fine at a fixed rate of 10 percent for each year of evasion.

- (4) The First Schedule of The Customs Act, 1969 needs to be amended in a number of areas aiming at simplification of Customs appraisal and reduction in discretionary powers. To this end, some descriptions of goods have been made more specific while a number of HS Codes have been merged or split while at the same time some new HS Codes have been created. Accordingly, I propose to amend some of the sections of the Customs Act.
- (5) In FY 2007-08, special importance was attached to encourage voluntary compliance of VAT regulations among the tax-payers by way of expansion of self-assessment system and revision of VAT Act and Rules for further simplification and accountability. The policy shall continue in FY 2008-09 as well. In continuation of that policy aimed at further simplification and reduction of discretionary powers and for providing incentive for expansion of Small and Medium Enterprises (SME), I propose to amend certain provisions of the VAT Act, 1991 and Rules, 1991.

Restructuring of Duty and Tax Rates

Income Tax

Dear Countrymen

154. The existing limit for tax free income, tax rates, income slabs for individuals shall remain unchanged for the upcoming fiscal year. But for female tax-payers and senior tax-payers of ages exceeding 70, I propose to raise the limit for tax free income to Tk. 165,000.00. It may be mentioned that the limit for tax free income was considerably raised in the last fiscal year.

155. I propose to revise the tax rate for companies listed for public trading from 30 percent to 27.5 percent, for companies not listed for public trading to 37.5 percent from 40 percent. The 45 percent rate for banks, insurance, financial institutions and mobile phone operators will, however, remain unchanged.

156. For corporate tax-payers, I propose to impose income tax on dividend income in accordance with the applicable scheduled rates for companies instead of existing 15 percent.

157. Currently, according to Section 16CC of the Income Tax Ordinance, all companies, irrespective of profit or loss, have to pay a minimum tax on the basis of their turnover which is clearly in breach of the fundamental principles of Income Tax. I propose to rescind this Section.

Customs Duty

Dear Countrymen

158. Considering the development of local industries, I propose to transform the current three-tier customs duty structure into a four-tier structure consisting of:

- (1) further reduction of concessionary rate of duty on capital machinery and spares from 5 percent to 3 percent.
- (2) reduction of duty on basic raw materials from 10 percent to 7 percent.
- (3) reduction of duty on intermediate raw materials from 15 percent to 12 percent.
- (4) highest slab, for finished products, to remain at 25 percent. However, 0 percent duty on food stuff, fertilizer, medicines and raw cotton will continue as before.

159. In the interest of quick clearance and simplification of Customs procedure of imported machinery and spares by the export-oriented enterprises, I propose to repeal the indemnity bond system and replace it with a concessionary rate of 1 percent Customs Duty. For importation of machinery for textile industries, similar benefit of 1 percent concessionary rate and for importation of some other spares and inputs, special rate of 3 percent in lieu of 5 percent is proposed.

Tax Incentives for Development of Agriculture

Dear Countrymen

160. Government has attached special importance to the development of agriculture in the milieu of global food crisis and increase in food prices. To reduce dependence on imports and ensure food security, we have no option but to increase our food production. In addition to other measures, I am proposing the following fiscal incentives:

- (1) The tax free income limit for persons having no income other than agricultural income is now set at Tk. 40,000.00 in addition to the normal tax free threshold. I am proposing to raise it to Tk. 50,000.00. This will ensure that persons having only agricultural income shall not be subject to payment of taxes for an income of up to Tk. 200,000.00 and this tax free income limit would be Tk. 215,000.00 for female tax-payers and elderly people exceeding 70 years of age who have only agricultural income.
- (2) I propose to extend the current tax exemption period by another three years from 1 July, 2008 to 30 June, 2011 for income from farms engaged in fisheries, poultry, cattle breeding, dairy, mushroom cultivation, silk worm production, seed production, marketing of locally produced seeds sectors and income generated from cultivation of flowers and plants etc.
- (3) I propose to include agro-processing industries in the list of industries enjoying tax holiday.
- (4) Every year, we are rapidly losing cultivable land due to increase in construction of buildings on those lands for housing purpose. In order to retain the existing cultivable land and provide inducements for investment in the development of planned housing in remote areas, I propose to keep any income generated from constructions of multi-storied buildings in areas outside the areas of the City Corporations, Cantonment Board, Municipalities of district headquarters, Municipal Areas under Dhaka district, exempt from tax for the next 10 years.

- (5) Currently, fertilizer and seed enjoy 0 percent Customs Duty benefit alongside capital machinery and spares imported for dairy and poultry industries. Considering the huge loss incurred by the poultry sector resulting from bird-flu virus, I propose to continue with the duty exemption benefit for this sector.
- (6) As in the case of capital machinery, I propose to reduce the customs duty on equipments used in agriculture like irrigation pumps, diesel engine and tractors to 3 percent from various existing rates.
- (7) In the interest of the development of Dairy and Poultry industry, I propose to offer fiscal incentives to these sectors for importation of plastic trays used for transportation and maintenance of poultry chicks and nursery trays used for seed growing. I propose to waive all duties and taxes on these items. Moreover, like poultry and cattle feed, I also propose to waive all duties and taxes on fish-feed.

Development of Small and Medium Enterprises (SME)

Dear Countrymen

161. Currently there is no income tax relief for the SME Sector. I propose to keep the income of the manufacturing SME entities free from taxes by defining the SME as entities having an annual turnover not exceeding Tk. 2,400,000.00.

- (1) I propose to keep the income stemming from exports of handicrafts to remain outside the purview of taxes from 1 July, 2008 to 30 June 2011.
- (2) At present no VAT is applicable to cottage industries. I propose, in the interest of expansion of SME sector, the condition of upper limit of investment in capital machinery to enjoy cottage industry benefit, be increased from Tk. 700,000.00 to Tk. 1,500,000.00 and annual turnover limit be raised from Tk. 2,000,000.00 to Tk. 2,400,000.00. I hope our SME sector would see its desired growth.

- (3) I propose to withdraw VAT at the production stage of hand made biscuits and fabrics produced from artificial fibre and thread using handloom to provide impetus to the small, labour-intensive and employment-friendly industries.

162. To promote **Information and Communication Technology Sector**, I propose:

- (1) To keep the income emanating from computer software development, data processing, data entry and call centre, tax free from 1 July, 2008 to 30 June 2011.
- (2) To increase the rate of normal depreciation on computers from 20 percent to 30 percent.
- (3) To withdraw AIT and VAT for importation of Electronic Cash Registers (ECR).
- (4) To include the entire telecom infrastructure sub-sector, with the exception of mobile phone, under the purview of tax holiday.
- (5) To reduce the existing rate of duty of 5 percent on computers and its peripherals to 3 percent.

Tax Holiday and Accelerated Depreciation

Dear Countrymen

163. Although tax holiday benefits the entrepreneurs, this is not the only factor they consider while setting up industries. Yet, to encourage the entrepreneurs, government has decided to continue with its tax holiday scheme for newly set up industries between 1 July, 2008 and 30 June, 2011, in a modified form. I am, therefore, proposing the following Tax Holiday Scheme:

- (1) For industries set up in Dhaka and Chittagong (except three Hilly Districts) Division-
 - 100 percent of income for first two years;
 - 50 percent of income for next two years; and
 - 25 percent of income for next one year;

- (2) For industries set up in Rajshahi, Khulna, Sylhet and Barisal Divisions and three Hilly Districts-
 - 100 percent of income for first three years;
 - 50 percent of income for next three years; and
 - 25 percent of income for next one year;
- (3) Keeping the existing sectors under Tax Holiday intact, I propose to include agro-processing, diamond cutting, steel production from billet, jute industries, different units of textile sector, Underground Rail, Monorail, Telecom Infrastructure except mobile phone.
- (4) I propose to continue with the regulation on accelerated depreciation until 30 June 2010 which was supposed to end on 30 June 2008.

Other Important Facilities and Reforms

Dear Countrymen

164. Now, I am making the following proposals:

- (1) Enhancement of threshold level for VAT from existing Tk.2,000,000.00 to Tk.2,400,000.00
- (2) At present, tax is deducted at source for house rent exceeding Tk.15,000.00 per month. I propose to raise this limit to Tk.20,000.00. With this new limit in effect, deduction at source will not be applicable for house rent not exceeding Tk.20,000.00.
- (3) I propose to continue with the provision of imposition of income tax at a discounted rate of 15 percent on textiles and jute sectors from 1 July, 2008 to 30 June 2011.
- (4) To discourage import of luxurious vehicles, I propose to readjust the Supplementary Duty of 60, 100, 250 and 350 percent on vehicles having higher displacement capacity (CC).

- (5) I propose to reduce the Supplementary Duty on importation of ordinary non-luxurious Microbuses, within the displacement capacity from 1500 to 1800 CC, used for transportation of industrial raw material and passengers, from 60 percent to 20 percent.
- (6) To prevent imports of new vehicles in the guise of re-conditioned vehicles, I propose to amend the conditions of eligibility for reconditioned vehicles and they are: time gap between registration and deregistration has to be 365 days and the vehicles must run at least 1000 km before shipment. I also propose to reduce the Dealer's Commission from 30 percent to 20 percent alongside the readjustment of year-wise depreciation rates as 5, 10, 20 and 30 percent respectively. I further propose, that Taxicab imported under a special concessionary rate and having completed a eight-year period as taxicab, be allowed to be converted into a normal car/vehicle and get that registered accordingly on payment of 20 percent of the duties and taxes exempted at the time of importation.
- (7) In the backdrop of recent abnormal price escalation in the international market and to stabilize our domestic market, I propose to impose specific duty on sugar and raw materials for steel products used in the construction sector (melttable scrap and re-rollable scrap) and withdrawal of 15 percent VAT on importation of Mild Steel (MS) bar and rod.
- (8) There has been some phenomenal growth in the printing sector. But higher tariff on printing papers vis-à-vis lower duty on printed papers has made our publishers and printers face uneven competition. I, therefore, propose to reduce the duty on printing papers to 12 percent from 25 percent and raise the duty on printed papers from 15 percent to 25 percent. In the interest of the local paper industries, I further propose that the existing 0 percent rate on pulp and paper waste, being its prime raw materials, to continue.
- (9) Currently, pictorial books and drawing books used for educational purpose for our young children are subject to 10

percent Customs Duty. The contents of these books, in most of the cases, are not in conformity with our own values and culture. In the interest of protecting our values and to help our children uphold our local culture, I propose to impose 25 percent customs duty on such books.

- (10) In the interest of public health, I propose to impose supplementary duty of 60 percent on the raw materials for manufacturing of cigarettes and 20 percent on the papers used in producing packaging materials of cigarettes.
- (11) Dates are primarily consumed by the devout Muslims during *iftar* and are imported during the holy month of Ramadan. Considering this religious sentiment, I propose to withdraw 20 percent supplementary duty on dates.
- (12) I propose to reduce the existing 25 percent customs duty to 7 percent on inhaler actuator, used as medicaments, and abolish the supplementary duty.
- (13) Children are prone to the deadly thalassemia disease. Treatment of thalassemia is expensive and its medicines are not produced in Bangladesh. Recently, customs duty and VAT on imports of drugs used for treatment of this fatal disease have been withdrawn. I propose to maintain the existing duty free benefit for the importation of life saving drugs.
- (14) In the interest of protecting some industries producing import substitutes, I propose to enhance the customs duty on imports of certain products. With similar objective, I propose to impose and increase supplementary duties on certain items. On the other hand, to provide impetus to the local industries, I propose to reduce customs and supplementary duties on certain raw materials and intermediate goods.
- (15) Non-resident Bangladeshi foreign exchange earners bring with them some ordinary electronic appliances when they come back home. But as these items are subject to duties and taxes, they face difficulties in clearing those items at the airports. In order to mitigate these difficulties, I propose duty free clearance of such items by amending the existing baggage rules.

Dear Countrymen

165. I further propose the following to expand the revenue base:

- (1) Issuance of a notification allowing individual tax-payers to declare their undeclared legal income accrued in any year, in a prescribed format, by paying a penalty at the rate of 7 percent on the tax payable in addition to the regular taxes at the rates applicable for FY 2008-09. This benefit shall remain in force from 1 July 2008 to 31 October 2008.
- (2) Deduction of taxes at source, at the rate of 3 percent, by the bill paying companies and statutory bodies against the bills payable for advertisements published in newspapers or periodicals or telecast on private TV channels.
- (3) Deduction of taxes at source by the rent paying companies and statutory bodies against the monthly rentals exceeding Tk. 15,000.00 on account of open space and machinery.
- (4) Currently, income of insurance agents exceeding Tk. 40,000.00 is subject to 7.5 percent tax to be deducted at source. The rate is reduced to 3 percent for any amount of insurance commission effective from the coming fiscal year.
- (5) At present City Corporations realize a fee at the rate of Tk.1,000.00 for fresh issuance or renewal of trade license as Advance Income Tax. However, it is not justified to collect a business tax prior to the commencement of any business. Hence, I propose to repeal the provision in the case of issuance of fresh trade license for the beginners. Moreover, I propose to collect the tax at the rate of Tk. 500.00 only for renewals of trade license by all City Corporations and Municipalities.
- (6) Annulment of the existing provision of tax exemptions on incomes of foreign nationals working in Bangladesh as technicians.
- (7) Value Added Tax system is fundamentally based on input credit and audit mechanism. But in our country, most of the transactions of goods and services have no documentation,

especially for our small and medium enterprises. As a result, they are deprived from the benefits of input credit mechanism provided in the VAT regulations. To ensure proper business records keeping, use of Electronic Cash Registers (ECR) was made mandatory from 1 July 2008 for all medium and large enterprises located within a City Corporation area and in the district towns. But it appears that business people need some more time to procure ECR machines and get familiarized with the new system. Hence, I propose to introduce the system from 1 January, 2009 in the divisional towns and from 01 July, 2009 in the district towns. At present, Customs Duty on ECR is nil. To ease the financial burden in procuring such ECRs for the ordinary traders, I propose to abolish the existing 15 percent VAT, 3 percent AIT and 1.5 percent ATV on import of ECRs. Consequently, no duties and taxes shall apply on importation of ECR.

- (8) To expand the VAT base, I propose to withdraw the exemption benefit existing for “individuals or organizations involved in repairing or servicing of goods against considerations that are subject to VAT”. Moreover, I propose to bring the aforementioned services and, being harmful to public health, manufacturing of scented tobacco (*Jarda*) and burnt tobacco (*Gul*) preparations under the purview of VAT irrespective of their turnover.
- (9) Based on the recommendations put forward by Ministry of Health, various anti-tobacco movement organizations and individuals and in the interest of public health, I propose to raise the price structure of cigarettes, tariff value of handmade cigarettes (*bidi*) and applicable supplementary duty.
- (10) The local satellite TV channels are subject to payment of 15 percent VAT on the commercials telecast on their channels. But, at present, the foreign TV channels pay no VAT on commercials that are telecast in Bangladesh. Although these commercials are not directly targeted towards our local consumers, but they indirectly help creating import demands for commodities shown on these commercials. Moreover,

different programs including foreign movies are freely being shown on various local and foreign TV channels through satellite. The proprietors or distributors of foreign TV channels are not paying the VAT applicable on commercials that are telecast on their channels depriving the government from its fair share of revenue. In view of the situation, I propose to enhance the existing rate of supplementary duty from 15 percent to 35 percent for the satellite channel distributors.

Dear Countrymen

166. Revenue earning target for current FY 2007-08 from National Board of Revenue sources had been fixed at Tk. 438.50 billion. Having reviewed the trends of revenue collection for the first 10 months of the current fiscal year, the target has been revised to Tk. 459.70 billion. I am quite hopeful that this target would be achieved by the end of this fiscal year. Analyzing the trend of revenue generation in the current fiscal year, considering nominal growth of GDP and evaluating the existing capacity of our revenue administration, the revenue earning target from National Board of Revenue sources for FY 2008-09 is fixed at Tk. 545.00 billion. This is just 18.6 percent higher than the revised revenue earning target of FY 2007-08. Out of this total target, the expected yield of Tk. 130.54 billion is from Income Tax, Tk. 225.36 billion from Duties and Taxes at import stage, Tk. 183.54 billion from domestic Value Added Tax & Supplementary Duty, and Tk. 5.56 billion from other taxes and duties. I firmly believe, if all the proposed programs in the budget are properly translated into actions and other exogenous factors remain the same, this target is not only achievable, it can be surpassed.

Public Administration

Dear Countrymen

167. The fixed-income group of people in the country is facing hardship due to high inflation arising from the abnormal price-spikes in both international and domestic markets during recent times. In particular, the existing pay structure of the low-paid government employees is not consistent with the

cost of living. In view of the rise in cost of living, I propose to constitute a Pay Commission to review and recommend a revised pay structure of the employees of Government and autonomous bodies at the beginning of the next fiscal year. Meanwhile, as an interim relief for the incumbent government employees and the pensioners, I propose to introduce 20 percent dearness allowance from July 2008. In the case of pensioners, the amount of dearness allowance will be determined on the basis of their uncommuted pension. The Government has also decided to provide full festival allowance to the pensioners similar to that of incumbent government employees.

Dear Countrymen

168. During our tenure we have made best efforts to maintain the momentum of economic and social progress that Bangladesh achieved over the years despite formidable constraints arising from frequent natural disasters and the adverse situation in the global market. This is evidenced from our economic indicators. This year, the financial deepening of the economy increased from 44 percent in the previous year to 45 percent, the proportions of private sector credit flows in the total credit flows increased from 75 percent to 76 percent. The openness indicator of the economy also shows improvement by registering an increase from 41 percent in the previous year to 42.2 percent. In the banking sector, the share of private sector banking has grown to 61 percent from 60 percent.

169. As already noted before, we have undertaken this year a wider consultation process with various groups of professionals including economists, researchers, civil society representatives, media personalities and leading businessmen. We also heard the opinions of social elites and intelligentsia in all divisional headquarters. I obtained valuable guidance from the Hon'ble Chief Adviser and exchanged views on current food crisis, ongoing reforms and budget priorities with my respected colleagues in the Council of Advisers as well as with the Secretaries of various Ministries and Divisions. The suggestions that we received through this process added much value to the whole exercise. I take this opportunity to convey my sincere thanks to those who participated in the consultation process and gave their valuable suggestions.

Dear Countrymen

170. From this moment onwards, anyone from any corner within the country or from outside can send their proposals or opinions on the proposed budget to us through e-mails or letters. We shall consider all proposals or suggestions received up to 16 June, 2008 with due importance and reflect them in the budget, if possible. With the approval of the Hon'ble President, we shall finalise the budget by the end of this month.

171. You are aware that a precondition for enhancing the dynamism of growth momentum is the existence of a fully functional institutional framework including various institutions of the state. Therefore, the Caretaker Government since assumption of office paid special attention to meet this prerequisite. During its tenure of over one year, the Government made unrelenting efforts to ensure that the existing institutions flourish and to set up new institution where appropriate. We attached highest importance to put in place a robust institutional framework so that our posterity can benefit from unfettered economic, political and social progress.

Dear Countrymen

172. The role of the Government in making our state institutions effective and dynamic is undeniable. However, this can not be achieved without due support from intellectuals, social thinkers, professionals and other segments of the society. Let us, therefore, work collectively to strengthen the state institutions such that they become truly resplendent examples of our good deeds and inspire successive generations to build a prosperous future.

May Allah bless us all.

Allah Hafez