National savings tools: Govt to slash reliance by 42pc over three years

Sunday, Jun 16, 2019

By *Dr. Zaidi Sattar*

National savings tools: Govt to slash reliance by 42pc over three years

PRI chair hails decision

FHM Humayan Kabir | Published: June 16, 2019 09:25:52 | Updated: June 16, 2019 12:39:51

The government has targeted cutting its borrowing target from the national savings certificates(NSC) by 42 per cent in the next three fiscals aimed at reducing fiscal risk, according to official document.

The government wants to reduce borrowing from Tk 450 billion of the outgoing fiscal year to Tk 260 billion by FY 2021-22.

“From domestic borrowing, sale of NSC is a major source of receipts but it entails high interest cost, which is a risk for fiscal sustainability,” said a medium term macroeconomic policy statement.

According to the revised target, the government will borrow Tk 450 billion through selling the savings tools during the current fiscal.

The finance ministry, in its policy statement, said the government will reduce the sales of savings tools to Tk 270 billion during FY2020.

The government has also a target to slash borrowing from NSC in the subsequent two fiscals.

The target is to borrow Tk 250 billion through selling savings certificates during FY2021 and Tk 260 billion during FY2022.

The policy statement said in the next three consecutive years, it will slash the non-bank borrowing and increase the bank borrowing to finance the budget deficit.

According to the target, the borrowing from the non-banking sector will go down to 1.0 per cent of GDP, which will be 3.2 per cent of GDP from the banking sector.

Currently, the ratio of the government’s bank and non-bank borrowing is 1:1.5.

The finance minister has raised the tax at source to 10 per cent from the current rate of 5.0 per cent for the purchase of savings tools.

Besides, the government has made the National Identification Number (NID) and Tax

Identification Number (TIN) mandatory for purchasing such instruments.

The interest payment against savings tools has been automated under which the customers will get their profit through commercial banks.

Dr Zaidi Sattar, chairman of the think-tank Policy Research Institute of Bangladesh (PRI), termed the decision on reducing the government’s borrowing from savings certificate a good decision.

If the government reduces borrowing from this segment, its interest payment will shrink, while bank deposit and investments will increase, he told the FE.

When people will be discouraged from buying savings tools, there is a possibility that money will end up in productive sectors, said Dr Sattar.

In contrast, the depositors will deposit their money with the banks instead of buying savings tools, which is expected to overcome the liquidity crisis the banks are facing, he added.

He cautioned against possible higher bank borrowing, but insisted the government opts for low-cost external borrowing.

The net sales of savings instruments rose by more than 8.0 per cent during the nine months of the current fiscal, compared to the same period of the previous fiscal.

According to the Department of National Savings (DNS) data, the net sales of savings tools in the July-March period of FY 2018-19 stood at Tk 397.33 billion, up from Tk 367.09 billion in the corresponding period a year earlier.

The sales of savings schemes have surged in recent years due to their higher yield rates.

At the same time, the government’s interest payments have also increased by more than 23 per cent in the nine months of the fiscal, the data shows.

The government spent Tk 181.54 billion on interest payments in the July-March period of

FY'19, up from Tk147.33 billion in the same period the year before, according to official statistics.

kabirhumayan10@gmail.com

https://thefinancialexpress.com.bd/economy/bangladesh/national-savings-tools-govt-to-slash-reliance-by-42pc-over-three-years-1560656646