



MINISTRY OF FINANCE

**BUDGET**

**2007-08**

**BUDGET SPEECH**

**DR. A.B. MIRZA MD. AZIZUL ISLAM**

**ADVISER**

**MINISTRY OF FINANCE**

**DHAKA**

24 Jaisthya 1414  
07 June 2007

## **Bismillahir Rahmanir Rahim**

### **Fellow Citizens**

#### **Assalam-O- Alaikum**

1. At this critical juncture in the history of Bangladesh, I appear before you as Advisor for Finance of the Non-party Caretaker Government in order to present the supplementary budget for FY 2006-07 and the budget proposals for FY 2007-08.
2. You are well aware of the circumstances under which the present Caretaker Government assumed the responsibility of running the administration of the country on 11 January 2007. Since then our patriotic armed forces and other law enforcing agencies, supported by all sections of population have achieved remarkable progress in improving law and order situation and in anti-corruption drive. However, we have to confront manifold challenges. I would like to focus on the economic front where the challenges include maintaining macroeconomic stability, accelerating economic growth, keeping inflation within tolerable limits, removing constraints to private sector-led growth, reduction of poverty, ensuring regional and income equity and ensuring food security.

### **Economic Scenario**

#### **Global Perspective**

##### **Fellow Citizens**

3. Never was Bangladesh's economy as closely integrated with the global economy as it is now. This integration is becoming deeper with the passage of time. Therefore, our overall development strategy should be formulated bearing in mind any possible direct or indirect external shocks.
4. Despite oil price hike, the world economy posted 5.4 percent growth in 2006. The forecast is that there will be slight deceleration to 4.9 percent in 2007 and 2008. Accelerated economic growth in China and India and increased domestic demand in several low income countries have propelled this growth.

5. At the same time, South Asian countries are facing inflationary pressures due to oil price hike, increase in price of essential commodities including agricultural produce and higher domestic demand. In the second quarter of the current fiscal year, the inflation rates in India, Pakistan and Sri Lanka were 6.9 percent, 8.1 percent and 19.3 percent respectively. In this context, 6.9 percent inflation in Bangladesh is not abnormal.

**Country Perspective:**

**Fellow Citizens**

6. We already lost three valuable months from our economic calendar due to chaotic political conditions in the country. The price of essential imported commodities, including oil, has gone up in the international market. Despite all these negative factors, the resilience of the economy remained intact.

7. Propelled by higher growth in industrial and service sectors, albeit with sluggish growth in agriculture, the overall economic growth in FY 2006-07 has been estimated at 6.5 percent. This trend in growth is expected to be maintained in medium term due to ongoing implementation of economic reform programmes. The growth rate for FY 2007-08 has been projected at 7 percent.

**Fellow Citizens**

8. Over the past few years there has been persistent price hike of a number of essential commodities which caused higher inflation. In March 2007, the average inflation stood at 6.9 percent and, on a point to point basis, at 7.4 percent. We are well aware of the impact of inflation that you are persistently experiencing. Since supply of most of these commodities is import-dependent and the price of such commodities soared up international market, the Government could not put a rein on the price rise despite its best efforts. However, we are continuing our sincere endeavour to contain the trend.

9. Concerns have been expressed from some quarters about the possible aggravation in price situation arising from the recent increase of diesel price by 21 percent. However, the weight of sectors affected by diesel including transportation, in our commodity basket is low. It is, therefore,

expected that average inflation will hover around 7 percent up to June 2007 and it will settle down to 6.5 percent in next fiscal year.

### **Fellow Citizens**

10. We have to increase pro-poor development expenditure. In order to do so, there is no option other than to strengthen domestic resource mobilisation efforts. Our revenue to GDP ratio is low compared to most countries of the world; even lower than that of the other countries of South Asia. The ratio not only remained stagnant over the past few years, but it slid downwards, albeit by a few basis points. In recent times, budget deficit has been low, the implementation of the Annual Development Programme (ADP) fell short by about 20 percent due to inadequacy of resources and implementation capacity. Besides, the budgets suffered from lack of transparency due to large block allocations, regional allocation of resources was inequitable.

11. We have pursued a cautious and restrained monetary policy to contain excessive aggregate demand without compromising growth acceleration. The credit expansion to the private sector remains at a satisfactory level.

12. In order to maintain overall macroeconomic stability, avoid adverse impact on private sector and to keep accumulated debt burden at a sustainable level, borrowing from domestic sources including banking system over the last few years was kept in the region of 2 percent of GDP. Although mobilisation of internal and foreign resources could not reach desired levels, we are continuing our efforts to keep borrowing from domestic sources within the limit of 2 percent of GDP.

### **Fellow Citizens**

13. In the current fiscal year, the performance of our external sector has been impressive. Driven by high export and remittance growth, the foreign exchange reserve has crossed US\$ 4 billion mark. Export and remittance grew by 20 percent and 26 percent respectively. It is expected that the export earnings during the current fiscal year will increase to US\$12.5 billion while the remittance flow is expected to reach US\$ 6 billion. Although import was slightly depressed in February, it has been increasing

since March and it is expected that import will increase by 20 percent during the current fiscal year.

14. Let me mention here that 65 percent of our imports are investment-related commodities which play a positive role in accelerating economic growth. Exports of Bangladesh are still dependent on Readymade (RMG) sector. We have to reduce such overwhelming dependence on RMG by adopting measures to diversify our exports.

### **Building a Favourable Macro-economic Environment**

#### **Fellow Citizens**

15. Experience shows that competitive business environment and macro-economic stability accelerate pro-poor growth. Macro-economic stability requires a balance in external trade, a sustainable budget deficit and stable price-level. To ensure all these fundamentals, we need to adopt a prudent and a well-coordinated fiscal and monetary policy along with strong support from the external sector and the capital market.

16. In recent years, despite stable macro-economic environment, the private investment and FDI could not reach the expected level for a variety of reasons. Among these are:

- underdeveloped financial sector
- liquidity problems of the lending banks in the face of differential between international fuel price and administered price
- inadequate and irregular supply of electricity and gas
- the colossal loss of Power Development Board (PDB) due to sale of electricity at a rate lower than the production cost and the resultant problem in paying bills to private sector producers
- widespread irregularities and deterioration in law and order situation
- inordinately long turnaround time of ships in Chittagong and Mongla ports coupled with administrative weakness lack of capacity in handling large volumes of merchandise.

We are taking appropriate steps to remove these constraints through specific work-plans.

## **Governance and Reforms**

### **Fellow Citizens**

#### **Inflation**

17. Unbridled inflation not only hurts the people, it also undermines the economic stability and discourages investment. It deters growth and the poor are worst hit. Also it widens income inequality. We are endeavouring our best to rein inflation. Import duty of a number of essential commodities including rice and wheat, has been already withdrawn. Bangladesh Bank has given directives to the commercial banks to provide credit facilities on softer terms to new importers. We are continuing our efforts to make the markets of agricultural products more competitive. The small number of wholesale markets in Dhaka is not conducive to smooth functioning of markets. The Government has, therefore, taken initiative to establish four whole-sale markets in the four corners of the city.

18. Currently, the National Task Force and the Task Forces at district and upazilla level comprising of government and non-government representatives are regularly reviewing prices of essential commodities. An inter-ministerial monitoring committee consisting of representatives from different ministries and agencies is engaged in analysing the price situation of essential commodities and making recommendations. These efforts will continue in the next fiscal year as well. We will strengthen Dal-Bhat programme under implementation by BDR to mitigate the sufferings of general consumers, particularly the poor. A legal framework will soon be in place to protect the consumers' rights. A number of commodities will be imported by the Government to increase their supply in the market. Import of rice and wheat will be doubled. There will be additions to Social Safety Net Programmes, incorporating widening of the coverage and the amount of individual grants I have proposed a significant increase in allocation for research and other activities in agricultural sector to increase agricultural productivity.

## **Financial sector**

### **Fellow Citizens**

19. In order to strengthen financial sector, three NCBs have been converted into public limited companies. This will enable the NCBs to operate like private commercial banks. The Banking Companies Act, 1991 is being amended to infuse dynamism in the activities of the banking companies, improve loan administration and strengthen Bangladesh Bank's supervisory role. To prevent illegal money transfer and *hundi* business, the Money Laundering Prevention Act is being made more comprehensive and foolproof.

20. The capital market in Bangladesh is gradually being widened and deepened. The remarkable increase of market capitalisation as well as daily turnover is attracting foreign and local investors. Following the listing of SoEs in the stock exchange, supply of securities in the capital market has increased and opportunity for investment in the capital market has become wider. In the next fiscal year, the shares of a number of SoEs will be off-loaded in the capital market. The capital market will become deeper following the listing of SoEs under power, telecommunication and energy sectors.

## **Trade Sector**

### **Fellow Citizens**

21. In order to make the private sector more dynamic and competitive, steps have been taken to continue the tariff advantage for the import of most capital machinery. Overall tariff rates have been scaled down. Stock related laws are being amended. Besides, reforms in insurance laws relating to the supervision of insurance business, protection of interest of the policy holders and expansion of insurance industry are underway.

22. I propose to retain the existing export subsidy structure. We have already released a total of Taka 800 crore allocated for this purpose. There are still arrears payable to the tune of Taka 432 crore. These huge arrears are the result of accumulated shortfalls in allocation in the previous years. I propose to allocate a total of Taka 1 thousand and 100 crore for payment of subsidies in FY 2007-08.

23. However, we should bear in mind that subsidies for an indefinite period encourage inefficiency, compel the efficient sector to shoulder the burden of additional tax and dissipate the resources which could be otherwise channelled to important sectors of the economy. Subsidy cannot continue for ever in any sector. Therefore, there is no alternative to enhancing efficiency to stay in competition in the international arena.

## **SoEs Sector**

### **Fellow Citizens**

24. In the past, the pricing of commodities and services produced in the SoEs sector, in particular, oil, electricity and gas, has been unrealistic. The sale price of oil and electricity remained far below the production cost or purchase price. In consequence, BPC and PDB had to incur huge loss. Eventually, the Government had to take over the burden of accumulated liabilities. These financial liabilities were not reflected in budget in the past. As a result, the public at large used to remain unaware of the negative effect of these quasi-fiscal costs (hidden costs) on the economy.

25. In order to make the quasi-fiscal costs transparent, a total of Taka 1 thousand 500 crore has been allocated in the revised budget of current fiscal year. In the next fiscal year, the government is going to assume the liabilities of BPC to the tune of Taka 7 thousand 523 crore. A provision of Taka 300 crore has been made in the budget of next fiscal year to meet the likely deficit of PDB.

26. It is essential to reduce transaction costs to stay competitive in the international trade. Taking this consideration into account, a range of reform measures have been taken to transform Chittagong Port into an efficient and modern sea port. These have led to reduction of average turnaround of ships from 9 days to 4 days. The shipping costs of consignments have been reduced by 20 percent. Overall, the efficiency level of the port has increased by 40 percent and the costs have been reduced by 30 percent. The construction of New Mooring Container Terminal is on way to completion. A decision has been taken to operate this terminal entirely through private management. The technical and financial feasibility studies of the proposals for building a deep sea port have been completed.

## **Fellow Citizens**

27. The Mongla Port is critical to economic dynamism in the southwestern part of the country. Unfortunately due to prolonged mismanagement and lack of initiative, its effectiveness has declined. You will be happy to note that following our recent initiatives, fertiliser import through the Mongla port has resumed after a lapse of eight years. The handling cost has fallen by 15 percent. Over 10 acres of landed property have been freed from illegal occupants. The dredging operation to increase navigability has begun. Required reforms and development programmes will be undertaken to enhance the capacity of the port.

28. Alongside the development of sea ports, we have also taken steps to make our land ports more effective. The Government has already concluded agreements to transfer six land ports to the private sector. Two of such land ports have been made fully operational on a Build, Own and Transfer (BOT) basis.

29. Due to management inefficiency, Bangladesh Biman, the national flag carrier of the country, continues to be laden with loss. Financial and management restructuring is underway to improve its efficiency. Meanwhile, a decision has been taken to convert Bangladesh Biman into a public limited company. It is expected that Bangladesh Biman will soon emerge as an efficient organisation.

30. Land in our country is very limited and a precious resource. But there is endless delay and harassment surrounding land registration process. There are innumerable land-related suits as well. A new law collating various laws is being framed. Land records are being computerised, directives have issued to reform land registration system.

## **Industrial Sector**

### **Fellow Citizens**

31. In a populous country like ours, it is extremely essential to stimulate labour-intensive small and medium enterprises (SMEs) requiring less capital. However, the growth of this sector is sluggish due to constraints in access to finance. A decision has been taken to establish an SME Foundation under the Ministry of Industry as a new initiative. An endowment allocation of Taka 100 crore has been proposed in the budget

for FY 2007-08 for this Foundation. Bangladesh Small and Cottage Industries Corporation (BSCIC) has also taken initiatives to create a Trust Fund for providing industrial loans to which the Government will allocate Taka 23 crore.

32. The existing Equity Entrepreneurship Fund (EEF) has been split into two funds, namely, Agriculture Equity Entrepreneurship Fund and IT Equity Entrepreneurship Fund and an allocation of Taka 100 crore for each fund has been proposed. Apart from the proposed Agriculture Equity Entrepreneurship Fund, credit support to the tune of Taka 150 crore has been proposed for development of agro-based industries. The proposed credit will be channeled through Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, BASIC Bank and Karma Sangsthan Bank.

### **Law and Order and Legal Framework**

#### **Fellow Citizens**

33. An effective legal system is of paramount importance in infusing dynamism in a sound and competitive market economy. You have noticed that the effectiveness of the legal system, like other branches of the executive organ, suffered serious degradation. The joint forces led by the armed forces have been able to rapidly restore law and order in the country.

34. The Caretaker Government has taken toughest stance against corruption. The Anti-corruption Commission has been reconstituted. And the reconstituted Commission has started a fresh journey. This is for the first time in the history of Bangladesh that we have taken initiatives to bring back the money illegally transferred to foreign countries. Already a total of about Taka 350 crore has been brought back and deposited into Government exchequer. The Government has accomplished a long awaited task of signing the UN Convention against Corruption. I sincerely believe that the shameful image of Bangladesh arising from corruption will be wiped out soon.

#### **Fellow Citizens**

35. We have taken steps to constitute an independent prosecution service within the legal system. In order to enhance the capacity of the legal and judicial system, special programmes have been taken up. A number of

infrastructural development activities are in progress. We have started developing Computerised Case Management Information System (CMIS) in courts.

36. We have also taken steps to carry out extensive reforms in the police forces. Counter Intelligence Teams are being constituted to combat corruption within the police force. Action is underway to upgrade existing 12 thanas into model Police stations to prevent crimes in Dhaka. Service delivery centres have been set up in model and metropolitan police stations to enhance the quality of police service. Women and Victim Support Centres have been established in Dhaka Metropolis. Steps have been taken to enhance the efficiency of Bangladesh Rifles by introducing special allowances and rewards for border forces and also by increasing the number of check posts.

## **Budget Management Reforms**

### **Fellow Citizens**

37. The proposed budget has been prepared within the framework of our national poverty reduction strategy, 'Unlocking the Potential: National Strategy for Accelerated Poverty Reduction' (NSAPR). Meanwhile, the duration of the strategy (2004-2007) has been extended to June 2008. The preparation of the next strategy paper has already begun. The NSAPR is being operationalised through budget process.

38. Fourteen ministries including the ministries of health, education and agriculture have been brought under the coverage of Medium Term Budget Framework (MTBF). All ministries will be brought under MTBF coverage in phases. The ministries will enjoy increased autonomy in respect of allocation and uses of resources. This will reduce inordinate delays, indecisions and inefficiency. However, successful implementation of these reforms warrants enhanced capacity of the line ministries and change in outlook and attitude. We are moving towards these ends.

### **Transparency in Public Expenditure**

#### **Fellow Citizens**

39. The desired outcome from budget allocation can only be expected if the budget is implemented properly. To ensure speedy implementation of

projects, specific directives have been given regarding appointment of project directors. The Secretaries' Committee has been asked to identify procedural bottlenecks in project implementation and come up with recommendations to address them within two months. All ministries have been instructed to take preparation in advance with respect to tendering and procurement.

40. Continuous monitoring and evaluation is required to enhance economy, efficiency and effectiveness in public spending. A guideline has been prepared for the line ministries to enable them to introduce internal audit/survey to enhance expenditure effectiveness and sufficient allocations have been provided to implement the guideline.

41. In order to make our resource utilisation target-oriented, we have started the process of reducing the number of projects and selecting only the pro-poor and growth enhancing projects for allocation of resources. In the Development budget of FY 2006-07, the block allocations accounted for 16 percent of total allocation. In the proposed Development Budget, this has been reduced to 5 percent. Directives have been given to post the list of priority projects in the IMED website along with information relating to resource allocation and utilisation by sectors and geographical divisions. The budget implementation reports of MTBF ministries will also be posted in the Finance Division website to make them transparent. At the same time, provision will be made in the Finance Division website [www.mof.gov.bd](http://www.mof.gov.bd) to receive opinions from all quarters.

### **Public Debt Management**

42. Since independence, all our budgets had deficits and the successive governments had to borrow to finance the deficits. It is extremely essential to keep the accumulated debt liability at a sustainable level in order to maintain fiscal discipline and macro-economic stability. More emphasis would be laid on financing through medium and long-term marketable securities like medium-term and long-term treasury bonds. As part of our endeavour to make the participation of the institutional buyers in treasury bond markets easier, amendment to the guidelines for provident funds, insurance funds and the like is on the card.

### **Fellow Citizens**

43. I would like to share with you a very encouraging piece of information. Recently, the World Bank in its report titled "Ease of Doing Business" ranked Bangladesh above India and Vietnam in the list of countries where conducive environment exists for doing business. I would like to mention unequivocally that Bangladesh's position will go further up once the reforms just outlined are successfully implemented. Investment by both foreign and local investors would become much easier.

### **Implementation of Budget for FY 2006-07**

#### **Fellow Citizens**

44. Now I would like to reflect on the implementation of current year's budget. In FY 2006-07, while the revenue growth was estimated at 21 percent, up to April 2007, the actual growth stood at only 9 percent. The resources from external sources also did not flow in as expected. We have, therefore, made a downward revision of our ADP from Taka 26 thousand crore to Taka 21 thousand 6 hundred crore. The estimate of total revenue receipts has been reduced from Taka 52 thousand 542 crore to Taka 49 thousand 472 crore. To the contrary, the estimated non-development expenditure has gone up by Taka 2 thousand 218 crore to Taka 44 thousand 504 crore from Taka 42 thousand 286 crore.

45. The excess over estimated expenditure is attributable to additional allocation of Taka 1 thousand 517 crore on account of interest payments, Taka 480 crore for settlement of arrear electricity bills and Taka 350 crore to the Power Development Board (PDB) as credit to meet its liquidity crisis. The total estimated expenditure under revised budget now stands at 14.3 percent of GDP. Thus the budget deficit would remain at 3.7 percent of GDP as per the original estimate. 1.6 percent of the budget deficit will be financed from foreign sources and the remaining 2.1 percent from domestic sources.

## **Coming Budget: A Roadmap for Growth and Poverty Alleviation.**

### **Overall Framework**

#### **Fellow Citizens**

46. May I now give some highlights of the overall framework of the budget for FY 2007-08. The next year's budget has been prepared within a medium term macroeconomic framework (MTMF). The underlying assumptions of this framework are: in the coming fiscal year GDP will grow by 7 percent and this trend will continue in the medium term; the annual inflation will come down from 7 percent to 6.5 percent and in the medium term this will fall further gradually due to adoption of consistent and cautious fiscal and monetary policy. There will be no destabilizing external and internal shocks. There will be much wider expansion of both tax and non-tax revenue base. By implementing more efficient revenue administration, revenue receipts will be augmented.

47. Considering all these, the total revenue receipt for the coming fiscal year has been estimated at Taka 57 thousand 301 crore which is 10.8 percent of GDP. Of this, revenue receipts from NBR source will amount to Taka 43 thousand 850 crore (8.3 percent of GDP) while those from non-NBR and non-tax sources will amount to Taka 13 thousand 451 crore (2.5 percent of GDP). On the expenditure side, the size of ADP has been determined at Taka 26 thousand 500 crore (5 percent of GDP) while the total expenditure has been estimated at Taka 79 thousand 614 crore (15 percent of GDP).

48. The budget deficit is likely to be 4.2 percent of GDP, 2 percent will be financed from external sources, while the rest will be financed from domestic sources. I propose an assumption of liability of Taka 7 thousand 523 crore arising from accumulated loss of BPC in the budget. This will increase the total expenditure to Taka 87 thousand 137 crore implying a budget deficit of 5.6 percent of GDP and financing from domestic sources will increase to 3.6 percent of GDP. However, let me assure you that this will not create any immediate additional fiscal liabilities and will not exert any negative impact on private sector credit or on the overall economy. However, the Government will incur additional liabilities in future years for principal and interest payments.

49. Consistent with our development goals, 34.4 percent of total budget has been allocated for physical infrastructure development, 34.3 percent for social infrastructure, 19.3 percent for public administration and the rest for interest payments of public debt and net lending.

50. 57 percent of total budget, non-development and development combined, will be spent on programmes directly or indirectly relating to poverty reduction. 10.6 percent of the total budget will be spent for social empowerment and safety net programmes.

### **Annual Development Programme: Priorities and Expenditure Framework**

#### **Fellow Citizens**

51. We have moved away from traditional concept of ADP formulation and determined allocations taking into account national priorities, regional parity and availability of resources. Overall, agriculture (agriculture, rural development and water resources) sector will be receiving 23 percent of total allocation; while for power and energy the allocation is 16 percent and for education sector 14 percent. In the case of health and transport sectors, each will be receiving 12 percent and 10 percent of allocation respectively. To bring a balanced development among the regions, allocation has been enhanced by 35 percent for the projects being implemented in Rajshahi, Khulna and Barisal Divisions.

52. Development assistance for local government institutions including Chittagong Hill Tracts has been increased by Taka 150 crore to Taka 987 crore. Allocation of resources has been ensured for the projects nearing completion. Emphasis has been laid on speedier and qualitative implementation of projects by reducing their number. At this stage, I would like to mention that in addition to ADP, 23.3 percent of non-development budget is spent for purposes which are developmental in nature.

53. Faster economic growth is required for achieving UN-declared MDGs. This warrants further creation of employment opportunities, removal of infrastructural constraints, improvement of law and order situation, establishment of fiscal discipline, unfettered development of private sector, human resources development, social sector investment,

further widening of social safety net and strengthening of financial management. I would now like to reflect on the resource allocation among the priority sectors in the proposed budget.

## **Human Resource Development**

### **Fellow Citizens**

54. Human resource is the foundation stone for building social infrastructure. Education and health are the main vehicles for human resource development. It is not possible to bring about accelerated and sustained development without competent human resources. I propose an allocation of Taka 19 thousand 7 hundred and 1 crore for human resources development which is 25 percent of the total budget. Of this 15.2 percent is allocated for education and 6.9 percent for health sectors.

### **Education Sector**

#### **Fellow Citizens**

55. In the present day world, the development of a country is dependent on its well-groomed workforce trained in modern technology. To this end, the Government has taken up a new initiative for research and investment in higher education. The Government will provide financial assistance to the faculties of physical science, life science and mathematical science of any public or private university in the country if they can publish at least three research papers in recognised and well-reputed journals and also can organise an international seminar in a year. The proposed assistance will be provided following a purely competitive process based on specific research proposals. An allocation of Taka 10 crore has been made in the next year's budget as education research grant.

56. We have already removed gender disparity at the primary and secondary levels of education. None of the countries in South Asia except Sri Lanka has achieved this milestone. The present Government has prepared a National Work Plan for universal primary education. Special initiatives have been taken to ensure distribution of books and stationeries free of cost to the extremely poor and in remote regions of the country. In FY 2007-08, about 15 thousand primary teachers will be recruited of which 60 percent will be females. This will bring the current student-

teacher ratio of 55:1 down to 46:1. 55 lakh primary students will be given monthly stipend at the rate of Taka 100. Actions are underway to bring back dropouts in 11 thousand teaching centres. In the next fiscal year, 10 thousand teachers will be trained. As many as 18 thousand 186 classrooms will be built. 6.5 lakh persons from among those who have attained literacy through mass education programme will be provided with income generating training through continuous education within the next fiscal year. Mosque and temple-based child and mass education will be strengthened.

57. Alongside the secondary female stipend programme, the Government is also introducing stipend programme for the poor male students. 63 percent of the non-government budget allocation of the Ministry of Education is spent for salary subventions of the teachers and staff of non-government educational institutions. In the revised budget of the current fiscal year there is an allocation of Taka 3 thousand 13 crore for this purpose. In order to make this huge spending cost effective, the allocation against each institution will be linked with performance. An Independent Inspection Body will undertake performance evaluation. Steps are being taken to provide special training for the teachers. Emphasis has been laid on English language and vocational education. Information and statistics on education are being enriched.

### **Health Sector**

#### **Fellow Citizens**

58. Efforts aimed at for human resource development cannot succeed without concurrent development in health sector. The Government is taking steps to put in place improved hospital management system for enhancement of quality of health services. However, one of the strategies in this case would be to ensure increased involvement of the private sector at different levels of health services. The areas where private sector is more efficient will be contracted out on management contract basis. Alongside the steps to increase the number of nurses rapidly by setting up more nursing institutions in public sector, measures have also been taken to mobilise the support of hospitals, universities and other institutions operating in the private sector. The largest programme in the health sector is Health, Nutrition and Population Sector Programme (HPNSP).

A number of pragmatic steps have been taken to implement this sector-wide programme efficiently.

59. A decision has been taken to ensure increased involvement of NGOs in activities like population control and prevention of malnutrition and contagious diseases. Implementation of a programme on health infrastructure development is underway across the country. Institution-based project implementation has been strengthened to extend the facility of specialised health services. Monitoring has been intensified at the same time.

## **Agriculture and Rural Development**

### **Agriculture**

#### **Fellow Citizens**

60. Agriculture is central to the Bangladesh economy. In the face of increasing growth of population and shrinkage of agricultural land by 1 percent each year, we have no other choice but to increase agricultural productivity to meet the huge food demand and to contain inflation within tolerable limit. The present Government has, therefore, given priority to agricultural research. I propose an endowment allocation of Taka 350 crore for agricultural research and development.

61. Currently in Bangladesh, we produce more paddy during *boro* season which is dependent on irrigation. Although the farmers using electricity-powered pump receive 20 percent subsidy against their electricity bills, no subsidy is given for diesel-driven irrigation. Of the total 48 lakh hectares of land under irrigation, about 33 lakh hectares are irrigated through diesel-powered pumps during *boro* season. Due to recent diesel price-hike the production cost of paddy per kilogram has increased by 50 paisa. The Government is, therefore, committed to subsidise the extra cost that the farmers will have to bear on account of diesel price hike. Payment against this subsidy will only be made to cardholder farmers. In the budget for FY 2007-08, I propose an allocation of Taka 750 crore.

62. In the current fiscal year, there was an allocation of Taka 1 thousand 100 crore for agriculture subsidy which increased to Taka 1 thousand 541

crore in the revised budget. I propose to allocate Taka 1 thousand 500 crore as subsidy to fertilizer sub-sector in the budget for FY 2007-08.

## **Local Government and Rural development**

### **Fellow Citizens**

63. Agricultural credit as an input to the rural socio-economic development as well the productivity increase of agro-sector has a special significance. Investment in agriculture plays a direct role in poverty reduction. As administered interest rate of agricultural credit is low, this itself works as a financial safety net. In FY 2007-08, we have set a target to distribute Taka 6 thousand 351 crore as agricultural credit through Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank (RAKUB), four NCBs, Bangladesh Rural Development Board and Bangladesh Co-operative Bank.

### **Fisheries and Livestock**

#### **Fellow Citizens**

64. The importance of fisheries and livestock sub-sector in rural economy in meeting the demand for animal protein and generating employment opportunities can hardly be overemphasised. The Government remains focused on prevention of *jhatka* fishing and on quality control of fish and fishery-products. Immediate and emergency measures have been taken to tackle the situation arising from the attack of avian influenza virus. A special project costing Taka 20 crore has been approved in addition to the allocation made from revenue budget to ensure constant monitoring, payment of compensation and hygienic production and marketing of poultry products. I propose to allocate Taka one hundred crore to the Fund for Disaster Affected Small Farmers.

65. In order to strengthen local governance, specific steps have been taken to evolve a system to train local level public representatives, augment revenue collection by local bodies and evaluate their performance. Priority is being given to rural road communication to establish connectivity of the growth centres with national highways network. Birth registration of the whole population will be ensured by next year. A target has been set to raise supply coverage of safe drinking water to 90 percent and sanitation coverage to 100 percent in the next 3 years.

A programme has been undertaken to improve the living standards of the slum dwellers including the improvement of environment and health services. The implementation of the poverty reduction programmes in *char*, *haor* and in coastal belts is being strengthened. At the same time, special food and development assistance intended for the people of Chittagong Hill Tracts districts will continue.

## **Communication Sector**

### **Fellow Citizens**

66. Currently in Bangladesh each square kilometer has 0.70 kilometer of road. The Government has taken a number of steps to reform this sector. 3240 acres of RHD land and 300 acres of Railway land have been freed from illegal occupation. In order to separate road maintenance work from road construction, steps have been taken to promulgate a Road Maintenance Ordinance. In FY 2007-08, allocations for road maintenance and railway maintenance have been increased by 76.5 percent and 40 percent respectively. At the international level, the Government has given its consent to sign an agreement on Trans Asian Railway. Agreement has been signed with Myanmar to establish road communication between the two countries. The technical project proposal for construction of the Padma Bridge has been approved. To improve the quality of services in railway, management reforms are being strengthened aside from procurement of rolling stock, and other modern equipment.

## **Power and Energy Sector**

### **Fellow citizens**

67. Although the demand for electricity increased manifold during the past few years, generation did not increase correspondingly. In order to meet the increasing demand for electricity, we have taken up short, medium and long-term plans. To mitigate the power crisis during the summer season, we are trying to minimise frequent load shedding through load management. Policies have been formulated to buy electricity from the private sector-owned captive power plants. We have put in place separate policies for power supply in outlying regions of the country. We have set a target to generate sufficient electricity by 2010 to reach a level where there will no load-shedding. We have planned to increase power

generation over the next three years by 345 MW in the first year, 900 MW in the second year and 1 thousand and 50 MW in the third year.

68. In the past, the issue of maintenance of power plants was neglected. The Caretaker Government has taken initiatives to complete the maintenance of those power generation plants which will add 600 MW electricity to the national grid by the end of the year. Directives have been given to carry out speedy implementation of those projects which are scheduled to add electricity to the national grid by 2008/2009. The Government departments have also been instructed to observe austerity in using electricity as well. This is being regularly monitored. Following these steps, the average use of electricity in the Bangladesh Secretariat alone during February- May 2007 has declined by 21 percent compared to the same period last year.

**Fellow Citizens,**

69. The prevailing power situation of the country stems from the problems accumulated over the years. To address these problems, a range of reform programmes have been taken. Within these programmes, a number of separate entities for transmission and distribution have been created under the Companies Act, 1994. The sole authority of the Power Development Board has thus been curbed. A programme has been taken up to implement financial restructuring and recovery plan to make the entities in the power sector profitable.

70. In the current fiscal year, the Government has provided a loan amounting to Taka 350 crore to the Power Development Board to settle the outstanding bills of independent power producers (IPP). In addition, an arrear amounting to Taka 525 crore accumulated against different government and autonomous bodies as well as SOEs up to December 2006. This has been paid off during the current fiscal year. Besides, the employees of newly established companies during their service tenure in PDB earned pension and gratuities. A provision for equity to the tune of Taka 220 crore has been made for payment of those arrear pension and gratuities in the next fiscal year.

71. Due to mismatch between the domestic price and the import price of petroleum products, the loss of BPC swelled up in the past years. The accumulated outstanding loan of BPC taken from 4 NCBs stood at around

Taka 8 thousand crore. Consequently, the whole banking system was exposed to serious vulnerability. A total subsidy amounting to Taka 600 crore has been provided to BPC to maintain the flow of import of petroleum products intact. The Government has taken steps to re-fix the price of petroleum products to make it consistent as far as possible with the international price from April 2007. The Government has decided to assume the accumulated default loan of BPC as its own liability by issuing treasury bonds of equivalent amount. The issuance of treasury bonds will resolve the long-standing problems relating to BPC's loan.

72. Included among the major debtors of BPC are Bangladesh Biman, Bangladesh Power Development Board and Bangladesh Chemical Industries Corporation. Relevant guidelines have been framed to adjust the domestic price of petroleum products with the price changes in international market. A committee envisaged in the guidelines will review the price of the petroleum products from time to time and advise the government for making appropriate adjustments.

### **Information and Information Technology Sector**

73. The telecommunication system has immense importance in disseminating information as well as in disseminating technology. The tele-density per 100 persons in our country has increased from 9 in last fiscal year to 18 now. The illegal business of Voice over Internet Protocol (VOIP) has been stopped. Legal actions have been taken against those who are engaged in illegal VOIP business. The policies for bringing VOIP business under legal framework are going to be finalised soon.

74. To augment export earnings, IT products have been identified as one of the priority export products. Internship allowance is, therefore, being given to create an efficient workforce in IT sector. The ICT Incubation Centre was established to enhance the capacity of the local private sector ICT Companies. Steps have been taken to make the centre more effective. Infrastructure development work has begun to build a hi-tech park. I have already mentioned about the creation of an IT Equity Entrepreneurship Fund with Taka 100 crore. There is a plan to establish immediately a computer lab in one school of each district. A one-year post graduate course on IT has also been introduced in the universities. An allocation of Taka one thousand 899 crore, which is 2.4 percent of total budget and 12

percent higher than the revised budget, has been proposed for Information, Telecommunication and Information Technology sectors in the next fiscal year.

## **Social Empowerment and Social Safety Net**

### **Fellow Citizens**

75. Bringing in the disadvantaged community including women, children, and the disabled into the mainstream of our development is a major challenge. At this stage, I would like to present before you the recent initiatives of the Government to meet this challenge.

### **Women Development**

76. Gender sensitive budget as a concept is of a very recent origin. This helps ensure transparency and accountability concerning the share for women in development expenditure. Bangladesh is one the few countries which are working on the modalities of gender sensitive budgeting. Meanwhile, as part of ongoing budget reforms, we have triggered an activity for preparation of pro-poor and gender budgeting along with MTBF approach. This allows an opportunity to test poverty and gender sensitivity inherent in each of the objectives of medium-term strategic plan. Thus there would be increased visibility of the activities relating to gender parity and poverty sensitivity as a guide to budgetary allocation. Currently, direct and indirect gender equality expenditure taken together accounts for 22 percent of the total budget. In the next fiscal year, we have proposed to increase this share to 24 percent.

77. In order to reduce maternal and infant mortality, we have introduced a pilot programme titled ' Maternity Allowance for the Poor Lactating Mothers'. This will ensure safe motherhood, and better health and nutrition of hardcore poor mothers as well as safe birth and sound upbringing of infants. The expecting poor mothers will get an allowance of Taka 300 per month. Initially, 45 thousand mothers of 3 thousand unions will be brought under this programme. I propose an allocation of Taka 17 crore for this programme in the budget for next fiscal year.

78. The rate of Allowance for Widowed and Destitute Women will be enhanced from Taka 200 to Taka 220 per month while its beneficiary

coverage will be extended to 7.5 lakh from 6.5 lakh. Programmes like Vulnerable Group Development (VGD), Stipend for female students, maternity voucher scheme, community-based nutrition and vocational training for women will be extended further. In addition, we propose to allocate Taka 20 crore as micro-credit to generate employment opportunities for women, Taka 10 crore for the Fund for Acid-Burnt Women and the Disabled and Taka 25 crore for welfare of RMG workers and Taka 20 crore for their training for enhancement of efficiency. Employment opportunities for 24 thousand destitute women in 387 unions will be created under the programme titled 'Rural Employment Opportunities for Protection of Public Property'.

### **Child Development**

79. The subsistence allowance of the children of orphanages, Shishu Sadan, Shishu Paribar, Chotomoni Nibash, Safe Home has been enhanced from Taka 1 thousand to Taka 1 thousand 200 hundred. The per capita capitation grant for children in private orphanages has been increased by Taka 200. Day care centres are being established for the children of low-income families. A programme has been taken up to ensure children's right as enshrined in international convention and child laws dealing with the prosecution of juvenile delinquency and internment.

### **Freedom Fighters' Welfare**

80. Freedom fighters are the finest children of the soil. We have to be more caring about them. I propose to enhance the rates of allowance of the disabled freedom fighters at all levels by 50 percent and the rate of monthly allowance for insolvent freedom fighters from Taka 500 to Taka 600. There was an allocation of Taka 78 crore 20 lakh for this purpose in the budget of last fiscal year. With the new proposals, this allocation will increase to Taka 99 crore 50 lakh. The construction of the residential flats for freedom fighters and the Freedom Fighter Park will start soon.

### **Support to the Disabled**

81. The Government has taken up a comprehensive programme to ensure the rights of the disabled and the disadvantaged communities. Meanwhile, Bangladesh has signed the UN Charter on the Rights of the Disabled adopted in 61st regular session of the General assembly.

Implementation of a comprehensive work plan for the welfare of the disabled is underway through various ministries. I propose to allocate Taka 52 crore 80 lakh for enhancement of the rate of allowance of the disabled from Taka 200 to Taka 220 and for the expansion of beneficiary coverage from 1 lakh 66 thousand to 2 lakh. I also propose to allocate Taka 5 crore for the education of retarded children.

### **Rehabilitation of the Senior Citizens and the Uprooted People**

82. We cannot deny our social responsibility towards the poor senior citizens of the country. Bearing this in mind, I propose to enhance the existing rate of allowances for the senior citizens from Taka 200 to Taka 220 and extend the beneficiary coverage from 16 lakh to 17 lakh. The programme for construction of 15 thousand flats on khas land in Dhaka, intended to rehabilitate the uprooted people, slum dwellers and the low-income families will soon be implemented.

### **Employment Generation**

#### **Fellow Citizens**

83. Creation of increased employment opportunities is essential for social empowerment. In order to help the marginalised poor suffering from geographical and natural constraints like *monga* and river erosion, extension of existing micro-credit programmes has been proposed. I propose to allocate Taka 550 crore for employment generation in rural areas outside the ministry-based employment generation programmes in the next fiscal year. A significant portion of this allocation will be implemented by Palli Karma Shahayak Foundation (PKSF) through their associate NGOs. The total allocation against these credit programmes and funds including other rural employment generating programmes will stand at around 9 percent of the total budget. I expect that this will create employment opportunities in rural economy equivalent to 3 man-months for 95 lakh families in the next fiscal year.

### **Food Management**

#### **Fellow Citizens,**

84. Now I would like to dwell upon the food management system of the Government. The objectives of food management of the government are to maintain adequate buffer stock, to reach food grains to the distressed

populace, to keep the price of food grains at a tolerable level and to ensure fair price of food grains for farmers. You are aware of the fact that the food grains production in the country and also across the world has not reached the expected level in current year whereas the demand has increased. As a result, the price of food grains has increased relatively both at home and abroad.

85. To meet the overall food deficit, the Government has planned to import 8 lakh tons of food grains alongside the imports by private sector. In order to build an adequate buffer stock, there will be internal procurement of food grains along with imports. In the next fiscal year, the VGF programme will be implemented in an extended fashion to enhance the capacity of the marginalized section of the society whose purchasing power has been eroded due to price increase. I propose to allocate 4 lakh metric tons of rice for 50 lakh card holders across the country to provide a subsistence coverage of 8 months. Alongside this allocation, about 6 lakh metric tons of food grains will also be distributed through TR, GR, FWP and VGD programmes. In order to keep the price of food grains within the tolerable limits, the Government will go for open market operation, if necessary. I believe, successful implementation of these programmes will usher in a positive change.

## **Environment Development**

### **Fellow Citizens**

86. Bio-diversity and environmental protection are closely interlinked with sustainable economic development. Growing population, deforestation, water and industrial pollution are the main causes of environmental degradation. Following the steps taken by the Government, it has been possible to free a total of 5 thousand hectare of lands of the Forest Department from illegal occupation. These lands will be brought under afforestation programme. In order to prevent industrial pollution, establishment of Effluent Treatment Plant has been made mandatory in the case of highly polluting industrial undertakings. Steps have been taken to reduce the use of ozone layer depleting gases in phases. Efforts have been made to prepare and implement plans for waste reduction and recycling. There is an ongoing initiative to create a website and database on climate changes in the Department of Environment. Bangladesh has signed the United Nations Convention on Law of the Seas.

## **Revenue Management Reforms**

### **Fellow Citizens**

87. I have so far made my reflections on the reforms initiated by the present government and mentioned how these reforms would be implemented through the proposed budget of FY2007-08. I have also talked about macroeconomic situation, poverty reduction and growth momentum. Now I would like to highlight how the expected revenues in the proposed budget will be mobilised and how these are going to affect the overall economy and equity.

88. Bulk of our revenues is collected from imports. For a sustainable economy, this is not desirable. We have to reduce our dependence on import based revenue collection, and augment revenues from domestic sources. We also have to gradually reduce import duties on industrial raw materials and capital machinery and even on the intermediate goods to keep the price of commodities within tolerable limits. Therefore, we have to increase revenues from income tax and VAT sources. In fact, a balance between trade liberalisation and domestic industrial development is essential. We have been cognizant of the need for such balance in proposing the tax measures for FY 2007-08.

89. We are curtailing the discretionary power of the tax officials and have instructed the tax authorities to avoid discriminatory tax collection policies. Emphasis has been laid on simplification of tax assessment and payment procedures. We have also given due importance to ensuring transparency and accountability of tax department. We would like to create an atmosphere in which tax payments is viewed as a symbol of social status. One of the objectives of tax measures is to induce the tax payers to pay taxes voluntarily. Bearing in mind these objectives, I am now presenting tax related proposals for FY 2007-08.

## **Tax Proposals**

### **Income Tax**

#### **Fellow Citizens,**

90. The general aversion of the taxpayers as well as procedural complexities in paying taxes adversely affects our tax revenue collection.

We have to put an end to this situation. Let me now present proposals relating to income tax.

- 1) I propose to enhance tax-exempted income limit for individual tax payers from existing Taka 1 lakh 20 thousand to Taka 1 Lakh 50 thousand. Simultaneously, I propose that if an individual tax payer paying taxes at the highest rate of 25 percent, discloses at least 10 percent higher income in the assessment year than that of the previous assessment year, he will be allowed 10 percent tax rebate on the tax payable on that higher income.
- 2) To motivate and encourage tax payers to pay tax voluntarily, I propose legislative provision for introducing 'Universal Self-Assessment Procedures'.
- 3) In order to make income-tax law simpler and appropriate for the present times, I propose the following changes in the Income Tax Ordinance, 1984:
  - irrespective of profit or loss, minimum tax on the basis of turnover will be reduced from 0.50 percent to 0.25 percent
  - 50 percent of foreign travel expenses of company directors in excess of four travels (in place of prevailing two travels) will be deemed as income of the company directors
  - provision for deduction of tax at source on credit card bill to be abolished
  - interest on loans up to Taka 20 lakh used for self-occupied accommodation to be admitted as allowable expense
  - allowing 15 percent tax rebates for private universities and research institutions registered under Trust Law
  - abolition of provision of paying tax at a specified rate for construction of building or buying house property or flats or land or purchasing car, with undisclosed and untaxed money
  - considering 5 percent of transfer to Statutory Reserve of financial institutions as allowable expense instead of 10 percent
- 4) Mobile Phone Operator Companies' corporate tax rate would be 45 percent but the tax rate would be 35 percent if the companies

are converted as publicly traded companies and enlisted with the stock exchanges. In other cases, corporate tax rates will remain unchanged as prevailed in 2006-07.

- 5) I propose to impose tax deductible at source at the rate of Taka 1 thousand, at the time of issuance and renewal of trade licenses by City Corporations, adjustable at the time of final tax assessment.
- 6) I propose to impose tax deductible at source at the rate of 0.25 percent on all export earnings which will be considered as tax finally paid.
- 7) I propose to re-fix advance tax deduction at source by hospitals and diagnostic centres at the rate of 10 percent, instead of existing 5 percent, from the payments made to the doctors like other professionals. I propose to impose income tax deduction at the rate of 10 percent from trustee fee, and 7.5 percent from freight forwarding agency commission and 10 percent on interest from savings instruments if such interest exceeds Taka 25,000 per annum.
- 8) Pursuant to the ongoing reform initiatives, the cost of doing business has fallen significantly. Therefore, I propose to enhance tax deductible at source at the rate of 7.5 percent, instead of 5 percent, on commission income of stevedoring, C&F, non-resident courier service, marketing, insurance and general insurance surveyor.
- 9) I propose to offer tax holiday facility to solar energy plants to encourage use of alternative source of energy to mitigate the power crisis.
- 10) I propose to extend the time limit to 3 weeks from existing 1 week for depositing tax deducted at source to government exchequer and to raise the limit of income to Taka 3 lakh from existing Taka 2 lakh for payment of advance income tax.
- 11) I propose to extend tax rebate facility to the non-resident Bangladeshi investors.

- 12) As an alternative source of financing investment, I propose to exempt income generated from Zero-coupon Bond from income tax.
- 13) I propose to abolish the provision of all up front and advance tax on government bonds to create a competitive market for such bonds.

## **Import Duty**

### **Simplification of Tariff Structure**

#### **Fellow Citizens,**

91. As part of the initiative of simplifying tariff structure, and of increasing the difference of rate of duties between the finished products and intermediate products, I propose to restructure the customs duty slabs:

- Complete withdrawal of 4 percent infrastructure development surcharge
- Introduction of duty slabs at 10 percent, 15 percent and 25 percent instead of existing 5 percent, 12 percent and 25 percent
- Merger of two slabs of supplementary duty at 15 percent and 25 percent into a single slab of 20 percent
- Imposition of specific duty at the rate of Taka 20 thousand and Taka 39 thousand per ton on Base Lubricating Oil and Finished Lubricants respectively to avoid the complexities in determining the value of lubricant and to reduce litigations
- Inclusion of cement clinkers under the mandatory pre-shipment inspection system to prevent tax evasion.

### **Reducing Tariff Distortion**

#### **Fellow Citizens**

92. There are inconsistencies in the existing tariff structure. Removal of these inconsistencies is a continuous process. I propose to bring in following reforms in the existing tariff structure:

- Withdrawal of zero duty on textile machinery, computer and computer accessories
- Withdrawal of existing duty exemption on telecommunication equipment and Liquid Dielectric Transformer and to increase duties on these items to bring them at par with VOIP equipment and other transformers
- Imposition of customs duties at an equal rate of 10 percent on all pumps including those used for agricultural work, to avoid mis-declaration and misuse of duty-facilities.

### **Protection of Consumers' Interest**

#### **Fellow Citizens**

93. Despite revenue loss, I propose the following measures to keep the market price stable in respect of a range of commodities including the essential ones:

- Complete withdrawal of customs duty on crude edible oil and lentils to keep the market price tolerable
- Continuation of duty free benefit on essential commodities including rice, wheat, onion, *matar dal* and, *chola dal*
- Continuance of duty-free facility to different lifesaving drugs including insulin required for health services of the general public and to import of fertilizers for farmers
- Enhancement of customs duty from 12 percent to 25 percent on formalin and stearic acid to prevent public health hazards
- To facilitate the availability of vehicles to the general middle class, increase of the dealers' commission discount rate of used reconditioned cars from 25 percent to 30 percent.

### **Protection of Local Industries**

#### **Fellow Citizens**

94. In order to protect the local industries, I propose to rationalise the duty structure on manufactured products and raw materials. I also propose to readjust the rate of duty of some industrial raw materials:

- Reduction of customs duty on CNG driven trucks from 25 percent to 10 percent and enhancement of customs duty from 5 percent to 15 percent on CNG driven CBU bus to develop the assembling industry for CNG-driven bus
- Imposition of supplementary duty at the rate of 20 percent on metal framed furniture to develop furniture industry and withdrawal of supplementary duty on boards of all types
- Enhancement of customs duty from 5 percent to 15 percent on auto disposable syringe to encourage local production
- Imposition of supplementary duty at the rate of 60 percent on SIM card and different kinds of plastic products and at the same time reduction of customs duty on raw materials used for manufacturing plastic products
- Reduction of customs duty rate from 25 percent to 15 percent on the import of newsprint considering the problems of newspaper industry and at the same time keeping the raw materials for newsprint duty-free to develop the local newsprint industry
- Re-fixation of specific rate of duty at Taka 4000 instead of existing specific rate of duty Taka 2250 on raw sugar to avoid mis-declaration and also to address the problems being faced by 5 lakh sugarcane growers and local sugar industries
- Extension of bonding period up to 2 years to encourage exports of the export-oriented industries.

### **Reduction of Discretionary Power**

#### **Fellow Citizens**

95. In order to enhance transparency and accountability of the revenue administration, and to reduce the discretionary powers of the customs officials, I propose the following measures:

- Preparation of specific guidelines for the issuance of bond license
- Bringing in more transparency in the procedure of extending bond period

- Simplifications in the customs procedures in line with the Kyoto Convention
- More clarity on tariff description of a number of commodities
- Making it mandatory to write "Import under Bond Not for Resale" on the packing of imported commodities to stop their sale in local markets.

### **Trade Liberalisation**

#### **Fellow Citizens**

96. To make our local commodities internationally competitive and also to fulfill our commitments with the World Trade Organisation (WTO), I make the following proposals:

- Keeping existing 25 percent customs duty on finished products unchanged though 4 percent infrastructure development surcharge has been withdrawn
- Reducing existing supplementary duty of 25 percent and 65 percent to 20 percent and 60 percent respectively
- Complete withdrawal of customs duty on Electronic Cash Registers.

### **Value Added Tax (VAT)**

#### **Fellow Citizens**

97. One of the principal objectives of a modern tax administration is to encourage the tax-payers through promotion of self-assessment procedure to voluntarily comply with tax laws. It is essential to make tax collection procedures transparent by simplifying the provisions of law and tax related forms and reducing the number of documents to be preserved to a minimum. With this end view, I propose the following several amendments to the Value Added Tax Act, 1991 and the Value Added Tax Rules, 1991:

- Reduction of minimum penalty for tax evasion from 50 percent to 25 percent and maximum penalty from 200 percent to 75 percent

- Reduction of maximum penalty for minor offences from Taka 50 thousand to Taka 25 thousand
- Reduction of the maximum penalty for major offences from Taka 3 lakh to Taka 1 lakh
- Reduction of deposit ranging from 10 percent - 25 percent of the amount assessed or fine imposed required for filing an appeal to 10 percent
- Relaxation of the mandatory provision of submitting Mushak Challan 11 allowing the issuing units to issue challan in their own formats incorporating extra information needed but keeping intact the required legal information currently contained in Form Mushak-11
- Withdrawal of the provision of attaching challan along with each tax return submission
- Delegation of the power of National Board of Revenue in regard to use of computer generated challan and maintenance of accounts of registered organisations to the Commissioners of VAT
- Withdrawal of the provision of annual renewal of VAT registration by commercial importers
- Re-fixation of the ceiling of invested capital in plant, machineries and equipment from Taka 5 lakh to Taka 7 lakh as a part of facilities extended to the cottage industries
- Enhancement of the value of VAT exemption from Taka 6 thousand to Taka 10 thousand in the case of sending samples of pharmaceutical products to foreign countries

### **Fellow Citizens**

98. The existing VAT law and rules do not contain sufficient provision to deal with declaration of value, transfer of input and credit adjustment for a registered manufacturer who produces branded goods of another registered manufacturer through contract. In view of the gradual promotion of trade and industry, I propose to add required provisions in

the Value Added Tax (VAT) Act, 1991 and the Value Added Tax (VAT) Rules 1991 to address the existing complexities.

99. In order to ensure access of the general public to the medical service and to help people suffering from hearing impairment, I propose VAT exemption for Insulin, First Aid Box, Hearing Aid, Shadow-less Operation Lamps at import and production levels. I also propose VAT exemption for fire extinguishing equipment to encourage installation of such facility in industrial and commercial organisations at both import and production level

100. In order to widen the VAT net, I propose to bring Immigration Advisers within this net and at the same time I propose to withdraw existing VAT exemption facility from ornamental fish, specialized doctors, lawyers and dental clinics. I also propose to impose VAT on the basis of truncated base value of the coaching centers, English medium schools, private medical and engineering colleges and private universities at the rate of 4.5 percent. Besides this, I propose to extend the same truncated base value facility to photo lab, courier service and air-conditioned bus service.

101. In order to establish more equity among the taxpayers, I propose to bring the following categories of goods and services under VAT net regardless of the amount of their annual turnover by withdrawing the existing turnover tax facility: soft drink, mineral water, toilet soap, restaurant, warehouse, port, land developers, building construction companies, telephone, tele-printers, telex, fax or internet service providers, SIM card distributors, cinema halls, WASA, insurance companies, organisers of cultural programmes by foreign artists, health clubs, fitness centres, sports organisers, engineering firms and chartered planes or helicopter rental companies.

102. I propose to make tariff values consistent with the current market price in respect of items like chocolate milk, mango milk, banana milk, tomato paste, LP gas, paper, MS products, nail wares, chillers, electric transformers, human hauler, mechanized boats and ship scraps.

103. After reviewing the revenue collection trends and the administrative capacity and also considering the tax proposals, the revenue target for FY 2007-08 has been determined at Taka 43 thousand and 850 crore, implying

17 percent growth over the revised revenue target of FY 2006-07. This includes Taka 10 thousand 838 crore on Income Tax, Taka 17 thousand 812 crore on Import Duty at import stage, Taka 14 thousand 800 crore on VAT and Taka 400 crore on other taxes and duties. Given measures indicated in the budget are implemented; I am optimistic that the proposed target could be achieved.

104. Non- tax revenue is also an important source of augmenting total resources of the government. In the past years, the share of non-tax revenue in the total revenue collected by the government had been 18 percent. In this context, the government has laid special emphasis on augmentation of non-tax revenue and has taken a range of measures. Included among them are: expansion of non-tax revenue base, rational re-fixation of existing rates through regular review, exploring new areas, improvement of collection management and plugging the leakage. It is, therefore, expected that the non-tax revenue income will increase significantly in the next fiscal year

### **Fellow Citizens**

105. Assured resource mobilisation from domestic sources is one of the preconditions for attaining economic sovereignty by a developing country like Bangladesh. However, the revenue collection is not increasing compared to the growth of GDP. In FY 2005-06, while the revenue-GDP ratio was 10.6 percent, by the end of current fiscal year this may slide down to 10.4 percent. In this context, raising the revenue-GDP ratio to 10.8 percent will turn out to be a great challenge. This would require undertaking a formidable task of expansion of tax base, improved quality of tax assessment, strengthened collection procedures, office automation, transparency and accountability of tax administration and applied research.

106. What is, therefore, required is to build a total quality management in our tax regime through long-term reforms. Also we have to earn the confidence of the taxpayers through motivational campaign. Formulation of a new law and separation of tax policy from tax administration to build a transparent and simplified tax regime in the country are under consideration.

### **Fellow Citizens**

107. Despite political instability and administrative snags, the Bangladesh economy has experienced over time remarkable positive changes. The contribution of industry sector to GDP has increased from 15 percent in to 30 percent. Financial deepening has increased to 44 percent from 17 percent. Private sector credit flow has increased to 75 percent from 24 percent. The openness index of the economy increased from 18 percent to 41 percent. In banking sector, the share of private sector banking has increased from 0 percent to 60 percent. During this period, we made remarkable achievements in reduction of maternal and infant mortality, enhancing primary enrollment and gender parity in primary and secondary education. During the same period, income poverty has reduced remarkably. Our micro-credit system has been replicated in as many as 150 countries across the world. We have also earned Nobel Prize. The reputation of the performance of our armed forces in the peace-keeping missions has spread far and wide. All these have become possible due to hard work, undaunted spirit to overcome odds and entrepreneurial spirit of our people. I am confident that given favourable environment, Bangladesh will be able to march forward by competing with the counties in South and South-east Asia.

### **Fellow Citizens**

108. While preparing this budget, I have exchanged views with the economists, researchers, members of the civil society, media personalities and business leaders. During my visit to Khulna and Rajshahi as part of this process, I have heard the views of the local elites and intelligentsia. I have also sought guidance from Hon'ble Chief Advisor. I have had detailed discussion with the Secretaries of ministries and divisions on a number of issues including the economic situation, reforms and budget priorities, strategies and allocation. We have used all these inputs while formulating budget. I express my heartfelt thanks to those who participated in the process of exchanging views relating to budget preparation.

109. From this moment, any one can send his suggestions or proposals through e-mail or by surface mail from any corner of the country. All proposals or suggestions received by 14 June will receive our due considerations. We will incorporate all relevant issues and by the last

week of this month we will finalise the budget with the approval of the Hon'ble President of the Republic.

**Fellow Citizens**

110. Ours is a nation glorified by immeasurable sacrifice. Its history is richly endowed by the glorious episodes of Great Liberation War and countless struggles to preserve our national identity. At times our history had been plagued by crises, calamities and malgovernance. We have countered them with undaunted resolve. The enviable achievements on our economic and social fronts in recent times stand as a testimony to our potential. Our march towards prosperity is sanguine, if we can forge unity based on the spirit of patriotism and tolerance. We would like to leave a glorious legacy such that our posterity will look back and see that in taking this country forward, we were relentless and courageous; we were unflinching in protecting our values; we were prudent in maintaining inter-generational equity; and that we were agile to make full use of our potentials.

**Fellow Citizens**

111. By combining all our strength, courage and wisdom, let us build a country where there will be no hunger and poverty; no spectre of malgovernance and no disparity. Let us join our hands in building Bangladesh as an abode of welfare, happiness and prosperity. May Allah bless us.

**Allah Hafiz.**