

**Mr. Speaker,**

I would like to place, with your kind permission, the supplementary budget for the fiscal year 2003-04 and the budget for the fiscal year 2004-05 for kind consideration of this august House. In the last two and a half years, after assumption of office by the present government, the success achieved in restoring macro-economic stability along with economic and human resource development has been acclaimed by all quarters. We sincerely believe that economic growth turns futile unless it benefits the poor. Therefore, the goal of the development philosophy adopted by the BNP government under the noble leadership of Shaheed President Ziaur Rahman was to establish multi-party democracy and to deliver the benefits of economic growth to the poor.

**Mr. Speaker,**

2. Twenty-three years ago, on the eve of launching our Second Five-Year Plan in 1980-81, I said in my first budget speech as the Finance Minister:

“This plan is not a blueprint for conventional economic growth. It is the first step towards a radical transformation of the condition and role of our deprived country and our poverty-stricken people. . . . We intend to move the development process towards the people rather than dragging them to it”.

**Mr. Speaker,**

3. We could realise, as back as in 1980-81, that reduction of poverty would not be possible by employment generation alone. The characteristics of poverty are multi-dimensional. On the whole, poverty can be reduced by reaching the required level of education, health and nutrition related services along with generation of employment opportunities to the doorsteps of the poor. In that speech, I also said:

“A very important feature of our plan is to take every necessary measure to provide appropriate training to the rural masses to upgrade their skills. . . . The rural masses cannot effectively participate in the development process without continuing

improvement in their required health services nor can they have the capacity to enjoy the fruits of development. Economic development becomes meaningless to them. "

Emphasising the need for bringing the women into the mainstream of development, I further mentioned in my budget speech of 1991-92:

"The progress of a society will be constrained if half of its population is neglected and excluded from the benefits of development. It is, therefore, necessary that women are progressively brought into the mainstream of economic activities."

**Mr. Speaker,**

4. The economic development philosophy of the BNP government under the firm and dynamic leadership of Begum Khaleda Zia has been formulated keeping in view Shaheed President Ziaur Rahman's philosophy of ensuring economic development with poverty reduction as the topmost priority. We have never deviated from this fundamental philosophy; rather with a view to implementing it we have been incessantly making efforts to update our strategies. The honorable members of the Parliament may kindly note that the policies and programmes enunciated by the BNP government over two decades ago are fully consistent with the Millennium Development Goal declared at the initiative of the UN in 2002 for reduction of poverty throughout the world.

**Mr. Speaker,**

5. With this year's budget I am having a rare privilege of presenting the national budget for the tenth time to the august House. I express to Allah, the Almighty my profound gratitude for bestowing on me, the opportunity to prepare budget for the tenth time with the main goal of improving the lot of the poor of this country. I also express my profound respect to Shaheed President Ziaur Rahman, the great proclaimer of independence and the dreamer of building a poverty-free Bangladesh and also convey my sincere gratitude to the Hon'ble Prime Minister Begum Khaleda Zia for giving me this rare opportunity. I firmly believe that the budgets to be prepared by the BNP government in future will duly reflect the hopes and aspirations of the poor

people of Bangladesh, and also contain policy guidelines for realising those hopes and aspirations.

**Mr. Speaker,**

6. Bangladesh has received global appreciation for attaining outstanding success in alleviation of Human Poverty in education, health and nutrition. We have graduated from the low level to the mid-level group of countries in the Human Development Index according to the UNDP's Human Development Report, 2003. In primary and secondary education Bangladesh has already achieved the Millennium Development Goal of eliminating gender disparity between boys and girls. Providing primary education to almost 97 percent children has already been ensured. This rate is the highest amongst the developing countries. Bangladesh has achieved remarkable success in reducing infant and maternal mortality as well as malnutrition and has substantially improved food security.

**Mr. Speaker,**

7. For reducing income-poverty, it is necessary to create large-scale employment opportunities along with actions to directly involve the poor in income-generating activities. The achievement of Bangladesh in reducing income-poverty in the last decade has also been remarkable. In the past decade the income-poverty has reduced from 58.8 percent to about 49.8 percent. It is my firm belief that continuation of wider reforms within the framework of the development philosophy initiated by the BNP government long ago would have enabled us to achieve greater progress in economic growth and poverty reduction.

**Mr. Speaker,**

8. The honourable members of the Parliament are aware that in continuation of our economic growth and poverty reduction strategy and in the light of the Millennium Development Goal, we are implementing from this year the Medium Term National Strategy for Economic Growth, Poverty Reduction and Social Development. The goals we aim to achieve by the year 2015 through implementation of this Three-year Rolling Plan are to: reduce by half the current level of poverty through massive employment generation; eradicate extreme poverty; provide quality primary education to all children;

maintain gender equality for boys and girls in primary and secondary education and significantly reduce infant and maternal mortality and malnutrition.

**Mr. Speaker,**

9. The GDP growth rate has to be raised to 7 percent annually on average to achieve poverty reduction target by 2015. Substantial public as well as private investment will be needed to achieve this desired growth. Immediately after coming to office, in the first year, the government has reduced the budget deficit to a sustainable level and restored macro-economic stability through various policy measures. The present government believes that maintaining macro-economic stability is a precondition for economic growth and poverty reduction; hence budget deficit has to be kept at sustainable level. Public investment would be increased through mobilization of additional domestic resources and through increasing concessional foreign assistance. Dependence on foreign assistance would be gradually reduced to attain self-reliance. Our revenue/GDP ratio is about 10.5 percent whereas expenditure/GDP ratio is 14.5 percent. We have to increase both these ratios to attain higher growth and reduce poverty. We will have to take simultaneous actions so that the private sector along with NGOs can play a leading role in the process of economic growth and poverty reduction.

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### **Strategy for Development and Poverty Reduction**

**Mr. Speaker,**

10. The Three-Year Strategy for Economic Growth, Poverty Reduction and Social Development being implemented by us has been formulated after extensive exchange of views with representatives of all segments of the society. This integrated strategy has been formulated with poverty reduction as the prime objective of all social and economic policies. We are now having comprehensive exchange of views with relevant representatives of all levels

of people including at the field level to finalise this strategy by December this year.

**Mr. Speaker,**

11. We have adopted some specific policies and strategies to fulfill our election pledge and to achieve the Millennium Development Goal. In order to implement the policies and strategies, we have already taken up various programmes and would further adopt some new measures. I would like to present to this august House an outline of these policies and measures.

- • Programmes related to agricultural research, extension, production of improved varieties of agricultural seeds, irrigation, fertiliser, supply of quality seeds and crop diversification will be further expanded to boost agricultural production.
- • Steps will be taken to ensure fair price of agricultural commodities and to increase agricultural subsidy. Other special incentive programmes for agriculture will be further extended.
- • Credit at lower rate of interest and technical know-how for agriculture, fisheries and livestock and rural non-farm activities will be further extended.
- • Credit without collateral at lower rate of interest for developing micro-enterprise will be ensured.
- • Credit programme at reasonable rate of interest will be implemented for development of priority sectors like small and medium enterprises and agro-based industries.
- • Extensive training programme will be undertaken for developing entrepreneurs and efficient employees in every sector.
- • Due importance will be given to building rural roads, culverts, bridges, rural electricity, railway and inland shipping.
- • Public sector investment in energy, electricity, roads, railways, inland shipping, telecommunication and information technology will be increased on priority basis and equity of allocation in this investment will be ensured.
- • Programmes relating to maintenance of infrastructure, Food for Works programme, VGD, VGF will be further extended.

- • The existing social safety net programme will be expanded and new programmes will be undertaken to alleviate the sufferings of the deprived people.
- • The housing programme for the homeless poor and low-income people will be further extended.
- • New programme will be taken up to generate employment opportunities for the hardcore poor.
- • Budgetary allocation will be increased for education, health and nutrition sectors to reduce human poverty. It will be ensured that major share of this allocation reaches the poor.
- • NGOs and Community Based Organisations (CBOs) will be encouraged to have appropriate role along with the government in poverty reduction.
- • Private sector will be encouraged to play increasingly greater role in economic growth and in setting up labour intensive industries.

The main goal of all these policies and strategies will generally be rural development and creation of wider employment opportunities.

**Mr. Speaker,**

12. Comprehensive reforms are indispensable in economic, administrative and institutional areas to establish good governance and to implement pro-poor economic development strategy. We will implement these reforms at such speed we deem appropriate and according to our own need and design. We do not believe in any reform, which hurts the poor and the larger section of the society. We will implement in an incremental way reforms designed by ourselves in order to achieve pro-poor growth and reduce inequality between the rich and the poor.

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### **Medium-Term Macro-Economic Framework (MTMF)**

**Mr. Speaker,**

13. Government is going to finalise a Medium Term Macro-economic Framework for achieving pro-poor economic growth. Important elements of this macro-economic framework are:

- • GDP will increase from the present rate of 5.52 percent to 6 percent in FY 2004-05 and to 7 percent in FY 2007-08.
- • The present revenue/GDP ratio of 10.5 percent will increase to 12 percent in FY 2007-08.
- • The present government expenditure/GDP ratio of 14.5 percent will rise to 16.2 percent in FY 2007-08.
- • Budget deficit will be maintained at 4.2 percent of GDP and annual inflation contained below 4.5 percent.
- • Expenditure in the budget for poverty reduction will be increased by at least 1 percent of GDP every year.

**Mr. Speaker,**

14. I would like to throw some light on the likely obstacles and risks in implementing this framework in the short to long term and also the preparation of the government to meet them.

- (1) (1) After the phase out of the MFA in January 2005, there will be no quota for the ready-made garment sector. This will cause the ready-made garment sector to face more competition for retaining or increasing the market share in the global market. Our entrepreneurs in the ready-made garment sector has made commendable contribution to the development of this sector, and we expect that through their experience, talent, knowledge and initiative they will be able to expand this sector in the global market by being more competitive. But the phase-out of MFA might have some short-term impact on employment in this sector and its exports. In order to face this challenge, government in the meantime has already set up a high-powered National Co-ordination Council. Government will take necessary action according to the recommendations of this Council.
- (2) (2) A three-year Export Policy (2003-06) has been declared keeping in view the objectives of increasing exports, poverty reduction and

employment generation. Diversification of exports and establishing backward linkage industries will be encouraged further. It may be mentioned here that various steps are being taken for ensuring duty-free market access of the Bangladeshi products into foreign markets and meanwhile as a result of these steps our exports to Canada has increased by 140 percent. Export incentives to different sectors will continue.

- (3) (3) Implementation of the MTMF will depend on mobilisation of necessary domestic resources and foreign assistance. The macro-economic framework will have to be revised if domestic resources and external assistance fall short of the projection. I will mention the steps necessary for harnessing domestic resources according to projection in the second part of my budget speech. I believe that proper utilisation of foreign assistance will play a facilitating role for mobilisation of necessary foreign assistance.
- (4) (4) Our needs are unlimited while resources are scarce. Equitable distribution of scarce resources on the basis of national priority is indispensable. Any failure in this regard will affect our desired goal of poverty reduction. Therefore, we will have to abandon our inclination to unnecessarily increase the number of development projects in a conventional way in continuation of past practice without giving priority to poverty reduction.
- (5) (5) The efficiency of every sector has to be increased for utilisation of approved allocation in the budget. The projected macro-economic framework will have to be revised if resources are not properly utilised according to the targets and necessary reforms are not implemented. The government has almost finalised its work on updating and simplifying the procedure for project preparation and approval so that effective utilisation of budget allocation can be ensured. Besides, comprehensive technical training programme is being implemented to improve economic management capacity of ministries. It is hoped that these steps will play an effective role in efficient utilisation of resources.
- (6) (6) Increasing private investment will continue to remain a challenge. It appears from data relating to investment registration, investment

statistics, import of capital machineries, growth in the manufacturing sector that the government has succeeded in establishing an investment-friendly climate in the country. From July 2002 to May 2004, investment proposals have increased by 11 percent as compared to investment proposals for five years prior to July 2002. Foreign investment in 2003 has increased by 32 percent over that of last year. We hope, investment-friendly environment will be further consolidated as a result of improvement of infrastructure, continuing reforms in the financial sector and introduction of e-Governance by the Board of Investment.

- (7) (7) However sound the economic fundamentals are, our desired goal of achieving pro-poor economic growth will be seriously affected if it is not possible to improve non-economic environment like further improvement of law and order situation, curbing corruption and establishing good governance in all areas. The government is fully aware of these non-economic factors. The government will continue to strengthen its efforts to further improve the non-economic environment. An Independent Anti-Corruption Commission will be operational soon. Regulatory Commissions have been established in Telecommunication and Energy sectors. For establishing transparency, accountability and dynamism in financial management, 'Public Procurement Guidelines' have been formulated and made effective. Confrontational politics and lack of security create obstacles in the improvement of both economic and non-economic environment. Therefore, in this area, sincere cooperation of all political parties, representatives of civil society and people belonging to all strata of the society will be indispensable along with government's dedicated efforts.

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### **Recent Economic Trends**

**Mr. Speaker,**

15. Budget is the main instrument for implementing economic policies. Let me now highlight the achievements of the government attained through implementation of the budget for the year 2003-04. After last year's GDP growth of 5.3 percent, this year the estimated growth is 5.52 percent. In 9

months upto March 2004, there has been a 14.7 percent growth in exports, compared to 6.2 percent during the same period last year. During this time import has increased by 15.4 percent, compared to the growth of 7.4 percent last year. Due to 11.4 percent increase in the remittances from expatriate Bangladeshis during the same period, the current account surplus rose to the tune of US\$350 million. The overall surplus in the Balance of Payment stood at US\$227 million. Foreign exchange reserve in October 2001, when we came to power, was US\$1 billion. Now this reserve has increased to US\$2.6 billion, enough to pay for three months' import bills.

16. Adequate growth in private sector credit for productive investment has been ensured in fiscal 2003-04 to accelerate investment and economic growth. Industrial term-loan has increased by 73.9 percent, which undoubtedly indicates further acceleration of the economy in the future. Mainly due to increase in import price of oil and food staff in the international market there was some inflationary trend in the first part of the fiscal year 2003-04. The government adopted a careful and restrained monetary policy along with other measures like refixation of import duties in order to contain inflation to a reasonable level. As a result, inflation started showing downward trend and in March 2004 it came down to 5.9 percent.

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### **Revised Budget 2003-04**

**Mr. Speaker,**

17. I will now highlight the salient features of the revised budget for FY 2003-04 and the proposed budget for FY 2004-05. The estimated revenue receipt for the current fiscal year was Taka 36,171 crore. In the revised budget, it has been refixed at Taka 35,400 crore. The revised estimate has been lowered due to reduction of duties of certain commodities after the budget and also non-realisation of arrear revenue from some organisations. In the original budget of the current fiscal year the size of the Annual Development Programme (ADP) was Taka 20,300 crore. The ADP has been downsized to Taka 19,000 crore due to slow progress of implementation of some projects. The combined estimated development and non-development

expenditure for the year 2003-04 was Taka 51,980 crore, which in the revised budget has been refixed at Taka 49,367 crore. As a result, budget deficit will come to 4.2 percent of GDP from estimated 4.8 percent.

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### **The Budget for the FY 2004-05**

**Mr. Speaker,**

18. The revenue receipt for the FY 2004-05 has been estimated at Taka 41,300 crore, which is 16.7 percent higher than that of the revised budget of the current fiscal year. For FY 2004-05 the ADP has been estimated at Taka 22,000 crore which is 16 percent higher than that of the revised ADP of the current fiscal year. Besides, in the proposed budget for fiscal 2004-05, Taka 979 crore has been earmarked for non-ADP employment generation programme and for other development expenditures. In addition, Taka 860 crore has been allocated for development programme financed from revenue budget. Therefore, in FY 2004-05 development related expenditure will come to Taka 23,839 crore. In the proposed budget for FY 2004-05, priority has been given to sectors involved in poverty reduction and human development such as agriculture, irrigation, labour and employment, rural development, education, health, women, child and youth development, water resources, energy and power, infrastructure, railway and inland water transport, rural infrastructure, telecommunication, foreign investment and export inducing sectors.

19. 55.5 percent of the ADP for FY 2004-05 will be financed from our own resources, while the remaining 44.5 percent will come in the form of foreign assistance. Total expenditure, both development and non-development has been estimated at Taka 57,248 crore which is 16 percent higher than that of the revised budget. 62 percent of development budget and 42 percent of non-development budget have been allocated for direct and indirect poverty reducing programmes. In FY 2004-05, the estimated budget deficit will be 4.3 percent of the GDP.

**Mr. Speaker,**

20. Now I would place before the august House some important proposals included in FY 2004-05 budget for achieving pro-poor economic

growth in the light of our policies and strategies and to implement our promises to the nation.

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### **Human Resource Development**

**Mr. Speaker,**

#### **Education**

21. For FY 2004-05, I propose an allocation of Taka 7,680 crore for the education sector in revenue and development budget combined. This allocation is Taka 940 crore more than the revised budget allocation for the current fiscal year and is 13.4 percent of the total budget. As a result, education will receive highest allocation in the budget. I propose an allocation of Taka 3,071 crore from development budget for implementing 51 projects in the education sector.

**Mr. Speaker,**

22. For reducing shortage in the number of teachers in the government primary schools, 28,168 new teachers have been appointed so far by the present government. Besides, appointment of assistant teachers in the 4,017 newly created posts is under process now. We have ensured reaching textbooks to the students in time. Introduction of stipends in the primary schools instead of 'Food for Education' has benefited about 55 lakh poor families.

23. Implementation of the 6-year "Primary Education Development Programme-2" with an outlay of about Taka 5,000 crore is being implemented for expansion and qualitative improvement of primary education. Under this programme, 35,000 new teachers will be recruited, 30,000 classrooms constructed along with maintenance work of primary schools and training institutions, 90,000 teachers will be trained and about 40 crore books will be supplied to students. A new project named, "Reaching Out of School Children" with an outlay of about Taka 400 crore is being undertaken to create scope for primary education for children who are deprived of this opportunity. Under this project, 20 lakh children belonging to 600 Unions of 60 Upazilas will be brought within the net of primary education

and will be given various amounts of financial incentives depending on their classes of study.

**Mr. Speaker,**

24. Although the number of students in primary and junior as well as in secondary/Dakhil and higher secondary/Aalim scholarships examinations has increased significantly, the number and amount of scholarships have not been changed for long. In order to encourage the meritorious students, I propose to double from July 2004-05 the number of scholarships at different primary and secondary levels from 35,000 to 77,000. I also propose to raise the amount of scholarship on an average by 15 percent.

**Mr. Speaker,**

25. In order to improve secondary and higher secondary education, infrastructure facilities are being developed through construction of 6,763 secondary schools, 2,410 madrasahs, 848 colleges and 448 technical training institutions belonging to public and private sector throughout the country. The government is spending about Taka 300 crore annually to expand women education through BNP government-introduced stipend programme. Under this programme 45 lakh girls are getting stipends, their tuition fee has been waived and they are also getting financial assistance for purchasing books and for paying examination fee. Four Science and Technology Universities have been established to expand facilities for science and technology education. Moreover, we have enacted laws for conversion of 4 BITs into Engineering Universities.

26. National Education Commission has already submitted its report to the government. The government will evaluate the report of the Commission and take appropriate action on the recommendations of the Commission to reform the education sector.

### **Health**

27. In the health sector, I propose an allocation of Taka 3,732 crore combining revenue and development in the next year's budget. As a result, the allocation for the health sector will increase by Taka 810 crore from this year's original allocation.

28. After assumption of office, we took significant measures for overall development of the health sector. These include : establishing new hospitals, increasing beds in the existing hospitals, filling up all vacant posts of doctors, nurses, medical technologists and health assistants along with all other vacant posts; creating new posts and increasing supply of medicine and medical equipment to the hospitals. Postgraduate courses in 6 medical colleges and two institutions have been introduced by the present government for increasing the number of specialist doctors in the country. Steps have been taken to establish a Medical University at the national level and approval has been given to establish 7 new medical colleges and 8 health institutes in the private sector.

29. Implementation of a three-year Health, Nutrition, Population Sector Programme (HNPS) has started with an outlay of Taka 9,410 crore with the objective of reaching health services to the doorsteps of the people and aiming at overall improvement of health services. Through successful implementation of this project, steps will be taken to reach health services on a priority basis to the poor and to the areas which are comparatively deprived of health services.

30. A new programme will be launched from July this year to reduce maternal mortality by 75 percent with government's own resources in line with the Millennium Development Goal. Under this pilot programme, pre and post natal health services will be provided to poor women of 21 Upazilas by government and private hospitals free of cost through voucher system.

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## **Agriculture and Rural Development**

### **Agriculture**

**Mr. Speaker,**

31. I would like to mention here some of the specific steps the government has already taken to reduce agricultural production cost and to extend incentives to farmers in various ways. These are :

- Interest on agricultural loan has been reduced to 8 percent.

- • Interest on classified agricultural loan upto Taka 5,000 as on 31st December 2003 has been waived and all Certificate Cases against the concerned loanees have been withdrawn. As a result about 15 lakh farmers have been relieved of interest charges amounting to about Taka 500 crore. They have also been given opportunities to obtain fresh loan.
- • 15 percent subsidy has been given in respect of electricity consumption in irrigation and agriculture related activities.
- • Cash subsidy for export of agricultural commodities introduced by the alliance government has been increased to 25 percent.
- • Agricultural loan amounting to Taka 3,500 crore has been disbursed upto May this year which is 20 percent higher than that of last year.

**Mr. Speaker,**

32. In both revenue and development budget for 2004-05 for Ministry of Agriculture, I propose an allocation of Taka 1,777 crore which is Taka 867 crore more than the allocation in the revised budget for this year. In the next year, agricultural extension research, training, production of improved seeds, conservation and distribution of seed and irrigation activities will be strengthened. In addition to the projects undertaken under ADP, 16 development programmes financed from revenue budget will be implemented.

**Mr. Speaker,**

33. Now I am placing before the august House my proposals on agricultural subsidies, special incentive programmes for agriculture and for encouraging exports of agro-products :

- • In the last budget of the previous Awami League government the allocation for agriculture subsidy was Taka 100 crore only. After assumption of office, our government has already increased agricultural subsidies by three times raising it to the level of Taka 300 crore this year. I propose to double the allocation on agricultural subsidy and agricultural incentives from Taka 300 crore to Taka 600 crore in the next fiscal year.

- • Cash incentive for export of agricultural products, fruits and vegetables will be raised to 30 percent from 25 percent.
- • Necessary incentives will be provided for production of Robi crop.
- • Bangladesh Bank will provide financing as required at 5 percent rate of interest to Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank and other nationalised banks so that they can provide adequate agricultural loan to the farmers at 8 percent rate of interest.

### **Fisheries and Livestock**

**Mr. Speaker,**

34. I propose allocation of Taka 546 crore in the combined development and revenue budget for the FY 2004-05 for Fisheries and Livestock sector. As a result their allocation will increase by Taka 110 crore from the revised budget allocation of this year. With next year's enhanced budget allocation the ministry will be able to increase expenditure for purchase of equipment and medicine for treatment of livestock, feed for livestock and poultry, production of vaccine, research, etc. The Ministry of Fisheries and Livestock will implement 30 projects under the development budget for extension of pisciculture, recovering fish habitat in open water bodies, extension of pisciculture technology at the Union level, extension of artificial insemination and also livestock services at the Union level.

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### **Water Resources**

**Mr. Speaker,**

35. National Water Management Plan has been formulated to resolve the existing problems in water management with a view to increasing food production, protecting crop in the flood-prone areas of the country and increasing production of fish. This will contribute to employment generation and poverty reduction. I propose an allocation of Taka 1,132 crore in the revenue and development budget for Ministry of Water Resources in the budget for fiscal year 2004-05.

## **Rural Development**

**Mr. Speaker,**

36. I propose an allocation of Taka 4,902 crore in the revenue and development budget for local government and rural development sector which is Taka 336 crore more than the original budget of current fiscal year. The Local Government Engineering Department will construct 3000 km of metal roads, 5,500 km of earthen road and 220 Union Parishad complexes. A 'Char Livelihood Project' in 5 districts with an outlay of Taka 475 crore is being implemented to raise the living standards of extreme poor people, belonging to some disaster prone districts. The 'Abashan Project' is being implemented by the Office of the Prime Minister to provide land, houses, credit facility, education, health, family planning services and employment opportunities to 65 thousand landless and extreme poor people. The Youth Development Directorate is also implementing projects for employment generation of unemployed rural youth, both men and women, through provision of training and micro-credit.

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## **Social Security**

37. The role of directly poverty targeted programmes in alleviating the extreme suffering of the poverty stricken rural people and in generating employment for them is very important. After assumption of office, our government has increased the number of beneficiaries and the monthly allowances under old age allowance programme, widowed and deserted women allowances scheme and honorarium scheme for insolvent freedom fighters. I would now like to place my proposal for further expansion of different directly poverty-targeted programmes.

- • Old-age allowance : From 1st of July 2004 monthly allowance to be raised by 10 percent to Taka 165 and the number of beneficiaries to be increased by 2 lakh reaching 12 lakh. It may be mentioned that during the last year of the Awami League government the number of beneficiaries of this programme was 4 lakh 15 thousand and monthly allowance was Taka 100 only.
- • Allowances programme to the widowed, deserted and destitute women: From 1st of July 2004 the allowances in this scheme to be raised

by 10 percent to Taka 165 and to increase the number of beneficiaries by 1 lakh reaching 6 lakh. During the last year of the Awami League government, the number of beneficiaries was 2 lakh 8 thousand and monthly allowance was Taka 100 only.

- • Honorarium programme for insolvent freedom fighters : From 1st of July 2004 to increase the number of beneficiaries by 10 thousand reaching 60 thousand.
- • Fund for Mitigating risk due to natural disaster : This fund introduced by our government received an allocation of Taka 75 crore earlier. An additional Taka 75 crore may be allocated to the fund in the next fiscal year.
- • Fund for rehabilitation of the acid burnt women and the physically handicapped : Allocation of Taka 40 crore was made to this fund earlier. An additional allocation of Taka 25 crore may be made to this fund next fiscal year.
- • Fund for the housing of the homeless : An allocation of Taka 98 crore has already been made earlier to this housing fund. An additional amount of Taka 50 crore may be allocated to this fund next fiscal year.
- • VGD : The allocation of 1 lakh 65 thousand metric tonnes may be raised to 1 lakh 70 thousand metric tonnes in the revised budget and to 2 lakh tonnes in the next fiscal year's budget.
- • VGF : The allocation of 15 thousand metric tonnes will be increased to 95 thousand in the revised budget and to 1 lakh tonnes in the next fiscal year's budget.
- • Food for Works Programme : To increase to 2 lakh 20 thousand metric tonnes in the revised budget of this year from 1 lakh 70 thousand metric tonnes in the original budget and increase it to 3 lakh 30 thousand metric tonnes in the budget of the next fiscal year.
- • Food for Works Programme (Cash) : To increase to Taka 140 crore in the revised budget of this year from Taka 122 crore in the original budget and enhance it to Taka 168 crore in the budget of the next fiscal year.
- • Test Relief : To increase to 1 lakh 25 thousand metric tonnes in the revised budget of this year from 1 lakh tonnes in the original budget and to 1 lakh 50 thousand tonnes in the budget of the next fiscal year.

- • GR : To raise to 40 thousand metric tonnes in the revised budget of the current fiscal year from 35 thousand metric tonnes in the original budget and 64 thousand metric tonnes in the next fiscal year.
- • To meet sudden natural disasters Taka 100 crore to be provided as block allocation in the next year's budget to the Ministry of Food and Disaster Management.

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### **Programme for Mitigating Economic Shocks**

**Mr. Speaker,**

38. In addition to these poverty-targeted programmes, I propose to introduce two new programmes to enable employees/labourers to face sudden economic shocks and to allocate Taka 50 crore for these programmes.

- • Special fund with an allocation of Taka 30 crore to be created for retraining and creation of employment opportunities for voluntarily retired, retrenched employees/labourers.
- • Special fund with an allocation of Taka 20 crore for retraining and creating employment opportunities for employees/labourers of garment industries.

39. I would like to mention here that in the 74-acre land of the closed Chittagong Steel Mill, 150 industrial units will be set up by the Export Processing Zone Authority. Besides, an industrial park will be set up by BSCIC in the Adamjee Jute Mills complex. As a result, employment opportunities will be created for about 9 lakh people.

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### **Special Credit Programme for Employment Generation**

**Mr. Speaker,**

40. Micro-credit programmes implemented by the government departments/agencies : In addition to micro-credit programmes being conducted by different government departments/agencies and NGOs, the

government has for the first time allocated in this year's non-development budget an amount of Taka 345 crore for micro-credit programme of different government departments. Besides, under the development budget, various ministries, departments are implementing micro-credit programme involving about Taka 5,200 crore. Many NGOs are involved in implementing a number of these government-sponsored programmes. In order to further expand the micro-credit programme, I propose to allocate in next fiscal Taka 315 crore from non-development budget in favour of few ministries to conduct these micro-credit programmes.

- • Taka 120 crore for the Rural Development and Co-operative Division
- • Taka 100 crore for the Ministry of Agriculture
- • Taka 30 crore for the Ministry of Fisheries and Livestock
- • Taka 25 crore for the Ministry of Youth and Sports
- • Taka 25 crore for the Ministry of Liberation War Affairs
- • Taka 15 crore for Ministry of Women and Children Affairs

41. Micro-credit programme conducted by the Palli Karma Shahayak Foundation (PKSF) : The PKSF has been conducting micro-credit programme with the financial assistance of some development partners and also with government financing. PKSF has distributed micro-credit worth Taka 1,700 crore to about 50 lakh beneficiaries through 216 NGOs upto January 2004. I propose to allocate Taka 219 crore for FY 2004-05 to PKSF for implementing micro-credit programme through NGOs.

42. NGO Foundation : I propose to allocate Taka 50 crore to the NGO Foundation for accelerating social development in the rural areas through NGOs.

43. Special Fund for employment generation of the hard-core poor: There are many among the hard-core poor who are unable to receive benefits from the existing micro-credit programmes. A pilot programme is being implemented through the PKSF to generate employment for these hardcore poor. I propose to establish a fund for generating employment for these extremely poor people by allocating Taka 100 crore in the FY 2004-05. PKSF, through the NGOs, will operate the fund on behalf of the government.

44. Fund to create micro enterprises in the rural areas : I propose to establish a fund for development of micro enterprises in the rural areas and allocate Taka 50 crore to the fund. PKSF through the NGOs will operate the fund.

45. Assistance for agro-based industries : We allocated an amount of Taka 50 crore for assistance to agro-based industries in the last fiscal year. I propose to allocate Taka 100 crore for promotion of agro-based industries in next year's budget.

46. Equity Entrepreneurship Fund : I propose to allocate Taka 200 crore in the next fiscal year for providing equity support to computer software, food processing and agro-based industries.

47. Refinancing Financial Institutions by Bangladesh Bank for promoting small and medium industries : The Bangladesh Bank will expand refinancing facilities amounting to Taka 250 crore at 5 percent rate of interest to financial institutions for extending credit to entrepreneurs of small and medium industries.

48. Restructuring of Capital of the Karma Sangsthan Bank, Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank : Capital amounting to Taka 200 crore will be given to Karma Sangsthan Bank, Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank to expand their loan operation in the rural areas in FY 2004-05.

49. As a result of the proposed measures, the flow of credit to the rural areas will double in the next year and massive employment opportunities will be created.

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### **Women Development**

**Mr. Speaker,**

50. In Bangladesh now, the participation of women in socio-economic activities is increasing. More than 1 crore 20 lakh women in Bangladesh now are self-employed through successful utilisation of micro-credit facilities. The access of women to the labour market has significantly widened. Over 18 lakh women are now employed in the garment industry. In politics as well, the number of women participants is increasing. More than 14 thousand elected women representatives in the local bodies are performing their

responsibilities. Recently we have enacted a law creating 45 reserved seats for women in the Parliament. The efforts of the government for women development and establishing women rights will continue.

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## **Infrastructure**

### **Energy and Power**

**Mr. Speaker,**

51. In order to meet the growing demand for gas, projects for drilling some wells are continuing. A few more new gas-well drilling projects will be undertaken. Additional gas transmission lines are being constructed for transmission of gas from north-eastern part of the country to other regions. The total installed capacity of power generation including private sector is 4,710 megawatts. After assuming office, the present Government has by now increased production of power by 705 megawatts by taking several important initiatives. Besides, 221 power transmission lines and 32,100 km of distribution lines have been commissioned. Currently, 15 new power stations are under construction in the public sector to produce 2,610 megawatt of electricity. In addition, several projects are being implemented in the private sector to produce 1,390 megawatt of electricity. I propose a total allocation of Taka 4,351 crore in the next fiscal year for energy and power sector. This allocation constitutes 19.2 percent of the total development outlay of the next fiscal year.

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### **Roads and Railways**

**Mr. Speaker,**

52. I propose an allocation of Taka 4,480 crore, in both non-development and development budget for the Ministry of Communication including Railway. Along with construction of 'Lalan Shah Bridge', which is the second largest bridge in the country over the river Padma, quite a few

large bridges have been constructed in the last two and a half years. The construction of Rupsha Bridge in Khulna is ongoing. After completing the preparatory work for the Padma Bridge we hope that it will be possible to start the construction work by the year 2006-07. In the meantime significant numbers of new roads have been constructed, existing roads widened, developed and repaired. Steps have been taken to improve regional cooperation and strengthen economic and commercial relation with our eastern neighbours including Myanmar and Thailand through establishing road network with our neighbour, Myanmar. Railway has been playing very important role in communication network of Bangladesh. Work is in progress to gradually rehabilitate railway tracks and bridges, remodelling and modernisation of railway stations.

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### **Telecommunication**

**Mr. Speaker,**

53. After the present government's assumption of office, number of T&T telephone connections has been increased from 5 lakh 64 thousand to 8 lakh, NWD call charges reduced by 72 percent and international call charges by 46 percent. Efforts are underway by the T&T Board to provide mobile phone connections to 10 lakh subscribers, out of which 2 lakh 50 thousand connections will be given by the end of this year. The work of setting up the submarine cable will be completed by October 2005 linking Bangladesh with the global information super highway. I propose to allocate Taka 1,351 crore to the telecommunication sector combining revenue and development budget for the FY 2004-05.

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### **Financial Sector and Private Investment**

**Mr. Speaker,**

54. The present government is firmly committed to take appropriate steps to reduce investment cost, establish investment-friendly environment and promote employment generation. The bank rate has been reduced from 6 percent to 5 percent in order to bring down overall interest rate to reasonable level. Public sector credit from the banking sector has been

significantly reduced. As a result, rate of interest has already come down by 2 percent. I hope the downward trend in interest rate will continue.

55. As a result of various measures taken by the present government, substantial progress has already been made in restoring discipline in the financial sector. Classified loans have been substantially reduced. Reforms are underway to improve the technical and professional efficiency of Bangladesh Bank. An initiative has been taken to provide technical assistance for improving the quality of operation of other nationalised banks. The contribution of expatriate Bangladeshis in the economic development of the country is outstanding. Efforts of the government will be further strengthened to encourage the expatriate Bangladeshis to remit home their hard earned foreign exchange through the banking channel and to invest it in productive activities.

**Mr. Speaker,**

56. The capital market has revived gradually as a result of various reform measures taken by our government to revitalise the share market destroyed by the previous government at the very outset of their tenure. At the time of our assumption of office, the market capitalisation of Dhaka Stock Exchange was Taka 7,220 crore only, which has recently increased to about Taka 11,900 crore. During this period, the general share price index of Dhaka and Chittagong Stock Exchanges have increased to 76 percent and to 40 percent respectively. The listed companies have been given fiscal incentives. Moreover, in order to establish transparency in their operations, their price-sensitive information is being regularly published. Their accounts are being subjected to special audits. The Central Depository System has already started operation. As a result of these measures, it is hoped that the share market will get a new lease of life.

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### **Public Administration, Security and Law and Order**

**Mr. Speaker,**

57. Within the context of fast changing global perspective, we need a forward looking, efficient, honest and modern civil service respectful of the needs of people in general. As part of civil service reform, we have meanwhile taken some important decisions including promotion of civil

servants on the basis of merit and efficiency. Ministries/Divisions have been grouped into four clusters in order to promote specialisation in civil service, so that officials can better serve the needs of the people. Provision of Taka 200 crore has been kept in next year's budget to fill-up most essential vacant posts.

58. In fulfillment of our election pledge, a 'Pay Commission' will be constituted at the beginning of the next financial year for re-fixation of pay scales of the officers and employees of the government and autonomous bodies keeping in view the increased cost of living. I propose to implement the new pay scale from January 2005 after evaluation of the recommendations of the Pay Commission. The medical allowance of officers and employees is inadequate. As an interim measure, I propose to raise the medical allowance of all government employees from Taka 300 to Taka 400 per month with effect from July 2004.

**Mr. Speaker,**

59. I further propose to grant one festival allowance equivalent to net monthly pension from the next fiscal year to all retired government servants to enable them to enjoy the festivals. This is another exceptional measure of the alliance government.

**Mr. Speaker,**

60. The organogram of the Police Department is being restructured in order to make the Police force stronger and more effective. The Police force will be strengthened and equipped with adequate logistics in accordance with the restructured organisational setup. A Rapid Action Battalion (RAB) consisting of about 5,500 officials of different levels has been raised and made operational. It has been decided to substantially increase the manpower and logistics support for Bangladesh Rifles, Ansar and Bangladesh Coast Guard. I propose to allocate in the combined revenue and development budget for FY 2004-05 Taka 2,367 crore for the Ministry of Home Affairs, which is Taka 473 crore higher than the allocation in the revised budget. As a result the Police department alone will get an additional allocation of Taka 306 crore next year over their budget for the current year.

61. Our Defence forces have been playing commendable role in protecting our sovereignty and security, in combating natural disasters and in

UN Peacekeeping operations. I propose an allocation of Taka 4,416 crore for the Ministry of Defence. The net budget of the Ministry of Defence in the next year will amount to Taka 3,870 crore after deducting the receipts of Taka 546 crore from UN peacekeeping operations.

62. In order to do away with delays in disposal of justice, we have introduced Alternative Dispute Resolution mechanism along with implementation of Speedy Trial Act. I propose to allocate for the time being Taka 5 crore in the next year's budget for operationalising the Independent Anti-Corruption Commission.

**Mr. Speaker,**

63. I sincerely thank the Hon'ble Prime Minister for giving me valuable guidance in the preparation of the budget for 2004-05. I also thank my Hon'ble Cabinet colleagues, Hon'ble members of Parliament, distinguished politicians, renowned economists, business community, members of civil society, journalists and NGO representatives for their support and advice in the formulation of the budget.

**Mr. Speaker,**

64. The people of Bangladesh are exceptionally enterprising, have tremendous self-confidence and indomitable courage. Given opportunity, they can achieve rare success in shaping their destiny. I urge upon you all, irrespective of political affiliations, to come forward, join our hands to help create that opportunity and build a happy, prosperous Bangladesh, free from poverty.

- The End -

## **SECOND PART**

### **FISCAL MEASURES**

**Mr. Speaker,**

In the first part, I have informed this august Parliament of the objectives of our socio-economic development and of the various strategic policies for poverty alleviation, investment, human resource and infrastructure development, public and private sector partnership, and overseas development assistance, implementation of development programmes and comprehensive financial management of the alliance government. Now, in the second part, I would like to focus on the steps taken, procedure followed and efforts made to mobilize internal resources.

**Mr. Speaker,**

02. I have to inform this august Parliament with regret that the contribution of tax revenue to our national economy is inadequate. Even in comparison with our neighbouring and other developing countries, we are much behind in this regard. It is not desirable for us to be known as an entity averse to paying taxes. We have to increase the collection of internal resources for ensuring an unhindered allocation of resources required for the overall economic development of the country. In the current fiscal year 2003-2004, we set a target of 29,071 crore taka to be collected from the sources of the National Board of Revenue and others, the target for the NBR being 27,750 crore taka. It is expected that by the end of this fiscal year the total tax revenue will stand at 28,300 crore taka, out of which the contribution of the NBR will be 27,050 crore taka. Compared to last year's collection there will be about 17% growth in total revenue and for NBR alone that will be 16.62 %.

**Mr. Speaker,**

03. In order to ensure that the prices of certain essential commodities remain stable in the domestic market, mid-term measures in the form of reduction or withdrawal of import duty, adjustment in the VAT and supplementary duty were taken in the backdrop of price hike of those items in the international market. These have made a negative impact on the achievement of revenue target. In principle, I do not like the reduction of tax rates as a mid-term measure at all. This kind of measures should be avoided unless there are compelling necessities. Mid-term changes in the duty and tax rates adversely affect revenue resulting in a reduced tax collection. As a result, allocation of resources earmarked for various development programmes cannot be ensured which impedes implementation process and slows down the expected rate of economic growth.

**Mr. Speaker,**

04. Frequent hartals, strikes and siege programmes are self-destructive for the country and the nation. The effects of such activities are devastating on revenue earning, and, for that matter, on overall economic activities of the country. By now, the frequency of hartals has reached such a level that there were 5 (five) nation-wide and 7 (seven) regional hartals only in the last months of April and May. It is unfortunate for the nation if we fail to realize the gravity of the harms caused by such self-destructive hartals and siege programmes. If such situation prevails, it will be difficult to implement the development programmes undertaken for poverty alleviation and to achieve the objectives of the Millennium Development Goal. The nation has to find a way out.

**Mr. Speaker,**

05. Ours is a democratically elected government accountable to the people. Our prime objective is the overall welfare of the country and its people by ensuring good governance, social justice and development along with evolving a modern, tolerant and simple tax system in commensurate with global and regional trade liberalization. Import revenue will decline in the process of trade liberalization owing to gradual removal of trade barriers and reduction of customs duty, keeping pace with the forces of free market economy. So, we have to put more emphasis on income tax and VAT. We have to make our revenue administration and management efficient, more

effective and modern by ensuring good governance, transparency and accountability. With that end in view, reform programmes have been undertaken to reorganize the NBR and to simplify tax laws and regulations as well as to ensure their enforcement and compliance. These reform programmes are mainly aimed at introducing a modern outlook in tax administration and management, and reducing the discretionary powers of tax officials, expanding tax base, simplifying tax payment procedure, removing inefficiency, preventing corruption, and ensuring more transparency and accountability in tax administration.

**Mr. Speaker,**

06. The reform-oriented activities, pursuant to relentless practice of democracy, our government have consolidated reciprocal trust and solidarity within public and private sector partnership. Consistent with democratic norms and principles, in the process of budget formulation we have exchanged views in several rounds of meetings and discussions with various professional groups and business bodies, as well as with economists and Hon'ble Members of Parliament. Their valuable suggestions significantly contributed to overall budget formulation process. This consultation process will be more intense in future. I have tried to accommodate in the budget the recommendations of the Revenue Reforms Commission, as well as the valuable suggestions and guidance from these discussions.

**Mr. Speaker,**

07. Now I would like to place before this august Parliament the important proposals relating to direct and indirect taxes.

## **Direct Tax**

### **Income Tax**

**Mr. Speaker,**

08. Of the direct and indirect taxes, Income Tax is a major source for mobilising internal resources. As an outcome of globalization, collection of import duties is gradually declining. Hence, increasing importance is being put on Income Tax. On the one hand, Income Tax raises internal resource and ensures social justice, and on the other, ensures equitable distribution of wealth in society.

09. It is therefore very important to develop a modern, efficient and accountable tax administration and an environment congenial and simple for the taxpayers to comply. To achieve this goal, reforms measures have been undertaken to widen the scope of self-assessment, reduce discretionary powers of tax officials and improve the tax paying culture. In principle, I am not in favour of imposing new taxes. And, I believe it is possible to increase collection of revenue through effective management and service-oriented administration. This will further expand the tax base by encouraging spontaneous compliance.

**Mr. Speaker,**

10. With a view to expanding the tax base, making the tax rate equitable, simplifying tax payment procedures and also to make the tax administration and management service-oriented, I am now presenting my proposals Mr. Speaker, before this august Parliament through you;

(a) Revenue Reforms Commission as well as with the members of various professional and commercial organisations have suggested that in view of inflation and increase in the cost of living, tax burden of the individual class of assesseees should be reduced by raising the ceiling of the tax-exempt income and also by further enhancing the ceiling attracting the highest rate of income tax. Taking these into consideration, the level of tax-exempt income will be raised from Tk. 90,000/- to Tk. 1,00,000/- and for the highest rate, the level will also be raised to Tk. 9,00,000/- from Tk. 6,40,000/-. The schedule of income and rates of tax may be seen at (Annexe-'A').

(b) To provide the taxpayers with the opportunity to draw up their financial plan in advance and to assess their tax liability at the beginning of a year, I want to introduce the practice of declaring the schedule of tax-rate also for the following income-year. Accordingly, the schedule of income tax rates of individuals, local authorities and companies prescribed for the assessment year 2004-2005 will also be applicable for the assessment year 2005-2006.

(c) To encourage foreign direct and joint investment, the existing tax rate of 15% on income from capital gains arising out of transfer of stocks and shares of private limited companies be reduced to 10%.

(d) At present, the tax rates applicable for textile and jute industries are 20% and 37.5%, respectively, which creates discrimination between the two sectors. In order to remove this anomaly and also to provide some relief to them, the rates of income tax for both sectors be re-fixed at 15%.

(e) To make submission of income tax returns compulsory for all individuals, firms, companies or institutions holding Tax Identification Number (TIN).

(f) To make it compulsory for all individual assesseees to submit expenditure statement reflecting their style of living.

(g) To make it compulsory for all clubs in metropolitan and urban cities having restaurant and rest house facilities to submit tax return for assessment of tax on their net income and also to make it compulsory for a person to furnish TIN while applying for membership of any such club.

(h) The rate of deduction of tax at source from the transfer of immovable properties was reduced from 10% to 5% during the year 2002-2003. The government expected that this reduction in registration cost as well as income tax would contribute to the increased collection of both registration fees and income tax. But, in fact, it has not been the case. On the contrary, tax collection from this sector has fallen. For the sake of collection of tax that is due, the rate of advance deduction of income tax for registration of transfer deeds of immovable properties be raised to the previous level of 10%.

(i) At present, the rate of deduction of advance income tax on the profit from the approved securities and bonds varies from 25% to 45%. For the sake of equity, the rate of deduction of tax on approved securities and bonds be reduced to 20% to encourage the secondary market for securities and bonds.

(j) To allow repair and maintenance expenses at the rate of 30% of annual value in case of approved commercial buildings and rented out for commercial purpose.

(k) To allow the company assesseees to avail themselves of the self-assessment facility, the requirement to show increase of income by 10% every year be reduced to 5%.

(l) Also to empower the Board to choose any return for audit out of the self-assessment returns submitted by the individual and company assesseees.

**Mr. Speaker,**

11. Tax holiday and tax exemption shrinks the tax base. Yet, tax holiday and tax exemption facilities have been allowed to continue for a long time in the interest of industrialization. Now-a-days, it is considered more logical and effective to adopt a discounted rate of tax for a definite period of time at the initial stages of the newly setup industries as an alternative to tax holiday or tax exemption. This has been recommended by the Revenue Reforms Commission. Tax holiday period will come to an end in 2005. So, we are considering introduction of a system of taxing the newly set-up industries as recommended by the Revenue Reforms Commission at a reasonably discounted rate instead of further extending the tax-holiday period.

**Mr. Speaker,**

12. With a view to enforcing discipline in the tax management by proper application of tax laws together with increased monitoring and effective enforcement of laws and regulations, I am now presenting some proposals before the Parliament:-

(a) To encourage the taxpayers to submit returns in time and discourage delay, the initial penalty of Tk. 500/- be raised to 10% of the last assessed income with a minimum of Tk. 2,500/- and in case of continued default, Tk. 250/- for each day of default.

(b) To discourage the habit of delaying payment of income tax by filing appeals to the Tribunal against appeal orders, provisions to be made mandatory for payment of 15% of the difference between the demand arising out of the appeal order and the admitted tax liability by the assessee before filing appeal to the Income Tax Appellate Tribunal. The Commissioner of Taxes be also empowered to reduce this amount on reasonable grounds.

(c) At present, the responsibilities of executing the income tax laws and rules rest on the Zonal Tax Commissioners. Being busy with their daily routine work, they find it difficult to detect tax evasions and take appropriate legal measures to punish the evaders and defaulters. A separate Directorate is to be setup in the Taxes Department to

exclusively enforce the laws and rules to check tax evasion, monitor irregularities in tax deductions at source, its timely deposit and to ensure prompt deposit and collection of taxes.

(d) Taxpayers are respected in society. It would be appropriate to give recognition to the top income tax payers. To implement this, ten top tax payers each from individuals, private limited companies and public limited companies be awarded the status of C.I.P every year.

**Mr. Speaker,**

13. During the initial year of the current tenure of the government we launched an organized survey programme with the aim of expanding the tax base by identifying new assesseees. Till end of May 2004 potential taxpayers numbering 2,40,000 have been identified and registered bringing the total number of assesseees to 15,50,000. The survey programme would continue with the target of identifying further 3,00,000 new assesseees during the year 2004-2005.

14. Office of the Tax Ombudsman has recently been set up in a number of countries to settle tax-complaints and tax-demand. I have already taken steps to introduce Tax Ombudsman. I hope to place the Tax Ombudsman Bill to the parliament during the next fiscal year.

## **Indirect Taxes**

### **Customs Duty**

**Mr. Speaker,**

15. I have so far presented proposals relating to direct i.e., income and corporate, taxes. Now I am placing, through you, before this august Parliament proposals regarding one of the very important indirect taxes, i.e., Customs Duties.

**Mr. Speaker,**

16. In this era of globalization, although the dependence of the government on customs duties as a source of revenue has gradually been decreasing, the major portion of such revenues still comes from duties and taxes levied at the import stage. Value Added Tax (VAT), Supplementary Duty (SD), Advance Income Tax (AIT) and Infrastructure Development Surcharge (IDSC) are at present collected along with Import Duties at the import stage, perhaps because it is collected in advance and is relatively easy to do so. I believe that the types of duties and taxes and their rates can be significantly reduced once the mindset of the tax-payers undergoes a change for the better and transparency and accountability in tax administration is ensured.

**Mr. Speaker,**

17. Of the total national tax revenue, customs duty alone constitutes around 28%, which would rise up to 50% if we add to it other duties and taxes collected at the import stage. This revenue earning could have been still higher had the import of around 40% under bond and another 18% duty exempt imports, valued approximately at Taka 60,000/- crore, not been released without payment of duties and taxes. Import duties as a source of revenue has, however, been gradually losing its importance owing to the introduction of free market economy around the globe. Bangladesh, naturally, cannot be an exception to this. As a member of the WTO, we have also to reduce our dependence on import duties. Various rates of import and other duties at different slabs were leviable at import stage. While presenting the budgets for the last two fiscal years, I made commitment to reduce the number of rates of import duties. I also expressed my desire in presenting the budget of the last fiscal year, of reducing the number of customs duties from the existing four and also to significantly bring down the number of existing supplementary duties. In fulfillment of that commitment, I now propose to bring the existing four-tier customs duties to three as well as to lower the highest of such rates. The existing four-tier duty rates are 7.5%, 15%, 22.5% and 30%. I now propose to re-structure them to a three-tier rate of 7.5%, 15% and 25%. Similarly, the existing seven rates of supplementary duties leviable on imports of general nature are 15%, 25%, 30%, 40%, 50%, 60% and 75%. I propose to rationalize and bring them down to 15%, 25%, and 30%. However, in consideration of the socio-economic realities and the

harmful effects of certain items on health and environment, I would propose to retain the existing high rates of supplementary duties, and in a few cases to slightly enhance them.

**Mr. Speaker,**

18. The list of importable articles now contains a variety of items numbering 6,799. After re-structuring the rates of customs duty and bringing them down to three from the existing four, the number of zero-rated items would be 519 in place of the existing 541. Likewise, the number of items at 7.5% would be 1510 in place of the present 1,431, and at 15%, 1,879 in place of 1,305. With the abolition of 22.5% as a duty-rate, the items numbering a total of 1117 previously falling within this rate, have now found their places in any of the three re-structured rates. With the items numbering 2405 under the existing rate of 30% now falling under the proposed 25% rate and another 569 items brought from other rates, the total number of items under 25% would stand at 2,891. As a consequence of this re-structuring of rates from four to three and based on the present import value, the estimated gains in revenue would be around Taka 325 crore and the estimated loss would be around Taka 1,100 crore. The estimated net revenue loss would consequently be to the tune of Taka 775 crore (Annexe-`B'). But, then, gains in revenue in nominal terms from import as a result of inflation, normal growth and re-structuring of duty rates is estimated to be around taka 2,000 crore. Administrative improvements resulting from the use of Information Technology in the management of bonded warehouse system is expected to yield an additional revenue of taka 300 crore. Besides, additional amount of revenue estimated at around taka 1028 crore is expected in consequence of re-structuring of duties, improvement in management, speeding up clearance of goods from customs through a wider use of computer technology and over-all administrative improvements. As a result, it would be possible to achieve the revenue target for the fiscal year 2004-2005 fixed at Taka 16,008 crores.

**Mr. Speaker,**

19. Prices of both crude and refined petroleum have registered a significant rise in the international market. The government is very careful to avoid its adverse impact. With this end in view, we have kept the assessable

value of one barrel of crude oil unchanged and fixed at US\$ 18.30, despite the same being priced at over US\$ 40 in the international market. In addition to this, I now propose to withdraw the existing Advance Income Tax (AIT) from all types of petroleum as well as to reduce the existing supplementary duty on Kerosene from 25% to 15%. As a result, tax burden on crude oil, Kerosene and all other fuel oil will be reduced by 9%, 25% and 10%, respectively.

20. Considering the importance of the textile sector in the national economy, our government has all along been providing necessary assistance to this sector. In continuation of this and in addition to the facilities already provided, I propose to reduce the existing rates of duty on most of the raw materials and essential machinery and spares needed by this industry (Annexe- 'B').

**Mr. Speaker,**

21. The country is now witnessing a very welcome expansion of dairy and poultry farming, in fact agriculture in general, as a result of timely steps taken for their development and expansion by our government soon after it came to power. In order to provide the sector a further boost, I propose to withdraw customs duty and value added tax on most of the capital machinery needed for this sector (Annexe -'B').

22. In order to ensure supply of electricity to far-flung and inaccessible rural areas at a relatively cheaper cost through generation of solar energy, I propose to withdraw customs duty and value added tax leviable on the machinery, parts and components needed for this sector. Private entrepreneurs, I hope, will come forward to take advantage of this and will contribute towards making electricity available to rural areas at a cheaper cost (Annexe -'B').

**Mr. Speaker,**

23. The country does not practically have any high quality referral hospital of international standard. Many of our citizens are compelled to go abroad for the treatment of life-threatening diseases, although the same is often extremely expensive. Despite our having highly qualified, efficient and

experienced physicians and doctors, sophisticated and high-quality treatment of patients is not available in the country for the sheer lack of quality hospitals. I, therefore, propose to withdraw customs duty on medical and hospital equipment and accessories. I also propose to withdraw all types of taxes and duties on certain life-support systems used in such hospitals. Entrepreneurs, I hope, will come forward to take advantage of this opportunity to establish quality hospitals of international standard to provide good-quality treatment of diseases inside the country.

**Mr. Speaker,**

24. I would now place before this August Parliament a few of the important proposals relating to customs and supplementary duties –

(a) The demand for sugar as a consumer item is quite big. Besides, it is needed as an essential ingredient in the production of biscuits, chocolates, soft drinks, condensed milk etc. In order, therefore, to make sugar available for the production of those items, as also to ensure its supply to the people in general, at a reasonable price, the supplementary duty on this item be reduced from 30% to 15%;

(b) The present rate of duty on mobile phones is Taka 3,000/- and Taka 4,000/- per set, depending on the price of such set. This duty is proposed to be reduced to Taka 1,500/- (Taka one thousand and five hundred) only per set irrespective of its price;

(c) About 80% of the papers imported in the country is now subjected to duty at the rate of 30% and the rest at a slightly lower rate. Both these rates are proposed to be unified and re-fixed at 25% across the board; and

(d) The highest rate of customs duty having been reduced and the supplementary duty rates undergoing re-structuring, it has become imperative to rationalise duty on motor cars and jeeps. Supplementary Duty on motor cars and jeeps is, therefore, proposed to be re-fixed at 30% in place of the existing 15% on those having cylinder capacity up to 1649. For those having cylinder capacity above 1649 but not exceeding 3,000, it is proposed to be enhanced to 60% from the

existing 40%, and for those having a cylinder capacity over 3000 it is proposed to be raised to 90% from the existing 75%.

**Mr. Speaker,**

25. I have been putting emphasis, since taking charge of the Ministry of Finance, on the use of Information Technology (IT) as a means of bringing about efficiency, transparency and dynamism in Customs Administration. I made a mention, while presenting the budget for the fiscal year 2002-2003, of the project undertaken by the National Board of Revenue (NBR), to expedite and simplify assessment and clearance of consignments of import and export through the application of Information Technology. Assessment and Clearance of goods for home consumption and bonded facility as well as the major Custom Houses and stations of the country is being done through computer under ASYCUDA (Automated System for Customs Data) system innovated by UNCTAD. The opportunities for evasion of duty on imports and through the abuse of bonded warehouse facilities have thus been significantly cut down as a result of closer monitoring and examination made possible through computerisation. The time for release of goods from customs has therefore been greatly reduced. The National Board of Revenue has already started storing and sending flawless information on import and export to Bangladesh Bank, Export Promotion Bureau, the Bureau of Statistics and other related organisations.

## VALUE ADDED TAX AND SUPPLEMENTARY DUTY

**Mr. Speaker,**

26. The Value Added Tax System was introduced in 1991. To begin with, it was limited only to import and manufacturing stages. Services, supplies and retail sales were brought under the VAT system in phases. As a result, the contribution of VAT to the national revenue earning has gradually been increasing.

**Mr. Speaker,**

27. The Revenue Reforms Commission and various organizations recommended that the VAT system be expanded. Taking their recommendations and the prevailing reality into consideration, I propose to impose VAT on the services rendered by Amusement and Theme Parks, Picnic Spots, House Cleaning and Maintenance Agencies, Lease-Financing Institutions, Express Mail Service Providers, Film Distributors, Commercial Building and Apartment Builders, upper grade Tailoring Shops of Dhaka and Chittagong. Holding various social events and the serving of food in the community centres has become very popular in the country. If such events are held in hotels, VAT is leviable but if held in a community centre there is no VAT. To remove this discrepancy, I propose to impose VAT also on food served in community centres. The list of goods and services on which VAT is proposed to be imposed appears at (Annexe-'C').

**Mr. Speaker,**

28. The existing rates of supplementary duty on cigarettes are very high. The present government discourages smoking. With a view to discourage smoking, as well as to increase revenue collection, I therefore propose to restructure the rates of supplementary duty on cigarettes. (Annexe- `C')

**Mr. Speaker,**

29. Value Added Tax levied on insurance premiums and shipping bills of 100% export-oriented ready-made garments industries, as well as on commission paid to the Clearing and Forwarding Agents by such industries is refunded. It takes a long time to get the refund. I therefore propose to withdraw collection of VAT from insurance, shipping bill and C&F agent's commission relating to 100% export-oriented industries including ready-made garments industries at source.

30. To encourage payment of VAT, I propose to introduce rewards for the highest VAT paying businesses and establishments of each of the district.

**Mr. Speaker,**

31. At present, the Spinning and Weaving Industries are under Excise Duty. I propose to bring them under VAT and, at the same time, withdraw Excise Duty leviable on their products. Along with this I propose to bring the existing Domestic Air Ticket Tax under Excise.

**Mr. Speaker,**

32. To streamline the Value Added Tax system, I propose to impose VAT on certain products at import and/or manufacturing stages while I propose to withdraw VAT from certain products at manufacturing stage. Besides, I propose to levy Supplementary Duty on certain products at import and manufacturing stages. The proposals appear at (Annexe-`C').

**Mr. Speaker,**

33. With a view to making the VAT administration more dynamic & coherent and also to make VAT laws, rules and procedure easy to comply and enforce, proposals for amendments of VAT Act and the rules have been incorporated in the Finance Bill. In order to make the system and procedure for payment of VAT comfortable for the tax payers' and also to provide them with better services, a Large Tax Payers Unit, similar to the one in Income Tax department, will be set-up for VAT as well.

**Mr. Speaker,**

34. To give effect to the proposals I have made so far relating to Income Tax, Customs Duty, Supplementary Duty and Value added Tax, a number of provisions of the Income Tax Ordinance, 1984, the Customs Act, 1969, the Value Added Tax Act, 1991 and the Travel Tax Act, 2003, and also the Rules framed thereunder need amendment. To that end, I am going to place before this Parliament the Finance Bill, 2004, following my speech. Besides, a number of Statutory Notifications will be issued to make the proposals effective. The list of such notifications appears at Annexe-`C'.

**Mr. Speaker,**

35. I have so far spoken about the proposals, the steps to be taken and the procedures followed for the collection of revenues during the fiscal year 2004-2005. Now I intend to present, in brief, an overall significance of the proposals.

36. For the FY 2003-2004, we set a revenue target of 27,750 crore taka for Income Tax, Value Added Tax (VAT), Customs Duty and Other Taxes. As mentioned before, global instability and non-economic internal impediments have adversely affected the overall revenue collection of the country. Even then, the revenue collection in the fiscal year 2003-2004 will be about 17% more than that of fiscal year 2002-2003. The total tax revenue target set for the next fiscal year 2004-2005 is 32,190 crore taka. Compared to the expected collection of revenue during 2003-2004, the target for 2004-2005 shows a growth of 19%. This is certainly a challenging target.

**Mr. Speaker,**

37. I have already mentioned, in the budget proposals, about the efforts that we made to increase the flow of internal resources. In the next fiscal year, internal resources will account for 53% of the total outlay of the Annual Development Programme (ADP). In future, we have to increase the proportion of our domestic resources in development financing in fulfillment of our election pledge to accelerate economic development. We have to implement the PRSP programme for poverty alleviation, develop human resources and increase efficiency in macro economic management for attaining Millennium Development Goal. Special care has been taken to ensure unhindered growth of agriculture and industry. While redu