

Budgetary Discipline and Fiscal Programme: A Review of the State of Implementation of the Recommendations

1. The Background

The *Centre for Policy Dialogue* (CPD), as a part of its “Pre-Election (2001) Policy Briefs” preparation initiative, formed a Task Force on “Budgetary Discipline and Fiscal Programme”. The major objective of the exercise was to promote the policy debate during the run-up to the national parliamentary elections in 2001, and develop a set of actionable agenda for the newly elected government. The Policy Briefs were discussed at Regional Consultative Meetings and were, subsequently, finalised at a National Policy Forum (August 20-22, 2001). CPD carried out the public consultation process in collaboration with the *Prothom Alo* and *The Daily Star*.

CPD, in January, 2003, has relaunched the Task Forces to pursue a participatory benchmarking exercise by reviewing the implementation status of the recommendations contained in the Policy Briefs (2001),

A number of policy advices put forward by the Task Forces has found reflections in various policy documents of the incumbent government, although progress in their effective implementation had been rather wanting. As the government is completing its second year in office, it is maintained that to revisit the outcomes of the Task Force exercise at this point in time would be most useful from the perspective of possible mid-course measures. Furthermore, the government is currently engaged in preparation of a *Poverty Reduction Strategy Paper* (PRSP) and it was essential to undertake an audit establishing to what extent the concerns espoused by the Policy Briefs are being taken note of by the interim PRSP.

The present review of the state of implementation of the report by the Task Force on “Budgetary Discipline and Fiscal Programme” has been undertaken in this context.

2. Scope and Approach of the Review

The scope of the review is defined by the issues raised and recommendations put forward by the Task Force on “Budgetary Discipline and Fiscal Programme” in its report in August 2001. However, the review also takes note of some relevant measures implemented by the government which may not have been mentioned in the earlier report. The report also seeks to identify some of outstanding issues and emerging concerns in the area of budgetary planning and management.

For the purpose of the review, the Task Force Members analysed various public documents including the I-PRSP and the National Budget (2002-2003). Since there had been no institutional repository of records concerning the current policy initiatives of the government, the Task Force members opted to debrief key policy-makers of the

government including the Finance Secretary, Governor of the Bangladesh Bank, Chairman of the Public Expenditure Review Commission and the Chairman of the Revenue Commission. For statistical information, the Task Force referred to the data base of CPD's *Independent Review of Bangladesh's Development* (IRBD) programme. The Task Force members also contributed by drawing upon their individual experiences acquired through their participation in the policymaking process.

3. Major Issues

The major issues which were identified by the Task Force in connection with strengthening budgetary discipline and fiscal programming are as follows:

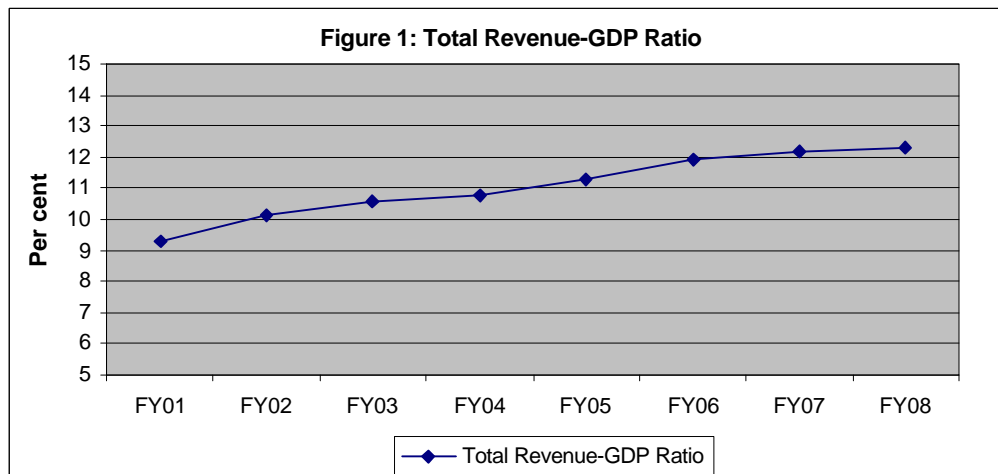
- a. Domestic resource mobilisation and faltering revenue growth
- b. Resource allocation pattern and “non-productive expenditure” bias
- c. The state of the budget balance and the growing fiscal deficit
- d. Financing the fiscal deficit and rising government debts
- e. Monetary overhang from very high rates of broad money creation
- f. Balance of Payments situation and the low level of foreign exchange reserve.

In the subsequent sections, progress has been assessed with respect to the recommendations made earlier to address the abovementioned issues.

4. Review of the Policy Recommendations: Revenue Earning

The Task Force pointed out the following major structural issues pertaining to Bangladesh's total revenue structure.

- (i) Stagnating share of non-tax revenue;
- (ii) Decline in non-NBR tax share;
- (iii) Continued dependence on import-related taxes;
- (iv) Marginal increase of direct tax in the NBR component; and
- (v) Continuing dominance of tobacco related taxes in the non-import related indirect taxes.



Total revenue as per cent of GDP in FY01 was 9.3 and it increased to 9.8 in FY02. The target for FY03 is set at 10.6 per cent. In I-PRSP a gradual increase in total revenue as per cent of GDP is expected and is projected to increase to 12.3 per cent in FY08. It is obvious that such modest relative growth in revenue-GDP ratio during the next five years will maintain Bangladesh as a country having very low tax base.

4.1 NBR Revenue

Action 1. Streamlining the tax effort remains one of the major tasks of the newly elected government. Strengthen the domestic resource mobilisation effort.

GOB Initiative. A *Commission on Public Revenue System* has been set up in June 2002 to suggest ways and means to improve the taxation system and further augment domestic resource mobilisation. The Commission has submitted an interim report in December 2002 and the government is currently considering its findings and it is expected that the national budget for FY04 will give effect to some of the suggestions made by the Commission.

Action 2. Design a realistic fiscal programme supported by institutional measures which would address the double menace of evasion and corruption in the system which frustrate the realisation of the revenue targets.

GOB Initiative. The government has appointed a number of independent audit firms to check tax evasion and widen the tax base. *See later.*

A *Revenue Administration Modernisation Project* covering *Income Tax, VAT and Customs* started sometimes ago is currently under the final phase of implementation and is expected to have positive impact in revenue collection, by stopping leakages.

Action 3. Effort to expand the tax net and tax administration has to be sustained and strengthened.

GOB Initiative. A number of measures have been taken to improve tax policy and tax administration. Numerous revenue enhancing measures announced in the budget of FY03 including lowering of the personal income tax exemption limit, an increase in the minimum income tax of individuals, containment of tax holidays, additional tax on undisturbed profits of listed companies, reduction in corporate tax rate by 5 percent, inclusion of all sources of NGO incomes into the tax net with the exception of income from their micro-credit operations, abolition of zero rate on many imports, withdrawal of several VAT exemptions and extension of VAT to additional areas of activity, and increase in travel and motor vehicle taxes. The government has announced that the share of direct tax and VAT will be significantly increased in the medium term.

Table 1: Revenue Growth: Total and NBR (%)

	FY01	FY02	FY03 (Target)
Share of NBR in Total Revenue Collection	75.7	74.9	71.8
Growth of NBR	14.4	13.3	14.6
Growth of Total Revenue	13.2	14.5	19.6

In the recent past, the growth rate of NBR collection has been in slower than that of the total revenue collection. As a result, the share of NBR in total revenue collection shows a decreasing trend. In FY01 the NBR share was 75.7 per cent, whereas the targeted share in FY03 is 71.8 per cent.

Action 4. Sustain and improve the current drive to broaden the tax net through effective use of PSI, LTU, TIN and other institutional measures.

GOB Initiative. The government recognises that it is indispensable to expand tax base for augmenting revenue collection, particularly through mandatory submission of TIN certificate in certain transactions. The government has made the provision for mandatory requirement of submission of TIN certificate in respect of sanction of bank loan exceeding five lakh Taka. In order to expedite issue of TIN certificate by the tax authority, the government instructed to issue of the said certificate within one working day on receipt of the application. However, the government has withdrawn the requirement of compulsory submission of TIN certificate by buyers of immovable property in case of a non-resident Bangladeshi and also in the case of a property situated in a city corporation where deed value of the property does not exceed one lakh Taka.

Action 5. Broaden the direct tax base through various identification measures.

GOB Initiative. The government created new tax entities to broaden the tax net. In an effort to effectively bring the government employees under the income tax provisions, the government promised to deposit Tk. 50 crores in FY03. Incomes of the NGOs is to be brought under taxation except that arising from micro-credit. Incomes of the private english medium schools, colleges and universities are to be brought under taxation.

Table 2: Growth of Direct Tax

	FY01	FY02	FY03 (Target)	FY03 (July-March)*
Direct Tax as per cent of Total Revenue	15.8	15.6	16.9	16.1
Growth of Direct Tax	17.5	13.1	29.3	15.7
Growth of Total Revenue	13.2	14.5	19.6	20.3

*Only for Income Tax and as Share of NBR collection.

Direct taxes as per cent of total revenue in FY01 and FY02 were 15.8 and 15.6, respectively. If the government achieves to raise the share to targeted 16.9 per cent, they have to attain a growth rate of 29.3 cent in FY03, whereas the growth rate in FY01 and FY02 was 17.5 and 13.1 per cent respectively. Information available from FY03 (July-March) indicates that the growth of direct (income) tax remains subdued.

Action 6. Broaden VAT coverage.

GOB Initiative. VAT was imposed in the budget of FY03 on transactions in a number of new areas.

- (i) On bank services like issuances of Demand Draft, Money Transfer, Bank Guarantee, Pay Order, Telegraphic Transfer, Letter of Credit (L/C Opening).
- (ii) “Educational institutions”, “consultant physicians” and “legal advisers” etc. sectors are to be covered.
- (iii) Estimated VAT registration for businesses like Motor Garage, Indenting Survey, Consultancy and Supervising Firm, Satellite Channel Distributor and operator, Gold and Silver shops, Car/Conveyance Rental irrespective of their annual turnover.

Table 3: Growth of Value Added Tax

	FY01	FY02	FY03 (Target)	FY03 (July-March)
Share of VAT in total Revenue	26.4	25.1	24.4	32.8
Share of VAT (Import) in total VAT	57.8	54.0	54.2	54.7
Growth of VAT (Local)	27.4	19.3	15.4	15.4
Growth of VAT (Import)	20.3	1.9	16.5	11.2

Share of VAT in total revenue showed a decreasing trend in FY01 and FY02. This is largely due to low growth of VAT (Import) in FY02 when import growth was negative. In contrast VAT (local) demonstrated bouyant trend. However, figures for the three quarters of FY03 reveal that the share of VAT in total revenue has surpassed the target. This has largely increasing the VAT coverage of local transactions.

4.2 Non-NBR Revenue

Action 7. Improve Non-NBR revenue collection.

GOB Initiative. The share of non-NBR in total revenue was 4.9 per cent in FY01, which declined to 4.3 per cent in FY02. In FY02 the non-NBR portion experienced a marginal growth of 0.8 per cent. The target share for FY03 is 5.3 per cent that requires a 45.8 per cent growth of non-NBR revenue.

Table 4: Non-NBR Revenue

	FY01	FY02	FY03
Share of Non-NBR in Total Revenue	4.9	4.3	5.3
Growth of non-NBR Total Revenue	8.6	0.8	45.8

4.3 Non-Tax Revenue

Action 8. Streamline non-tax sources of revenues. Streamlining should constitute one of the major features of the domestic revenue mobilization drive in the coming years. An important item under this category shall be receipt (capital-revenue) from privatization.

GOB Initiative. The government has expressed its intent to improve the contribution of the non-tax revenue to domestic resource mobilisation. To this end non-tax revenue rates on various items have been enhanced by 100 to 500 percent to augment domestic revenue resource mobilisation.

Table 5: Non-Tax Revenue

	FY01	FY02	FY03
Share of Non-Tax Revenue in Total Revenue	19.4	20.7	22.9
Growth of Non-Tax Revenue	10.2	22.6	32.1

Non-tax revenue collection is showing improvement as its share is increasing in total revenue. In FY01 the non-tax revenue's share was 19.4 per cent which increased to 20.7 per cent in FY02 thanks to a high growth of 22.6 per cent. The targeted growth of FY03 is 32.1 per cent which will increase non-tax revenue's share to 22.9 per cent in total revenue collection.

4.4 Annual Development Programme

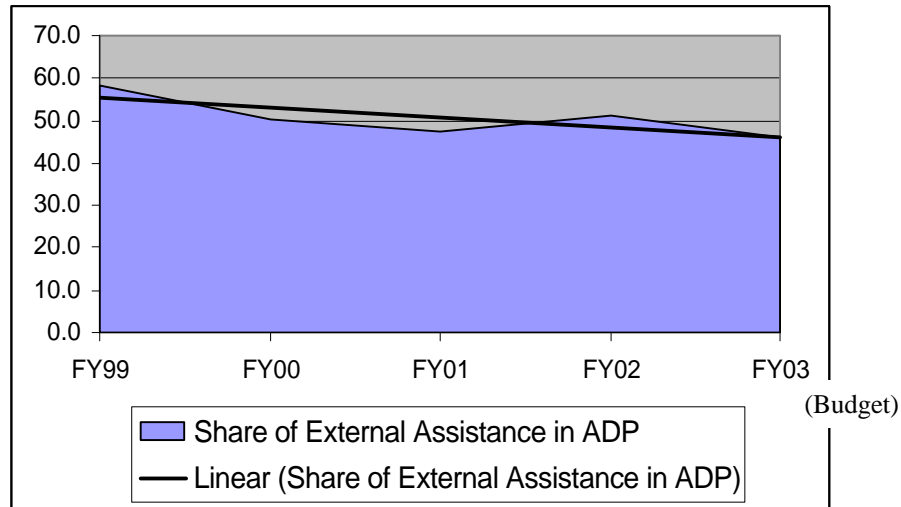
Action 9. Put a system in place involving the public representatives, particularly the Parliamentary Standing Committees and local government representatives so as to ensure the ADP projects to be demand-driven and designed on a cost-effective basis.

GOB Initiative. The Parliamentary Standing Committee on Finance is yet to be formed. Other relevant Committees such as these on *Public Accounts, Public Undertaking, and Estimates* are also yet to be constituted. Other than the Union Councils, elections have not been held for any other tiers, particularly for the Upazilas. Public hearings on the proposed ADP projects were instituted neither for the public representatives, nor for the stakeholders in general.

Action 10. Discourage the practice of introducing non-ADP project into the budget.

GOB Initiative. The share of non-ADP project in total expenditure was 0.3 per cent in FY01, whereas in FY03 the share increased to 0.8 per cent. The growth of non-ADP projects in FY02 was 135.3 per cent. In FY03 the targeted expenditure in non-ADP projects is Tk 371 crore, which is 18.5 per cent higher than that of the previous year.

Action 11. Take a fresh look at the financing scenario of the ADP with a view to make more efficient use of available foreign resources as well as to introduce greater caution in resort to bank borrowing.



GOB Initiative. The share of external assistance in ADP was 58.5 per cent in FY99. The last five years shows a decreasing trend in foreign financing of ADP. In FY01, FY02 and FY03 the said share was 47.6 per cent, 51.3 per cent and 45.9 per cent respectively. Figures for the period July-January of FY03, the share of foreign aid in ADP implementation had been only 27 per cent.

Action 12. Maximise use of foreign aid by designating project aid endowed projects as the ‘hardcore’ development expenditure.

GOB Initiative. The share of project aid in total foreign assistance was 83.8 per cent in FY01, but in FY02 the said share declined to 77.6 per cent. However in FY03 the targeted share is 82.1 per cent.

A total number of 1098 projects comprise the “Main Programme” of the ADP, of which 183 are aided projects. These aided project do not include food-aided projects, aided self-finance projects and TA programmes.

Action 13. Evolve a balance between the revenue budget and the ADP so that the private sector may make greater contribution to the incremental investment

GOB Initiative. The government is considering a proposal under which infrastructure projects to be implemented by private will be included in the ADP.

Action 14. The main challenge before the ADP is not financing, but relates to implementation emanating from the limited absorptive capacity of the line ministries.

Table 6: Implementation of ADP

(Crore Taka)

	Original Target	Revised Target	Implementation	Implementation as per cent of Original Target	Implementation as per cent of Revised Target
FY01	17500	18200	16151	92.3	88.7
FY02	19000	16000	14080	74.1	88.0
FY03	19200	17100	6598 ^a	34.4 ^a	38.6 ^a

^aJuly-January

GOB Initiative. The rate of implementation of ADP in FY01 was 92.3 per cent of the original and 88.7 per cent of the revised target. The comparable figures for FY02 were 74.1 per cent and 88.0 per cent respectively. All indications suggest that notwithstanding 11 per cent downward revision of the ADP, the revised target will not be achieved in FY03 as well. If we look at the ADP revision for FY02, we observe that six large ministries accounted for about two-thirds of the axed amount of Tk. 3000 crores.

5. Review of Recommendations: Public Expenditure

5.1 General Issues

Action 1: Constitute immediately a *Public Expenditure Review Commission* to, inter alia improve fiscal transparency and efficiency of public resource use .

GOB Initiative. A *Public Expenditure Review Commission (PERC)* was set up in June 2002 to review expenditure decisions, improve budget preparation, integration and implementation, introduce a transparent and quality budgeting process with multi-stakeholder participation, strengthen internal control and rationalization along with effective performance audit and evaluation. The focus of the Commission had been on rationalizing public expenditure, including both revenue and development budget. PERC has submitted an interim report in December 2002.

Based on the criteria developed by the PERC, the Planning Commission is to undertake a detailed pruning exercise. The Recommendations are to also get reflected in preparation of the National Budget for 2003-04.

Action 2. Reversing the trend in government spending in favour of development expenditure constitutes one of the major challenges of public finance in Bangladesh.

GOB Initiative. Fund release procedures in respect of development expenditure have been strengthened to ensure improve financial discipline and appropriate utilization of development funds.

Action 3. Keep public expenditure growth below the revenue growth rate.

GOB Initiative. The total public expenditure growth has been set at 13.6 per cent in the backdrop of an expected total revenue growth of 19.6 per cent in FY03. The relative income-expenditure dynamics will slightly ease the pressure on fiscal deficit.

Action 4. Develop a policy for guiding mid-term changes in pricing of public utilities.

GOB Initiative. The government has revised upward the charges for electricity, water, gas, telephone etc. While a new electricity pricing formulated remains under discussion with the development partners, any policy for mid-term tariff revision is yet to be finalised. Latest reports indicate that a final decision on this is imminent.

Action 5. Introduce immediate demand side measures for controlling import-intensive public expenditures and consider imposition of time-bound adhoc tariff measures based on a detailed commodity analysis.

GOB Initiative. Import slowed down during the tenure (July-October 2001) of the Caretaker Government as it suspended the suppliers' credit supported projects and deferred decisions on other aided projects. Subsequently the newly elected government imposed regulatory and supplementary duties on a number of "luxury items" and enhanced the L/C margin for imports certain commodities to slow import with a view to ease pressure on forex reserve.

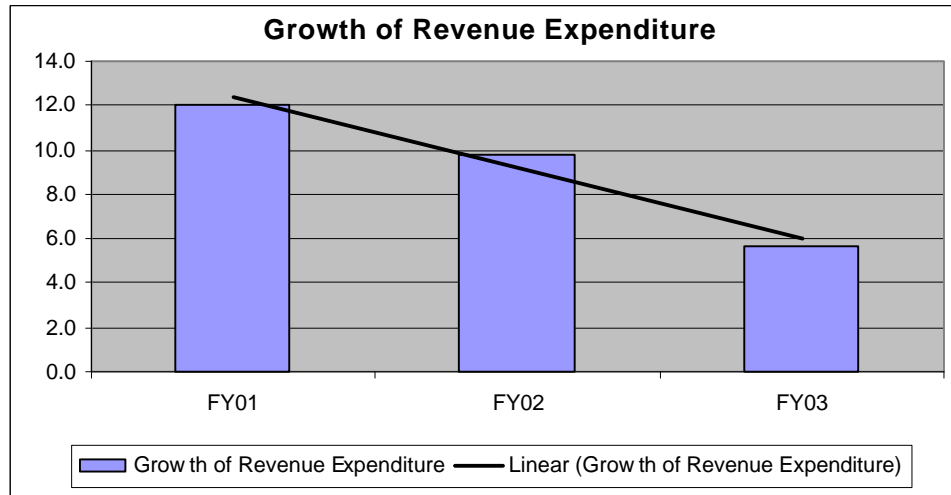
5.2 Revenue Expenditure

Action 6. Changing the emerging composition of revenue spending remains one of the daunting tasks facing the newly elected government. This includes:

- more prudent balancing of the budget by decreasing payment on account of domestic public debt;
- more efficient targeting of the subsidies and transfers; and
- capping the salary and allowances payment in real terms.

GOB Initiative. In determining the size of the revenue expenditure portfolio for the fiscal year 2002-2003, the government has exercised great restraint. According to the national budget for FY03, revenue expenditure is expected to grow from Tk. 20,662 crores in FY02 to Tk. 22,692 crores in FY03, registering a modest growth of 5.64. The trend rate of growth of revenue expenditure during the last twenty years (FY01-FY02) had been

about 10.6 per cent. The projected incremental amount may very well be explained by inflation and routine adjustments.



Action 7. Undertake impact analysis of the current subsidy package.

GOB Initiative. It is not known whether the government has undertaken any analysis of the socio-economic impact of the current subsidy-related expenditures.

6. Budget Deficit and Financing

The Task Force Report pointed out that the budget deficit was showing an increasing trend and the renewed growth of the fiscal deficit was basically explained by the faster growth of revenue expenditure in comparison to revenue earnings.

It was observed that two major shifts were taking place in the composition of financing of the budget deficit.

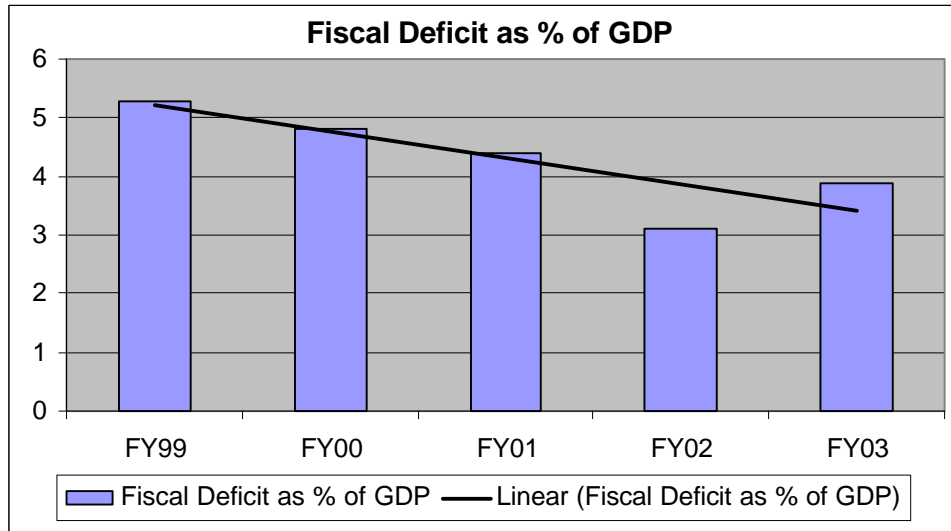
- (a) Share of foreign financing has steadily declined and within the foreign finance portfolio – role of foreign loans got more pronounced in comparison to the foreign grants.
- (b) The incremental growth in domestic financing of the overall budget deficit was largely underwritten by loans for the banking sector.

Action 1. Review the fiscal scenario with a view to assessing the sustainability and implications of the yawning budget deficit.

GOB Initiative. The overall budget deficit actually declined to 3.1 per cent of GDP in FY02, although the original target was 6.3 per cent. The benchmark from FY01 was 4.4 per cent of the GDP. The target fixed for FY03 in the budget is 3.9 per cent of the GDP.

In FY03, a consolidated public expenditure portfolio of Tk. 44,854 crores against a consolidated receipt of Tk. 33,084 crores is to result in an overall deficit of Tk. 11,770 crores, i.e. about 26.25 per cent of the expenditure portfolio. However, the size of the overall budget deficit in FY03 will be about 0.50 per cent less than that of in FY02.

It seems the government has taken cognisance of the problem. However, the reduction of budget deficit was largely attained through cutback in ADP and shortfall in implementation of the diminished target.



Action 2. Ensuring greater use of foreign resources in financing the budget deficit and establishing prudent limits on government borrowing.

The share of foreign resources in financing the budget deficit in FY01 and FY02 had been 50.1 per cent and 52.8 per cent respectively. In fact in FY02, the actual figure was 52.8 per cent against the target of 58.3 per cent. The target for FY03 has been fixed at 52.4 per cent. However, foreign aid disbursement data for the current fiscal year suggests that the share of foreign financing in budget deficit is to decline once again.

Foreign aid in pipeline continues to be in the range of \$5 billion, but it is disconcerting that new commitments in FY02 and FY03 have been way below target and historical trend.

At the same time, the revealed foreign financing portfolio in FY02 shows that the country continued to utilise more foreign loans than foreign grants. To be precise loan was 101.9% more than grants.

Action 3. Enact, as soon as possible, a *Fiscal Responsibility and Budgetary Discipline Act* for incorporating time bound fiscal deficit targets, limits on public borrowing and public debt.

GOB Initiative. As of date, the government does not recognise the need to enact a *Fiscal Responsibility and Budgetary Discipline Act*. However, through amendments of the *Bangladesh Bank Ordinance*, more power has been delegated to the central bank in its policy as well as operational side. The central bank does not any more require government's approval to fix CRR, SLR, international payment, additional liquidity. However, prior approval is still required in case of exchange rate and interest rate adjustments.

It may be noted that the government while allowing limited autonomy to the Bangladesh Bank, has simultaneously set up a *Monetary and Fiscal Policy Coordination Council* comprising of the Finance Minister, Commerce Minister, Finance Secretary, IRD Secretary and a Member from the Planning Commission.

7. Balance of Payments Situation

Action 1. Evolve a package of measures to backstop the sliding foreign exchange reserve, both in the short-run and medium-run, backed up by active exchange rate management.

GOB Initiative. Although no comprehensive package was designed to backstop the sliding of the foreign exchange reserve, a number of discrete measures taken in the second half of FY02 improved the situation. Negative import growth (-8.7 per cent) in FY02 relieved much of the pressure on the forex reserve, in spite of negative growth of export, low offtake of foreign aid and tapering off of foreign direct investment. However, increased flow of remittance from the migrant workers played singularly important role in improving the forex reserve.

The government made downward adjustment of the exchange rate twice between October 2001 and March 2002 by devaluing the national currency by 1.6 per cent. Weakening of US dollar in the international market also did allow Taka to get overvalued and, thus, the Real Effective Exchange Rate (REER) did not get appreciated.

Currently the government is under pressure from the IMF to opt for a floating exchange rate system. Most agree that introduction of a floating exchange rate system may provide protection against sectional pressure on the process of fixing price of the national currency, however many contend that the current level of foreign exchange reserve and the low technical capacity available for managing the process make it quite an inopportune moment to opt from floating of Taka.

Action 2. Middle Eastern countries and other BOP supportive loans/grants may be procured from bilateral and multilateral agencies.

GOB Initiative. The government initiated negotiations with the IMF and the World Bank to procure fast disbursing BOP support. However, the negotiation is yet to be successful due to the conditionalities (including exchange rate floatation, ADP cutback, enactment of an independent Anti-Corruption Commission) maintained by the international financial institutions. The process of securing concessional aid also became tied to the completion of the I-PRSP preparation exercise. Conclusion of negotiations in the near future appears to be on the cards.

Action 3. Arrange stand-by facilities for oil import.

GOB Initiative. Along with the improvement of the BOP situation, the risk of petroleum products becoming costlier did not materialise. Thus, the need for urgent stand-by facilities for oil import was diffused.

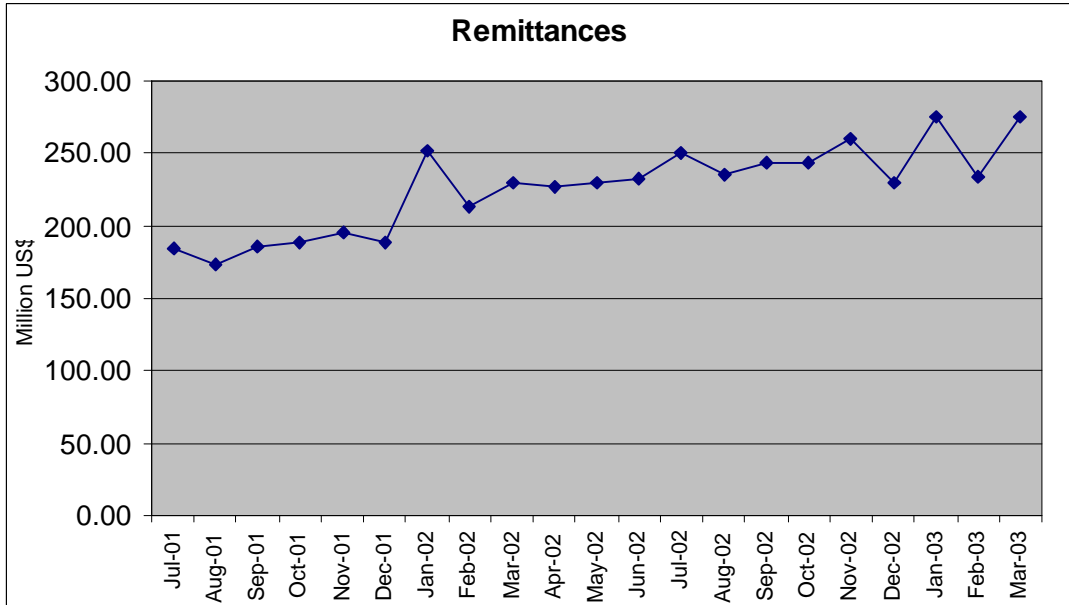
Action 4. Reschedule payments under IPP, PSC and suppliers' credits.

GOB Initiative. The government cancelled a number of agreements on suppliers' credit and later put in place a set of strict guidelines for accessing such high cost foreign financing. At the same time, the government continued to make payments to the IPPs as well as under the PSC. However there is a steady backlog of outstanding payments. The backlog emanated more from the problem of downstream receivable recovery, rather than from forex scarcity.

Action 5. Improve efficacy of official channels of receiving foreign remittances.

GOB Initiative. The government undertook a number of institutional measure to improve the efficiency of the banking channels to mobilise and transfer remittances from Bangladeshi migrant workers. Enactment of the *Anti-Money Laundering Act* also restricted the informal channels of foreign exchange transfer. The obtaining situation in the developed countries after the terrorists attack on the USA also prompted the non-residents to send money home through the official channel. A competitive exchange rate also inspired remitters to utilise the institutional banking services.

Remittance experienced a negative growth of 3.5 per cent in FY01. Since then the remittance gradually increased and in FY02 achieved a growth rate of 32.9 per cent. In FY03 (July-March) the growth rate was 27.1 per cent in comparison with the matching period of FY02.



8. Credit Expansion and Domestic Public Debt

The Task Force observed that the growth of total domestic credit slowed down in the 1990s, which was largely prompted by the slowdown in credit expansion in the private sector. On the other hand, the rate of overall public sector borrowing has remained steady between the 1980s and 1990s, while it is during the latter decade that “hardcore” government borrowing increased dramatically. During the second half of the 1990s, the overall public sector borrowing grew exponentially. This increase was largely underwritten by high hardcore government borrowing from the Bangladesh Bank. Although the government largely pursued a switching fiscal stance - juggling between “high cost-low inflation” (savings instruments) and “low-cost-high inflation” (bank borrowing) sources. In sum, the size of the public debt as a percentage of GDP increased steadily.

However, it seems that high government borrowing did not crowd out private investment at that time. Rather it energised the market by mopping up excess liquidity available in the banking sector. Nonetheless, high cost government borrowing may have affected external competitiveness of Bangladesh by pushing up the cost of private borrowing.

Action 1. Reduce high cost government borrowing.

GOB Initiative. By bringing down the fiscal deficit significantly the government restrained its need to borrow. The residual borrowing need was essentially met through bank borrowing. In its attempt to reduce the costs of borrowing, the government reduced the bank rate by 0.5 per cent to 6 per cent. Moreover, the government withdrew from the market a number of NSD certificates and reduced the interest on others. However, the

sale of NSD continued to register high growth in the absence of alternative secured investment opportunities. In the recent months one observes diversion of the savings to term deposits in the banks. The market responded by marginally lowering the lending rates of the banks with corresponding decrease in the deposit rate.

Action 2. Prepare a *Government Securities Act* to develop a secondary market for government's saving instruments.

GOB Initiated. The Bangladesh Bank has launched a secondary market of the Treasury Bills in July 2002. During the first six months of operation of the Repo market a total amount of Tk. 4000 crores worth of T-Bills have been off-loaded. The current Bills of five years maturity is giving an yield of approximately 11 per cent. Although the use of the Repo market remains limited as supplementary source of financing for the banks, it seems to have had sobering effect in stabilising, the inter-bank rate. The central bank is currently considering the possibility of introducing a reserve-Repo market.

9. Review of Recommendations: Institutional Measures

Action 1: Strengthen the role of Ministry of Finance in maintaining budget discipline and expenditure commitments. This is being suggested in view of marginalisation of the MOF in areas such as contracts for power and gas purchase, defence purchase, etc.

GOB Initiative. The Ministry of Finance appears to be reasserting itself in maintaining budget discipline, particularly in terms of accessing 'hard term' foreign financing including suppliers credit. The Cabinet Committee on Economic Affairs plays an energetic role with respect to major government purchases. However, guidelines for public procurement (which is to ensure competitive behaviour of the suppliers) has to be made fully transparent and accountable.

Action 2. Create a *Ministry of Economic Affairs* by merging the ADP preparation and approval process with the current activities of Ministry of Finance. Planning Commission may continue to function as a strategic think-unit under the Prime Minister's Office.

GOB Initiative. The need for better coordination between the Ministries of Finance and Planning has been partly addressed by putting both the portfolio under a single Cabinet Minister. However, this has not fully alleviated the tensions between the two important economic ministries, which largely emanate from functional asymmetries.

There is still a strong need to revisit and redefine the role, scope and functions of the Finance Ministry and the Planning Ministry under the new dispensation of economic management. In order to improve the macro-economic governance, the divisions under both the Ministries including those in the Planning Commission need to be restructured, strengthened and modernised.

Action 3. Sequence dynamically other structural reforms to provide collateral support to improved budgetary management. The priority areas for reform are the financial sector, SOEs, public administration, local government, trade, energy, telegraph & telephones, etc.

GOB Initiative. The government is making efforts to reform the financial sector, close down the SOEs, improve the regulatory framework in energy and telegraph and telephone sectors etc. However, reforms in public administration and local government are yet to show up. Absence of reform in public governance is affecting public services as a whole and in turn in undercutting the competitiveness of the private sector.

10. Concluding Observations

It transpires from the foregoing review that the government during the last two years (FY02 and FY03) has addressed, in varying degree, most of the issues raised by the Task Force Report – either autonomously or circumstantially. It is to be observed whether the government is able to sustain the pro-active approach demonstrated during the early part of its tenure in the coming years. The challenge of macro-economic management will become more manifest if investment picks up.

The fiscal balance as well as the balance payment of Bangladesh economy improved perceptively during FY02 and FY03. While some of these came about through conscious policy choices, a large part of the adjustment took place by default as ADPs could not be fully implemented. This influenced positively the fiscal balance and the government's need to borrow. Similarly, the BOP improved due to import fall, in a period of export slowdown, and the role of different factors in enhancing the remittance flow.

Whatsoever, the fundamental weaknesses of Bangladesh's public finance largely remain in place. These include low revenue effort with marginal share of direct tax, rigid revenue expenditure structure along with low quality of many ADP projects. Weak export performances, decreased disbursement of foreign aid, and drying up of FDI have kept the BOP vulnerable to external shocks. If the change initiatives are not sustained in the coming years along with other structural reforms, there is a high possibility that the macroeconomic stability will deteriorate once again.

In this context, it is imperative that the concerned Parliamentary Standing Committees are immediately constituted and people's participation is broadened in the resource allocation process for enhancing the stakeholders' pressure for change.