

Report No. 84

**State of the Bangladesh Economy
And Budget Responses 2005**

Publisher

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The Centre for Policy Dialogue (CPD), established in 1993, is a civil society initiative to promote an ongoing dialogue between the principal partners in the decision-making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such dialogues at local, regional and national levels. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues. These dialogues have brought together ministers, opposition frontbenchers, MPs, business leaders, NGOs, donors, professionals and other functional group in civil society within a non-confrontational environment to promote focused discussions. The CPD seeks to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country.

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of the CPD include **The Independent Review of Bangladesh's Development (IRBD), Trade Related Research and Policy Development (TRRPD), Governance and Policy Reforms, Regional Cooperation and Integration, Investment Promotion and Enterprise Development, Agriculture and Rural Development, Environment and Natural Resources Management, and Social Sectors.** The CPD also conducts periodic public perception surveys on policy issues and issues of developmental concerns. With a view to promote vision and policy awareness among the young people of the country, CPD is implementing a **Youth Leadership Programme.**

Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organized by the Centre.

The present report contains the highlights of the dialogue titled *State of the Bangladesh Economy and Budget Responses 2005* held on June 19, 2005 at the ballroom of Hotel Sheraton, Dhaka. The dialogue was organised under CPD's IRBD Programme.

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Dialogue Report on

**STATE OF THE BANGLADESH ECONOMY
AND BUDGET RESPONSES 2005**

THE DIALOGUE

The dialogue on *State of the Bangladesh Economy and Budget Responses 2005*, organised by the Centre for Policy Dialogue (CPD), took place on June 19, 2005 at the ballroom of Hotel Sheraton, Dhaka. The initiative was taken with a view to share its observations and analysis on budget FY 2006 presented by the Finance Minister on June 9, 2005 and create a space for discussion between the Finance Minister and the policymakers and experts from both within and outside the government.

CPD Chairman *Professor Rehman Sobhan* presided over the dialogue while *Dr Debapriya Bhattacharya*, Executive Director, CPD, presented the keynote paper. The Honourable Minister for Finance and Planning Mr M Saifur Rahman, MP was present at the dialogue as the Chief Guest. Dr Salehuddin Ahmed, Governor of Bangladesh Bank, was present as the Guest of Honour and Mr Zakir Ahmed Khan, Secretary, Finance Division, was the Special Guest of the occasion.

The dialogue incorporated the perspective of a broad representation of the civil society with the participation of mainstream politicians, senior government officials, economists, academicians, representatives of the development agencies and other high level policymakers. The list of participants is attached in Annex 1.

INTRODUCTORY REMARKS BY THE CHAIRMAN

Professor Rehman Sobhan, Chairman of the Centre for Policy Dialogue (CPD), welcoming the guests pointed out that CPD has been organising the budget dialogue since 1994 with the participation of a distinguished cross section of people of the society. He thanked honourable Finance Minister *M Saifur Rahman* for his valuable presence and mentioned that from the very early occasions the Finance Minister has been participating in the CPD dialogues, both as Finance Minister and as opposition front bencher. *Professor Rehman Sobhan* said that this particular occasion is special as it gives an opportunity for the Finance Minister to engage with a broad and distinguished cross section of people to discuss the budget which he has presented before the parliament. This occasion gives a unique opportunity for the Finance Minister to not only listen to what the policymakers, government officials, business leaders, academics and experts have to say about the budget but also respond to their comments in his institutional and professional capacity. He hoped that this tradition of professional discussion will be sustained and CPD will continue to create this space for an engagement between the Finance Minister and his counterpart both in the political world and in the civil society.

KEYNOTE PRESENTATION BY DR DEBAPRIYA BHATTACHARYA, EXECUTIVE DIRECTOR OF CPD

At the beginning of his presentation *Dr Bhattacharya* thanked the Finance Minister, members of the parliament and others for their presence and mentioned that it was a privilege for him to present the budget analysis. He noted that it was the third of the series that CPD undertook in connection with the budget session.

Benchmarks

Dr Bhattacharya started with the benchmarks against which the budget of 2006 has been prepared. He mentioned that economy has experienced a respectable growth of 5.5 per cent in a flood year. The export sector showed a double digit growth in spite of phase-out of the MFA. A bumper *Boro* crop helped recover crop-losses due to flood 2004. A \$2.5 billion worth of FDI proposal from the Tata Group has been received. The country saw reactivated Privatisation Commission with new off-loading mandate. Capital market received an increased liquidity flow during the year. Robust credit expansion in the private sector has been experienced. There was a strong growth of agricultural credit after the flood. High import of capital machineries indicated some vibrancy in private investment. Improvement in foreign aid off-take, though marginal, has been seen. Buoyant remittance flow continued during the year. *Dr Bhattacharya* mentioned all these as positive benchmarks of the year.

Dr Bhattacharya mentioned some worrying signs during the year also. Among these the first one is the failure to implement the Public Investment Programmes. He said poor ADP implementation has been a systematic issue over the years. But this year it reached a new height. He also mentioned about the poor revenue collection effort, particularly in non-NBR and non-tax components during the year. The third point he mentioned as a worrying sign is the stressed fiscal balance in the face of runaway growth of revenue expenditure. He said revenue expenditure growth was tremendously high during the year in comparison with ADP implementation. Balance of payment got stretched, particularly during the third quarter. As the credit flow increased, the import of machineries increased and it created pressure on the balance of payment situation. Also as import greatly outpaced export growth, it added to the stress on the balance of payment situation. There was a rising trend in consumer price index, particularly food price, partly underpinned by the growth in the world prices of food, fertiliser, fuel and steel. There was also a deepening state of weak governance. *Dr Bhattacharya* noted that the Anti Corruption Commission was to be launched this year but still to be effective. He also noted with worry that reform in the public administration and local government did not go any further. Mentioning these negative features of the economy *Dr Bhattacharya* said that to him the major macroeconomic challenge for the budget for FY06 will be to sustain the recent upswing in the private investment growth without weakening the macroeconomic stability.

Among the other aspects the budget needed to address, *Dr Bhattacharya* mentioned about the slow progress in revenue mobilisation, the inability to implement public investment programmes, upsurge in inflation rate underwritten by cost-push factors, the delicate balance in external payments situation notwithstanding the robust export and remittance growth, failure to undertake complementary reforms to ensure improvement of micro-conditions for private investment and widening disparity in income distribution which is limiting the growth prospect including its sustainability. He mentioned that CPD has been monitoring this disparity with great worry. Although the growth was there, the benefits were unevenly distributed. He noted that the latest poverty monitoring estimates show that during the last five years the income differential between the top 10 per cent and the bottom 10 per cent of the population has increased from 20 times to 24.5 times.

Dr Bhattacharya congratulated the Finance Minister for his condensed budget speech this year and for integrating the two parts of the budget in one. He said that the speech was contextualised. He appreciated the Finance Minister's word that whatever this country has achieved does not belong to a group or a party rather this is a national achievement. He said a much more poverty friendly language has been noted in the budget speech this time. However, he added that there were some parts missing. For example, everyone expects that at the end of the speech there should be a summary of the net outcome of the fiscal measures,

that is, how much money is coming due to the new fiscal measures and how much will be forgone due to the same. He noted that the Finance Minister in his budget speech stated that 54 per cent of the budget has been allocated for poverty reduction. An annex in the end stating which sectors and which programmes are really pro-poor would have given a clearer explanation of 54 percent allocation. He expressed his contentment as 4 of the CPD proposals found place in the budget, 2 in the safety-net programmes and 2 in the investment programmes.

Economic Performance

Dr Bhattacharya said that GDP has posted a 5.4 per cent growth this year while the PRSP target was 5.5. He mentioned it as quite satisfactory, keeping the flood in mind. But the problem is, the GDP growth rate of FY04 has been revised upward to 6.3. He expressed CPD's concern that this substantial upward revision of the GDP figure needs to be somehow clarified. There is a need for transparency and the last thing anyone wants to have is a debate on the GDP figures over time across the board and it definitely creates problem abroad while talking about the country's economic performance. *Dr Bhattacharya* added that though GDP growth rate of 5.4 per cent in a year with severe flood is quite fine, if this figure is compared with other South Asian countries, it looks quite moderate as most of these countries are targeting 6.5 per cent to 8 per cent growth. He said most of the South Asian countries and the Asia as a whole are going through high growth spell dynamism and this dynamism is partly touching Bangladesh. The issue is to capitalise on this new growth upsurge in the coming years.

Sources of Growth

Dr Bhattacharya mentioned that following the Flood 2004, negative growth in crop sector of (-) 3.3 per cent in FY05 is understandable. Most of the other sectors have shown positive growths. But the concern is, the Real Economic Sector, which includes crop, livestock, fisheries, manufacturing, queering and mining all together, declined from 33.6 per cent in FY04 to 27.3 per cent in FY05 in their incremental contribution and the contribution of the service sector has increased from 45 per cent to 61 per cent. This indicates that the growth is service sector oriented and quite often this has low employment linkages and the accessibility of the poor remains constrained. He added that the growth is good, but it needs to be changed in favour of the manufacturing sector, the processing sector, the labour intensive industrial sector and that will give a better employment impact.

Per Capita Income

Dr Bhattacharya said that per capita GDP and GNI for FY05 were US\$ 445 and US\$ 470 respectively. The per capita income of Bangladesh is still very low as compared to other South Asian countries. It is 28.7 per cent less than Pakistan, 44.3 per cent less than India and 135.2 per cent less than Sri Lanka. This indicates that Bangladesh needs to do better.

National and Domestic Savings

Dr Bhattacharya said that national and domestic savings is one of the major indicators of the economic performance and the poverty. He noted that national savings rate has started to move after a long stagnation. The share of national savings in GDP increased moderately in FY05 to reach 26.49 per cent as against 25.44 per cent in FY04, registering a rise of 1.05 per cent. Domestic savings increased marginally to 20.16 per cent of the GDP in FY05 from 19.53 per cent in FY04. When compared with India and Pakistan it can be seen that Bangladesh is doing better than Pakistan but not as good as India. The share was 28.1 per cent in India and 17.6 per cent in Pakistan.

Investment

In his discussion on investment *Dr Bhattacharya* mentioned that during the last five years (FY01-FY05), the gross investment rate has increased by only 0.3 per cent of the GDP. This is significantly low (by – 1.07 per cent of GDP) compared to the MTMF target of PRSP which was set at 25.50 per cent for FY05. He said that the gross investment has increased by 0.41 per cent. This investment has come in the face of a declining public sector investment of 0.3 per cent which is one of the lowest in last decade. The private sector investment has however increased by 0.6 per cent. This means if the public investment was better this year the private investment could have increased further because of the linkages and complementarities. So when we look at the investment situation the villain of the piece is ADP and public investment. Low public investment may emerge as the constraining factor for the private investment in the coming years whether it is through lack of electricity generation or it is through deteriorating port situation or other poor infrastructural development issues. He said it is, therefore, extremely important for the government to improve the performance of public investment.

Revenue Earnings

Dr Bhattacharya noted that growth target of revenue for FY05 (16.7 per cent) fell short by (-) 5.7 per cent. However, realisation in FY05 was 14.9 per cent higher than FY04. He added that the country experienced a 10 per cent to 12 per cent average revenue growth during the last decade which is a steady growth and it is marginally above the inflation growth rate that gives again a marginal growth in the Tax-GDP ratio. New target for revenue earnings in FY06 is 16.64 per cent. Last year the single largest incremental contribution came from VAT (34.0 per cent). Customs duty contributed about 16.4 per cent. Incremental contribution of direct tax was 19 per cent. He said tax system is undergoing a change, moving away from tax on goods and services towards direct taxes and VAT. The issue is which one is moving and at what pace. He made the point that collection from direct taxes should be higher than indirect taxes because direct taxes are income based and indirect taxes are paid irrespective of what people earn, whenever and whatever they consume in a flat rate. So the effort of the government should be on direct taxes. From the growth target of FY06 it is seen that incremental contribution of VAT would reduce to 32 per cent and for direct taxes it will increase from 15 per cent to 17 per cent. “It is a welcome change”, he said. But he added that what bothers is the non-NBR tax and non-Tax. *Dr Bhattacharya* said he was surprised to see that in non-NBR tax, the taxes on vehicles registered a negative growth where everyone knew how many new cars are getting on to the streets. Again, the taxes on land transaction registered a negative growth which he mentioned as another surprising issue. He said these are obviously the sources of leakages and need to be plugged. So non-NBR remains a major area for creating resources, he said. Similarly, in non-tax, the T&T is incurring a huge deficit which is affecting the whole revenue collection situation. “We quite often get stuck with the NBR, but NBR is comparatively doing better than the rest of the areas”, he added.

Dr Bhattacharya said that revenue-GDP ratio will go up marginally but target set by the PRSP is still very modest. The target set in the budget is less than 11 per cent which is even lower than the PRSP target. He said that PRSP target is found to be very conservative and the budget turns out to be more conservative. So a lack of ambition is seen.

Public Expenditure

Dr Bhattacharya said during the last few years, average growth of revenue earnings was 13 per cent against the public expenditure growth of 8 per cent. He noted it as satisfactory since the revenue growth needs to develop at a faster rate than the expenditure growth. Again, in the targets of FY06, revenue earnings growth is targeted at 19.5 per cent and public expenditure growth is targeted as 15.7 per cent. He said that he agrees with the plan but how

much will be implemented that remains a challenge. Looking at the macroeconomic stance, development expenditure should grow at a faster pace than revenue expenditure. But in FY05 revenue expenditure registered a 17.6 per cent growth against a 7.9 per cent ADP growth. So the revenue expenditure growth was twice as fast as the investment programmes. Analysing the sector wise distribution of total public expenditure, *Dr Bhattacharya* said that other than the public services, single largest growth will happen in health and education sector with 33.5 per cent and 33.0 per cent growth respectively which is quite in line with the PRSP. Also, social security and welfare will receive another 20 per cent increase. Regarding defence, he said it is a sensitive sector and the relative shares have declined from 7.4 per cent to 6.7 per cent in 2006. It is a moderate growth of 5 per cent with incremental allocation of 205 crore taka. But he added that this is not the entire defence budget and defence budget is spread all over the other sectors.

Annual Development Programme

Dr Bhattacharya noted that the size of ADP for FY05 was Tk 22,000 crore. The size of new ADP is Tk 24,500 crore which is 11.4 per cent higher than the original ADP of FY05 and 19.5 per cent higher than the revised ADP of FY05. But he said, implementation of a fuller ADP is the major issue rather than the size. The issue of quality is less important either. Comparing the ADP implementation between the political regimes, *Dr Bhattacharya* noted that from the beginning year of this government the actual ADP implemented as percentage of GDP is going down and this year it came down to 4.73 per cent which is lowest ever ADP implementation in the last 15 years. He said that ADP implementation remains one of the major areas of concern. So the size of allocation is not the issue, rather the money allocated to various sectors that are not being utilised is the major concern. Taking his discussion on ADP further, *Dr Bhattacharya* said that the share of block allocation in ADP increased from 12.7 per cent to almost 20 per cent. Among the block allocation there are two types of allocations. One is the sectoral block allocation which is allocated to different sectors and will be subsumed for new programmes under approval process. The second is the general block allocation. Regarding the general block allocation, he said that the share has increased from 8.2 per cent to 11.4 per cent. “Can we really allocate money without allocating the purpose? Is it really a fiscal balance in that way?”, *Dr Bhattacharya* raised the question.

Within the sectoral allocation of ADP, the single largest increased amount was allocated to local government. *Dr Bhattacharya* mentioned that it will be interesting to see whether adequate fiscal transparencies and accountability is enforced to support such big monetary growth in local government.

Education and Health sector got increase of 6.2 per cent and 5.2 per cent in their respective allocations. He said the Finance Minister on various occasions had emphasised the need for public investment in infrastructure. It is therefore surprising to note that there is no more allocation in infrastructure which is an area where private sector response is generally poor. The government is supposed to supply electricity and provide roads and communication facilities to the people. But the allocation to electricity is very little at the moment. He added that it is also sad to see that the health and education sector received very little increase in the ADP.

Revenue Expenditure

Dr Bhattacharya noted that the block allocation within the revenue expenditure has increased significantly. When no more money is needed for pay and allowances, which was the reason for block allocation under revenue expenditure last year, why so much free money has been kept under revenue expenditure, needs to be explained, he said. While mentioning the major

features of revenue expenditure, he noted the high growth of “Repairs, Maintenance and Rehabilitation” (43.8 per cent) in FY05, largely because of the flood 2004.

Budget Deficit

Dr Bhattacharya said a systematic fall in budget deficit was observed during FY01-04, from (-) 7.0 per cent in FY01 to (-) 4.78 per cent in FY04. This year the budget deficit has increased, partly due to the financing required for the flood. But mainly it is due to the low implementation of the ADP, budget deficit remains under control. So when it is said that the deficit is under control, it does not necessarily mean that one has managed it efficiently or managed more resources, but it may mean that one has spent less. But at the end of the day the budget deficit of Bangladesh is under control even when compared with the neighbouring countries. “The deficit is under control but due to the wrong reason”, *Bhattacharya* remarked.

Fiscal Measures

Dr Bhattacharya termed the fiscal measures as the most interesting part of the budget. He started his discussion with the revised personal income tax.

- **Personal Income Tax**

Dr Bhattacharya noted that tax level has been increased and minimum income tax has been increased. Those who will be earning 10,000 taka a month will receive a rebate of 10 per cent. Those who will be earning 31000 taka per month will be getting a rebate of 18 per cent. Up to 56000 taka income one will get a rebate of 14 per cent. Those who will earn more will get 11 per cent. He expressed his doubt that the benefit is not evenly distributed. He said the benefits are somehow biased towards the middle. He said the exemption limit is much lower than India, Sri Lanka and other countries although their marginal tax rate is higher. *Dr Bhattacharya* welcomed the new revised personal income tax schedule for the increase in the minimum income level and the minimum income tax. But he also added that new schedule remains most relevant to the salaried people with very transparent income.

- **Tax Amnesty for Undeclared Income**

Dr Bhattacharya mentioned that this is one topic that made people forget all the other major issues that could have been discussed. He termed this measure as unethical and economically inefficient. In no other countries in the world this measure has been introduced and continued for long. It is good only when it is done in a time bound fashion and followed up by strong enforcement.

In a soft democracy like this country has, where one cannot enforce as much as it is required, this measure is not economically efficient.

Dr Bhattacharya mentioned that India introduced this measure in 1997 only for nine months under its Voluntary Disclosure of Income Scheme (VDIS) and the netted tax collection was estimated at Rs.10, 050 crores. He termed the measure as a shock treatment and the efficiency will depend on the time limit, political will and its enforcement. He added that as there is no account of black money in the country, it will be very difficult to measure how much effective it really was.

- **Tax on Real Estate**

Dr Bhattacharya noted that taxing of investment in real estate has been increased to 175 Tk/M² and imposition of 2.5 per cent tax on the price of land to be deducted at source at the time of registration. It is also a final settlement. According to him it is another way of whitening the black money because if anyone with black money invests on real estate and it is a final settlement, no one is going to ask any question. But at the same time, he added that this is also going to encourage investment in real estate and he is in favour of that. He

expressed his doubt about the efficiency of this measure and expressed his concern that real estate developers will not be very pleased with this measure.

- **Consideration as Final Settlement**

Dr Bhattacharya noted that there are a number of final settlement decisions in the budget. It has been mentioned in the budget several times that deduction at source will be treated as final settlement. He said it is a good measure which streamlines the tax administration, brings in more transparency and possibly less harassment. At present the rates of advance income tax applicable to "Royalty & Technical Know-how fee" and "Professional & Technical service fee" are 10 percent and 5 percent respectively, which very often cause confusion because the "fees" are of same nature. In order to remove this confusion, the rates of tax for all these fees are re-fixed in the proposed budget at 10 per cent. He argued that this can also be considered as final settlement, since this may encourage them to declare their incomes and thereby help mobilise more direct tax.

- **Other Direct Taxes**

For other direct taxes, *Dr Bhattacharya* said most of the measures are positive. He said he agrees that banks are to be allowed to make provisions for bad and doubtful debts up to 1 per cent in place of 2 per cent of the total outstanding loans till assessment year 2006-07. He also agreed with the proposal for rate of advance income tax applicable to profits from approved securities and bonds to be reduced to 10 per cent from the prevailing 20 per cent. He also agreed on the reduced rate of tax at 10 per cent on income from computer software business to be continued up to 30 June 2008. He said continuation of this measure is good, but it would have been even better if supports like tax holidays and others were provided. *Dr Bhattacharya* said tax-rebate for donations to philanthropic and educational institutions by any individual or industrial enterprise is a positive measure. This measure was introduced before by the Finance Minister in 1992. But it was later withdrawn as people were abusing the facilities provided for a good cause. He said for the some reason it is also important now to be cautious while introducing such measure but on the whole it is a positive measure as this will encourage private philanthropy in the country.

- **Tariff Structure**

The three-tire tariff structure has been retained with marginal rate of 25 per cent. *Dr Bhattacharya* said this is fine and he also supports that the five supplementary duty structure has been revised and brought down to three.

He said that the whole new tax structure which has been revised, particularly taking away some of the zero tariffs and the overall trend, is going to support import competing industries and the trend is positive. These will bring clarity to the structure of indirect tax and will promote transparency in mobilisation of indirect taxes.

- **Incentives for Investment**

Dr Bhattacharya mentioned a number of steps the budget has proposed to encourage investment. These are recasted tax holiday facility for selected industries, continued cash compensation scheme, widened gap between listed and unlisted companies, provision of preferential treatment for import of raw materials and tax deduction at source as final settlement of tax. He pointed that reduction of import tariffs for some intermediate inputs could have helped to combat price hike in both domestic and international markets. For example, import duty on newsprints increased to 25 per cent in FY05 deserves consideration for reduction.

Tax holiday

Dr Bhattacharya noted that the government has continued tax holiday facility for 18 selected sectors. He termed it as a good compromise and this is likely to have positive impact on investment. He, however, was surprised that energy sector has not been included in the selected sectors. Moreover, the proposal for tax holiday for only “High Value” RMG sector is somewhat ambiguous as no definition was provided in this respect. Knit RMG was left out. So there is a need to review the list, he thought.

Enhancing dispersion between listed and non-listed company

Dr Bhattacharya said that the budget has proposed to increase tax rate for non-listed companies from 37.5 per cent to 40 per cent. He noted that this difference for listed and non-listed companies is necessary but not at the cost of small and medium industries. He proposed the differential to be done at about 37.5 per cent and 30 per cent because tax rate of 40 per cent on the small industries is like a penalty on them as most of them do not have the financial capacity to get listed.

• Enhancing Domestic Production

Dr Bhattacharya noted that number of positive measures taken in the budget to enhance production in agriculture, like decreasing of interest rate from 8 per cent to 2 per cent on loan for production of pulses, mustard seeds, spices and maize, increasing of seed production, preservation and distribution activities of BADC, extension of repayment period for agri loan (upto Tk 5,000) without interest up to 30 March 2006, continuation of 30 per cent cash incentive for export of agro-products, fruits and vegetables, continuation of 20 per cent subsidy for electricity and withdrawal of all duties and taxes on selected fertilisers.

For non-crop and non-farm production, *Dr Bhattacharya* pointed out that support provided to livestock and fisheries, rural non-farm and agro-processing and agro-based industries are all positive. However, he expressed his concern that there was no proposal for subsidy on diesel. He noted that 83 per cent of the irrigation is done through diesel and the rest is by electricity. Although 20 per cent subsidy is provided for electricity, no proposal is there for diesel.

• Power and Energy

Dr Bhattacharya noted that in FY2006, in power sector allocation was only 0.47 per cent higher than the revised allocation of FY05 where India has increased the allocation by 33.4 per cent in FY06. He pointed out that power sector is emerging as a fundamental constraint to the industrialisation process of Bangladesh but only 22 per cent fund was allocated for generation, 17 per cent for transmission and the rest 56 per cent for distribution. There is a scope for review of distribution of funds among generation, transmission and distribution, he thought.

• SME's

Dr Bhattacharya mentioned that under the proposed tax holiday facility, major SME oriented industries such as plastic, melamine, ceramic and sanitary ware, insecticide and pesticide, computer hardware, agricultural machineries, boilers and compressors, textile machinery, etc. have been included. He remarked that this will have positive impact on investment in these sectors. But he expressed his concern that though under “SME Refinancing Scheme” an amount of Tk 250 crore allocated last year at 5 per cent interest was fully utilised, there is no new allocation this year.

• RMG and Textiles

According to *Dr Bhattacharya*, textile received a lot of support this year. He appreciated government's decision to continue cash compensation for backward linkage textiles, at 5 per

cent. He also mentioned other positive measures such as withdrawal of duties from import of spare parts for machineries some dyes and chemicals essential for textile, terry towel, hosiery and label. But he also expressed his concern that within the budget there is not much scope for handloom industries which, according to the PRSP spirits, would have generated rural employment to a large extent. He noted that India has allocated Tk 58 crore to adopt and promote cluster development approach for production and marketing of handloom products. Comparing the RMG and Textiles sector of Bangladesh with other countries, *Dr Bhattacharya* said that Bangladesh is doing good but not as good as some other countries are doing. At the same time he cautioned that the export of woven-RMG during January-April of the current year has decreased by (-) 7.1 per cent compared to last year and although knit-RMG is showing robust growth of 32 per cent in the first four months, the overall growth of RMG is 7 per cent. So there is a pressure of competitiveness and in 2007 such pressure will be even more. Mentioning the other countries efforts, *Dr Bhattacharya* said in Sri Lanka, government has proposed establishment of a SME Bank by this year to provide required working capital and investment needs of the apparel industry, and to modernise the factories. Sri Lanka has also allocated support for productivity improvement measures and promotion of markets for apparel exports. In its FY2005-06 budget India has offered a number of incentives to apparels/textile sector, for example created a Rs 435 crore Technology Up gradation Fund, instituted a 10 per cent capital subsidy scheme, pronounced cluster development approach, made provision for more than Rs 4000 crore support for textile sector, etc. He said, what is required is more investment in technology up gradation and productivity growth like creating a textile/RMG technology upgradation fund, providing more support to backward linkage activities, supporting the restructuring in the sector, promoting cluster approach for textile/RMG and putting in place a comprehensive plan for RMG workers, both for skill upgradation and rehabilitation.

- **Telecommunication**

Dr Bhattacharya mentioned reduction of import duty on telephonic machinery and reduction of supplementary duty on telephone answering machines and dictating machines as positive measures. He also said that local producers will be benefited by the increase in import duty on mobile phone battery from 7.5 per cent to 15 per cent. But he thought imposition of a tax of Tk 1200 for SIM/RIM Card is a negative measure. He said this is likely to create distortions in the mobile telephone market and this is a disincentive for lower income group. This will also create entry barrier for new entrants and may encourage anti-competitive behaviour. However, the mobile operators on their part, rather than passing the whole burden on the customers, could take up steps towards burden-sharing, e.g. reduce call rates, he said.

- **Manufacturing Items**

For manufacturing items, *Dr Bhattacharya* said reduction of customs duty on some raw materials is a positive measure. He supported reduction of such duty on some raw materials for local bicycle industries but thought it may not be as good for vehicle sector. Customs duty of vehicles within the range of 1500cc to 1649cc in CKD and also for vehicles exceeding 1649cc in CKD has been raised. He said it is not certain that it will stimulate local vehicle body building industry or not.

Local Government

Dr Bhattacharya noted that an allocation of Tk 120 crore for Union Parishads and Tk 60 crore for special programme under Gram Sarker has been made. Local government also received a total block allocation of Tk 826.5 crore for various institutions under 11 heads in ADP which is 5.3 per cent higher than the revised budget of FY04. He also mentioned that Tk 244 core has been earmarked for the CHT as investment project in FY06, which is 31.1

per cent higher than the revised budget of FY05. Interestingly, neither the various heads under Gram Sarker nor CHT experienced any growth last year

Social Sectors and Safety Net Programmes

About the education sector, *Dr Bhattacharya* said it has received the highest allocation of Tk 9487 crore which is 14.94 per cent of the total budget. Out of this 34 per cent will be spent from development budget for implementing 61 projects. He mentioned that this allocation is Tk 2366 crore more than last year's revised budget. He also mentioned that, in line with PRSP, budget has put a lot of emphasis on girls' education. The budget will bring 29 lakh more students under the stipend programme. In addition, the budget has increased the number of scholarships at various levels. However, expenditure up to March was only 44 per cent. No new project was included in the education sector. *Dr Bhattacharya* said the Ministry of Education has been brought under the Medium Term Budgetary Framework which is a new initiative of the Government and hopefully the targets will be better monitored.

For the health sector, *Dr Bhattacharya* said combined allocation in health is Tk 4240 crore which is 33.5 per cent more than the revised budget of FY05. Development budget increased by 58.7 per cent compared to FY05. But he noted that only one new project has been included which was under the local government division and expenditure up to March 2005 has been only 33 per cent of the allocated amount. However, he said on the whole the social sector has got some support.

For safety net programmes he observed that the Finance Minister has continued some of the programmes introduced in the earlier regime, expanded those and allocated more money on those. But he said allocation does not mean implementation. As an example he mentioned the old age allowances scheme where actual implementation was less. This was also the case for block allocation for poverty alleviation. Not much has been utilised there. But he appreciated the increase in the coverage of beneficiaries. *Dr Bhattacharya* also appreciated the new safety net programmes like Allowance for the Fully Retarded and Seasonal Unemployment Reduction Fund and inclusion of programmes for Mitigating Economic Shocks such as retraining and employment of retrenched employees of garment sector.

Concluding Observations

Dr Bhattacharya termed the budget for FY2006 as a budget of care, compromise and collusion. He gave a brief explanation of these terms. He said, caring attitude of the budget has been seen by 1. *a maximum increase in the area of health and education*, 2. *inducement to stimulate agriculture and rural development*, and 3. *effort to expand and deepen the social safety net programmes*. He said like any other budget, this one has also *compromised* in some areas some of which are positive. These compromises are 1. *continuation of a tax holiday provisions* 2. *continuation of cash incentive scheme for certain sectors (textile, leather, agro-processing) and rationalisation of tariff and para-tariff structure that provided protection to particular sectors*. About the budget of *collusion* he said that the proposal of the fiscal measures in the budget were generated through a collusive behaviour and he referred to the *Tax Amnesty for Undeclared Income*. He suggested the withdrawal of this decision and remarked that if this decision is not withdrawn, the credibility of all the positive measures the Finance Minister has taken with good intentions will be questioned in the coming days.

Comparing what the budget was supposed to do in the previous year and what it has actually achieved, *Dr Bhattacharya* said faster growth of revenue earnings than revenue expenditure was targeted which the budget could not achieve. He also mentioned the target of faster growth of development expenditure than revenue expenditure, which was also not achieved.

In general the economy is under-performing when juxtaposed to the targets set by the MTMF of the PRSP, he added.

Dr Bhattacharya remarked that no single policy instrument can fully address the emerging macro situation. Possibly, a combination of three major approaches will be necessary to address the situation. These approaches are 1. *Adjustment of nominal interest rate in line with the inflation rate making the real rate marginally positive*, 2. *Downward revision of the exchange rate of Taka to attain its equilibrium value*, and 3. *Moratorium on government's recurrent expenditures and streamlining of ADP*.

Drawing an end to his presentation, *Dr Bhattacharya* remarked that all over the world, before the election, number of hazards in policy-making takes place. All the governments have done that before and this time the government should try to avoid those.

FLOOR DISCUSSION

Poverty Problem is Massive in Bangladesh

Dr Sheikh Maqsood Ali, former Secretary and former Member of the Planning Commission, stressed on the poverty issue. *Dr Maqsood* said poverty problem is massive in Bangladesh keeping in mind that around 50 per cent of the 15 crore people, which is half the population of the United States, is below poverty level. He remarked that it is not possible to solve the problem of poverty by the conventional structural reform policies reinforced by PRSP. He mentioned that Bangladesh government has already decided there has to be second front in order to tackle this massive problem, in addition to structural adjustment reform policies. Pointing to the micro-credit programmes, he said the poor are organised in many villages in Bangladesh and they have proved that they are efficient in use of resources and if they are provided with more resources, their efficiency increases. If more sensitive support is given to them, they can come from the periphery to the centre of the plan. And if they can come to the centre of the plan, they can not only contribute creatively to the eradication of poverty but also to the higher extra rate of growth. He said this extra rate of growth is vital for the country because massive poverty cannot be attacked with 6 or 7 per cent growth which is envisaged in this budget. "We need 9 to 10 per cent growth for at least three–four decades in order to effectively handle the poverty situation", he said. *Dr Maqsood* noted that there are a number of fiscal, monetary and commercial policies which are anti-poor. For example, he said that the banking system withdraws the money rather than pumps the money into the hands of the rural poor. He emphasized that there is a need to examine how much of the total resources is going to the upper ten per cent of the people and how much is going to the lower 50 per cent of the people and how the access to the resources of the lower 50 per cent of the people can be enhanced.

Mr A Matin Chowdhury, former Chairman, BTMA and Managing Director, Malek Spinning Mills Ltd., said that unemployment and poverty are correlated and textile sector can help in reducing poverty of the country through more employment generation. He said textiles sector in Bangladesh has received support from the government. But further extension of the support like the neighbouring countries can raise export of the country which will extend the business and thus help reduce poverty.

Savings and Investment

Chairman, Bank Asia and Member, CPD Board of Trustees *Mr M Syeduzzaman* noted that according to the latest figures, the national saving is about 26 per cent and foreign aid is available. Total saving available for investment is about 28 per cent whereas the actual investment is less than 25 per cent. He raised the question about the rest of the money and

wondered whether there are idle savings sitting in the economy or not. He mentioned this as a paradox.

Dr Mohammad Abdur Razzaque, MP said investment is extremely low in Bangladesh. He added that considering the geopolitical situation of South Asia, one should not be very enthusiastic about the investment situation. He expressed his concern by saying that it has been three and half years that this government came to power but investment performance is extremely poor in both public and private sector.

Former Finance Minister *A M A Muhith* emphasized on long-term investment policies. He said this country requires investment policies for five to ten years for specific sectors. And for that, it needs to be checked, what tax concessions are offered, what protection is given, what measures are taken to promote particular industries and what kind of infrastructure support is provided. He remarked that this is one important measure that has not been taken in this country where as governments of some other countries have been yielding positive results from it.

Revenue

In the discussion on revenue collection effort of the country, *M Syeduzzaman*, Chairman, Bank Asia and member of CPD Board of Trustees, noted that this year revenue earning is below 5 per cent of the target. He said this year the economy experienced significant growth of industries, respectable volume of import which provided a much large base for taxation. He said keeping these factors in mind, the performance becomes more disappointing when it is considered under the new GDP growth of 6.3 per cent.

In this regard *A M A Muhith*, former Finance Minister, remarked that there has been improvement in the level of expectations but not in measures. As for measures, only two income-tax related measures can be found, namely increment in source collection and advance collection. But he said, structural reforms should also be considered. He inquired why revenue should be collected mainly from direct income when the budget has allocated a large sum to strengthen the local government. He suggested delegating the responsibility of collecting VAT to some distinctive local organisations. He added that it is not an impossible task but a matter of changing administration, changing objectives and changing policies.

Budget Deficit

Referring to *Dr Debapriya's* presentation, *Christine Wallich* from the World Bank said that the discussion has made a lot of point about the size of the deficit but it has not said much about the fiscal deficit. She remarked that the fancy term 'deficit' is hidden in all sorts of places including the losses of SOEs. "This is not actually a deficit yet, but it's a government liability, a government obligation needing to be paid at some point in future" she said. She added that from the World Bank's view, the biggest source of fiscal deficit comes right now from the losses of BPC. She noted that it is losing around 450 million dollars a year and in Taka it comes to about 27.9 billion this fiscal year. And these losses are being covered through various means including loan from the banking sector. Since BPC cannot pay its loan back it has become a government obligation, she added.

Dr Salehuddin Ahmed, Governor of Bangladesh Bank, said budget deficit actually does not become 4.5 per cent and this year it will be around 3.5 per cent. He assured that the monetary policy will be favourable and Bangladesh Bank will do as much as possible in order to encourage the private sector.

Development Vs Non-Development Budget

Honourable Member of the Parliament *Dr Mohammad Abdur Razzaque* mentioned from the budget that this year revenue income will be 45,000 crore taka. It is about 6,000 to 7,000 crore taka higher than the last year's revised income. He noted that only 10,000 crore taka will be spent for development activities and most of the funds will be used for non-ADP expenditures. It may be noted that non-ADP also includes some development activities worth of about 2500 crore taka. He said budget has been increased but only a small amount will be spent for development. There will be non-development fund for government officers, bureaucrats for buying vehicles and other support services.

Dr Razzaque expressed his concern that the Finance Minister in his budget has not mentioned any suggestion regarding how the non-development expenditure will be brought down. He also wondered whether the Finance Minister has decided to disinvest SOE's or not.

Referring to *Dr Debapriya's* presentation, *Mr M Syeduzzaman*, said that growth rate of revenue expenditure is much higher than the growth rate of revenue earnings and growth rate of revenue expenditure over the growth rate of development expenditure is even higher. This year growth rate of revenue expenditure is 62 percent and that of development expenditure is 38 percent. He said this is a worrying indicator and all out effort should be given to increase the development expenditure.

For ADP implementation, Timely Release of Fund is a Must

A vibrant discussion among the participants took place regarding the annual development programme. Discussion on ADP mainly focused on its poor implementation.

Honourable Member of the Parliament *G M Quader* emphasised on the issue of timely release of fund. He remarked that if the line ministries are asked why a project is not being implemented, they always refer to the Finance Ministry saying that allocation is there but money is not released. So it is not the line ministries that are failing the ADP all the time. Fund availability to the ministry is not always done at the right time. He added that the development budget mainly fails due to the inability to collect the revenue in proper time. This time the budget gives a very ambitious target for revenue earnings and also a very ambitious target for revenue expenditure and development budget. So there is a risk that so much revenue will not be collected and the country will not be able to achieve development and revenue expenditure as per target in the budget.

The same issue has been raised by *Mr Abdul Khaleque*, honourable member of the Parliamentary Standing Committee on Ministry of Finance. *Mr Khaleque* also shared the same view as regards release of fund at the right time. Ministers in the committee say they are not getting funds from the Finance. He remarked that to implement the projects timely release of fund is a must. He added that in Bangladesh especially in the rural areas due to the rainy season only six months are available for work. So fund release should be done accordingly so that projects are timely implemented.

Honourable Member of the Parliament *Dr Mohammad Abdur Razzaque* remarked that the implementation level of ADP is never more than 80 per cent. "This year's challenge should be to make it over 90 per cent. But this would require new strategies about which there is no indication in the budget" he added.

Block Allocation

Block allocation in the ADP was another major point of discussion among the participants. Most of them expressed their concern about the possibility of misuse of this fund.

On this issue *Mr G M Quader* agreed with Dr Debapriya that when much has been taken care of increasing pay scale, special allocation in every sector is not logical. He also mentioned that since Gram Sarkar is formed by government nominated members he worries that 60 crore taka allocated as block allocation for the Gram Sarkar will be used for upcoming election activities. It is not clear from the budget how this fund will be used. Such lack of transparency gives rise to worries in everyone's mind, he remarked.

Md Abdus Shahid, honourable Member of the Parliament and Chief Whip of the Opposition, also raised objection as regards the block allocation of 60 crore taka. He also thinks this money will be used in the upcoming elections.

Referring to the comments of *Mr G M Quader* regarding block allocation in Gram Sarkar, *Dr Razzaque* said that Gram Sarkar is not in agreement with the constitution of the country. He said it is not an administrative unit and without an elected representative a government institution cannot be formed. But this institution has been established and therefore question is raised whether it is functioning or not. He said resource is scarce in Bangladesh. In a situation where village people cannot buy medicine for their sick children 60 crore taka as block allocation for Gram Sarkar is not justified.

Honourable Member of the Parliament and Chairman of the Parliamentary Standing Committee on the Ministry of Finance *Mr Mushfiqur Rahman* noted that it was a pre-election commitment of BNP to the people to have an institution at the grassroot level like Gram Sarkar. Therefore, this cannot be bad, he said. Every government has its own strategy, philosophy and programmes. So 60 crore taka for the Gram Sarkar is not outside the commitment of the political government as this was in the manifesto of this party.

Agriculture and Agricultural Subsidy

Regarding diversity of agricultural production, *Dr Razzaque* said that there is a need for more funds and more allocations in the agriculture sector. He said only subsidies or diversification from one crop to other crop is not enough to provide support to this sector's needs. Effort is needed for diversification of livestock, fisheries and other commodities as well.

Mr Syeduzzaman made a suggestion regarding availability of fund to the deserving farmers. He said there are 12 million farmers in the country, 2.5 million are large farmers, and the rest are small and marginal farmers. So other than the large farmers there are also 9.5 million farmers. If a cash disbursement of 1220 taka is given to each of these farmers it comes to roughly 12 crore taka which is the amount of subsidy in the ADP. *Mr Syeduzzaman* said in that way it will be progressive because the smaller farmers will get much higher subsidy per acre of his cultivated land than the large farmers. But, to implement this, all the small and marginal farmers are required to be identified. Since everyone has access to the land records which shows how much land is owned by everyone identifying the small and marginal farmers will not be an impossible task. He also mentioned that to monitor this there is a need for effective local government. He said that this country unfortunately does not have a strong local government. At the same time, he brought it to the attention of the Finance Minister that like the pay commission, effective local government was also an election pledge of this government.

Mr G M Quader noted with concern that the farmers are being marginalised and they are becoming poorer every day. This country is losing the farmers as they are becoming rickshaw pullers and labours. So agricultural subsidy, both in the production and in the price support, should be there to keep the farmers on the land. Though amount of subsidy is increased every year, farmers are not being benefited out of these agricultural subsidies at all. They are

getting poorer, prices of fertilisers and other inputs are increasing and government price does not prevail in the local market. At the time when they actually need these, the prices are always high.

RMG & Textile

Mr A Matin Chowdhury, Former Chairman, BTMA and Managing Director, Malek Spinning Mills Ltd, acknowledged that the textiles industry has been in the forefront of all government policies and in every budget support has been provided by the government which helped the business to come up to the present stage. He said, two problems in hand are unemployment and unfavourable BOP, and only textiles in the garments sector can address both of these problems. But he said that with the removal of quota the market is now facing global competition. And bigger countries like China, India, Pakistan, and Turkey are investing more resources in their industries which are therefore creating an uneven business fields for Bangladesh. Quoting *Mr Chowdhury Mustaq Ali Chima*, Textiles Minister of Pakistan, he said that because incentives are not allowed, in Pakistan, they are framing it under development programme and giving 6 per cent incentives for research programmes. The Indians are giving 5 per cent extra subsidy to the sector under the Technological Upgradation Fund, again bypassing the requirement of the WTO. He gave the example of India where a project of 100 crore, government is going to give 10 crore and on top of that the industry will negotiate with the bank on an 8 per cent interest of which the government will give 5 per cent and the industry has to pay 3 per cent. These are creating an uneven competition for Bangladesh. *Mr Chowdhury* added that the Finance Minister has reduced the duty on dyes and chemicals but the industries are still paying 32 per cent. He also informed that both Indian and Pakistan government have given interest waiver and also textiles has been exempted from sales tax as well as import tax. So those are the areas of big challenges for Bangladesh. “We know our resources are constrained but we still need to look at bigger challenges and we need huge investment”, he said.

Export

Sayeeful Islam, President, DCCI and Managing Director, Concord Garments reminded the audience that the government has mentioned on several occasions that our economy will continue to be based on export led growth strategy. In that case the issue of export diversification will be crucial. But the government has really not worked in that direction. The country is in extremely vulnerable position as it is dependent on one product: RMG and textiles are preponderantly dominating the export sector. He mentioned that the Commerce Ministry has identified some thrust sectors such as IT, and agro-processing. But to really diversify the export, there needs to be linkage between import policy, export policy, industrial policy and most importantly the education policy of the country. He appreciated increased allocation in the vocational education sector. Now the concern is to make sure that this allocation is effectively utilised

Research Director of CIRDAP *Professor Momtaz Uddin Ahmed* mentioned that in his recent study on the export policy-making of Bangladesh, it was revealed that policy-making effort in Bangladesh is not a coordinated affair. There are several sub-sectors like special sub-sectors, special development sector, etc. As many as seven sectors are there and there are also many priority sectors listed by the Ministry of Industries. This indicates that there is a serious lack of policy coordination at the very high level of the government policy-making machinery. It is neither the Finance Minister nor the Communication Minister who alone can perform this task. It should be the combined responsibility of all the ministries to play their part and to play the part in a highly effective and coordinated manner, he said.

Interest rate

Professor Abu Ahmed, Department of Economics, University of Dhaka, noted that despite everyone's apprehension about switching on to the floating exchange rate, it was managed very well till this time. But recently some fluctuations (upto 4 taka within one week) have been observed. And at the same time a signal is given that an intervention is needed to move it up. It took two to three years to bring the interest rate down by 2 to 3 per cent and when the economy started expanding and credit flow to the private sector was also going up, suddenly a signal is being passed over that the interest rate should be moved up again. He remarked that one year is not enough to produce good results out of the low interest rate. It is a recognised fact that minimum three to four years time is required for the low interest rate to give the desired results. He raised the question whether it is good to move to a higher interest rate and higher price or have an exchange rate which is going against Taka. *Professor Ahmed* requested the CPD to conduct a study to reveal whether Taka is really over valued or not.

Touching on the same issue *Mr Syeduzzaman* noted that this year revenue expenditure was 62 per cent and development expenditure was 38 per cent. There is no revenue deficit and there is a slight public sector surplus. But he continued that this year if the revenue target is not met and foreign aid target is not materialised, there is a risk that the interest rate may go up higher next year. He was also surprised that during the whole budget speech there was not a single sentence urging the people to cut down the expenditure and reduce wastage.

Whitening of Black Money

Whitening of the black money was probably the most debated issue of the budget 2006.

Regarding the black money issue, *Md Abdus Shahid*, MP and Chief Whip of the Opposition, mentioned that, over 10 per cent tax has been imposed on the general people but in case of black money whitening the interest is only 7.5 per cent. He mentioned it as an unfair measure. He said this is not only unethical in a sense that the black money owners are getting advantages, but this measure also demoralises professional ethics.

Mr Mushfiqur Rahman, MP said that a very interesting debate is going on in the country about whitening of the black money, as if it is a new thing. But he noted that this whitening of black money has been going on for long time, even during the previous government. He mentioned that the Finance Minister is also not in support of this. But, on the other hand, there is an economic benefit side of this measure. He remarked that the Finance Minister is fully aware of the matter and the government is hoping that this time some improvements will take place.

Inflation

Former Deputy Speaker of the Parliament *Professor Ali Ashraf* mentioned that inflation is a very important issue which is affecting the common people in many different ways. But he added that the Finance Minister in his budget speech did not mention how to lower the inflation rate.

On this issue *Dr Salehuddin Ahmed*, Governor of Bangladesh Bank, said that it cannot be reduced in a short time by monetary policy instruments. He said Bangladesh Bank is trying to shed up the inflationary expectation which is really bad. He assured that the monetary policy will be geared towards the expectations so that inflation is not increased any more in future. That will be the major aim of monetary policy.

Governance

Professor Ashraf said that in the budget nothing has been mentioned about governance and transparency and accountability of public funds when the country has been a champion in

corruption for last three or four times. He said there is no measure taken in the budget to curb the corruption. He also mentioned about the alarming disparity between the poor and the rich. In this context he said that the size of the ADP is impressive and it has placed a lot of hopes and aspirations before the people. But he warned if corruptions are not curbed and transparency and accountability are not ensured, all the efforts will go in vain.

Former Finance Minister *Mr A M A Muhith* stressed on the poor institutional setup throughout the country and the ever increasing corruption that further deteriorates the governance situation. He said core emphasis should be given on the improvement of governance issue, whether to improve the implementation of the ADP or to eradicate poverty from the country.

Miscellaneous

Diesel: Pointing to the high diesel price, *Mr G M Quader* said that almost 85 per cent of agriculture in this country depends on the supply of diesel and diesel is not being supplied in proper quantity at the time the farmers need it. The price is also high and in this situation the government has raised the price further up. He said that the farmers will have to pay at least 25 to 30 per cent on the top of that price.

Defense: Regarding defense, *Dr Mohammad Abdur Razzaque* expressed his concern about the defence expenditure. He said defense is a sensitive issue and there are some strategic things in defense that cannot be discussed publicly. But there are also other development expenditures like construction of buildings, mosques, etc. in the defense that are not strategic and there is no reason why these cannot be discussed in the parliament or in civil society forums.

SIM/RIM Card: While making comments on the much talked SIM tax issue, *Christine Wallich* The Country Director of World Bank said that the telecom sector is the largest single source of tax revenue and it is a market if allowed to grow, could grow at a very rapid pace. But in Bangladesh the market is growing at a lower rate than expected. The high tax on cell sets and now on SIM cards are part of the reason for that. She mentioned the World Bank's recommendation to replace the tax with necessary surcharge on VAT on call revenues but not the SIM card tax which will substantially hamper the growth of the call market and the country in general.

Taking cue from the World Bank's comment, Chief Whip of the Opposition *Mr Md Abdus Shahid*, MP said in IT sector, the mobile phone is like a part of the family. The imposition of tax on SIM card is discouraging for this market. He said this market is playing important role in creating job opportunities. Twenty-five million new faces are coming to the labour market for job every year. Only half a million is getting job and the rest remains unemployed. He said this is a major issue and the honourable Finance Minister should look into it more seriously.

RESPONSE FROM THE GOVERNMENT

Responding to the debate on block allocation in the budget, Finance Secretary *Mr Zakir Ahmed Khan* made some technical comments. He said in the revenue budget the block allocation is about 1100 crore which is there every year to meet unforeseen expenditure there is about 600 crore more kept this year. Block allocation is for development projects. If the allocation is unutilised and the time is over, the amount is transferred to the revenue budget. There is another allocation which is for new recruits. Many ministries will be recruiting people and it is not known at the time of budget preparation how many will be recruited.

Therefore an amount as block allocation is kept. Also, we are going through a transitional phase and the budget need to be integrated with PRSP goals. There is a long list of unapproved projects which need to be linked with PRSP targets. These projects are subject to more scrutiny before approval. So once they are approved, they can get money from the block. *Mr Zakir Ahmed Khan* mentioned that this is a sectoral block which can not be transferred from one sector to another and in this transition phase, when new projects are in line, block allocation has to be there for the time being. In fact, this block will gradually be absorbed as more projects come in line with the PRSP goals, he said.

While responding to the issue of revenue budget being higher than the development budget, *Mr Zakir Ahmed Khan* said that a clear-cut distinction between development and non-development budget is not followed. He said previously there was much expenditure in the revenue budget that now has been brought under the development budget. Referring to *Dr Bhattacharya's* presentation, he said much has been said about the social safety net programmes which are in the revenue budget. But these programmes cannot be distinguished as development or non-development programmes. "We need neither a revenue budget nor a development budget, what we need is one budget", he said.

RESPONSE FROM M SAIFUR RAHMAN, MINISTER FOR FINANCE AND PLANNING

M Saifur Rahman in his initial comments thanked CPD for organising the budget discussion and making this opportunity for getting views from a galaxy of distinguished people. He also mentioned that he has been participating in the CPD budget dialogues from the very beginning. He added that *Dr Bhattacharya* has worked on certain issues which takes serious efforts and it is very good work that he has done.

The Minister mentioned that this is the budget of a political government and commitment of the government will be reflected in the budget. This is democracy and BNP has got mandate of the people and works as people want them. It is not an executive budget, it is not a civil servant's budget, it is a budget of a political government. He said, to prepare such budget one need to visit every area of this country, every village and every union of this country to know what people want and where. He said many people come to him from outside Dhaka and discuss their needs. "It is alright to discuss these things in a five-star hotel, but when you go to the field, you find the picture different", he said. The government deals with the people in rural Bangladesh, where majority of the people live, about their education, their health and their welfare. So the budget reflects the party philosophy and his function as a Finance Minister is to work for the overall interest of the nation. He said if the people have voted BNP for the second time then really BNP knows how to govern and how to deliver. This budget is meant to deliver that sort of need of the people of the country. He said during the dialogue it has been discussed what percentage of the budget has been implemented. This is a country of 144 or 142 million people. That does not mean the budget has to be conservative. Nowhere in the world budget is 100 per cent implemented. Comparing to the budget implementation situation in the neighbouring India, the Finance Minister said that Bangladesh has a much better situation. So the Bangladeshi people and government together, right from the beginning, managing the budget process very well and changing of government does not really make any substantial or significant difference in the process. It is more or less the same sort of people worked in 1991- 96 and again in 1996 -2001. Referring to the point *Mr Muhith* has made, that the whole structure of the budget making, the local government features, etc. has to be changed, the Finance Minister said he agrees that a change need to be brought in the institutional setting. The institutions have a lot of weaknesses which should be identified first and then work out how to strengthen the whole governing processes or make better use of the resources to bring improvement. "Unless we

can make the institutions strong, no budgetary allocation will be able to bring the desired result”, he said.

Terming the local government institutions as one of the most reckless, irresponsible institutions in Bangladesh, the Finance Minister said that if the local government institutions are not strengthened, their accountability are not enforced and their regulations are not introduced then it will be of no use financing local government.

Referring to *Dr Bhattacharya*'s presentation, the Finance Minister said that the economy registered 5.5 per cent growth despite the three recurrent floods. He said everybody including the World Bank and IMF presumed that there will be dooms day for export, when the MFA is withdrawn. But there was no dooms day. Every thing is going fine. He also mentioned about the good production of the *Boro* crop. He mentioned about the FDI proposal that is coming up because of a hospitable, healthy investment environment. He said that the capital market has been improved and the government is trying to give whatever support is needed for the capital market. Referring to *Dr Bhattacharya*'s remarks that there is robust credit expansion in the private sector but there is no investment, the Finance Minister explained that the credit is going for the import of capital machinery and machinery imports mean investment. If one goes from Dhaka to Mymensingh, he will see many new factories are coming up. He also noted that in Rangpur and Dinajpur, there is also no land available for expansion of poultry and fisheries and such kind of activities. He remarked that for Dhaka city based economists it is difficult to see all these developments. Blaming the perspective of the majority of the people of this country, he said that everyone always mentions only negative things and is very miser to say something positive. In this connection he pointed out that people asked for a Pay Commission, they asked for salary raise of the government officers. But when the salary was increased, everyone including the television started to ask “Will the price go up now?” On the issue of inflation he mentioned that it is possible to check inflation through monetary policy measures and the central bank is controlling the monetary policy. The Finance Minister remarked that till today the government has been doing very well. If something goes wrong, the government also tries to rectify its policy.

About the improvement in the foreign aid situation the Finance Minister said that the country needs to improve further because it is only a marginal improvement, what we have so far.

Responding to the budget implementation debate, the Finance Minister said it is true that unless the Finance Ministry releases fund line ministries can not spend money for their projects. But he said it is the poor implementation capability of the line ministries that is hindering the ADP implementation not delayed release of fund.

Implementation capability is also a governance issue. Budget cannot solve all these problems. Lack of governance runs across the whole government machinery. And it is not exclusive to BNP or AL or any other party who comes to power, the question is to what extent it can make the administration rigorous, dynamic and resilient so that they can take up the challenge of development which is reflected in the budget. When on 20th of March the Finance Ministry finds that 1300 or 1600 crore taka has remained unutilised, it is too late at that time to allocate that fund to another ministry. The Minister mentioned that even in the month of May and June, the Finance Ministry has been doing the re-appropriation of budget from one ministry to another ministry. The money is just remaining unutilised. This money could have been allocated to local government, education ministry or in other sectors. Responding to the former Finance Minister *Mr Muhith*, the Minister said it is true that the government is giving the whole budget to the line ministries. They have been given training and detailed directions to be able to estimate their need for fund. They will decide their policy within the framework. It is obvious that the estimate of first year will be more exact, second and third year may be a

little bit away from estimates. The Finance Minister said institution cannot be built up overnight. Previously budget used to be prepared by Ministry alone, now the government is decentralising it by involving line ministries. It will take time for this new system to work effectively. The Finance Minister assured that if the parliament sits together and brings about the issue of strengthening local government institution, he will support it and provide monetary and other support. He also mentioned that the parliamentarians have responsibilities whether it is in the Finance Committee or in the Planning Committee.

The opposition parliamentarians are more vocal and this is why he found more support from them than his own people. He added that when the opposition says something, he listens to it very carefully.

Regarding the block allocation the Finance Minister said he personally does not like the concept of block allocation. But there are certain circumstances when it becomes useful. By way of giving example he said, ministries have to recruit, for instance, 3000 doctors or 20,000 teachers. But sometimes these numbers of teachers are not recruited. As soon as the specific ministry says that they need fewer recruits, then the money is transferred to another ministry. Not a single funding from the block allocation is used unnecessarily. The problem lies in the project identification, preparation, implementation and monitoring. Till today, the country has not been able to progress much in these areas. For example, the Minister said, mostly outsiders identify the project. Then MPs dictate projects in their constituencies without considering the feasibility of those projects. This is why the Planning Commission faces difficulty in approving projects. There are certain principles to follow and experiences to consider while designing a project. The Minister said he is the most unhappy man for non-utilisation of funds which is due to ineffectiveness of the administrative machinery of the government. But he said this will need time to be improved.

The Finance Minister said people have mostly addressed two issues of this budget. One is the SIM/RIM card and the other is the black money. He explained that he was strongly opposing when the decision was being made. But people should understand that there may be a good intention for what has been done. He mentioned that although he was against it, he observed some behaviour in the capital market, exchange rate, banking liquidity, LC opening and others. He noted that earlier there was some control over LC opening like down payment of 25 per cent. But due to World Bank's pressure everyone is now free to open LC. The Minister said this leaves nothing in his hand to control if something goes wrong. This also requires that sound structure of monetary, fiscal and other management institutes be put in place. He also noted that this was not a new measure. Some governments gave untaxed income full freedom, some gave half freedom and he gave little freedom. But still he was very much uncomfortable with it. But he had to harmonise between the moral discontent and economic compulsions. He said the government is going to strengthen many of the institutions and financial management system. He also mentioned that the government has gone for a floating exchange rate only for two years. He said it is surprising how the government has maintained stability where in many countries when it was introduced the rate jumped from sixty to hundred. He appealed for everyone's support and said that for a good accountable governance to be achieved floating exchange rate is a must. The Minister emphasised on the importance of the institutions of this country to be improved. He noted that the parliament is failing to improve the democracy in the country. Instead of blaming any particular party, he said every one is just not putting their heads together to bring about a positive change in the institutions for which the parliamentarians were elected. He said it is a high time to do something about it. May be a third party can be brought into the system but for the Finance Minister alone it is impossible. Responding to *Mr M Quader's* comment, the Minister said that he was a bit surprised as Mr. Quader is one of the most informed persons as a leader of the opposition. He noted that the Finance Ministry does not control any money

after the budget is over. If any Minister sends a file to the Finance Minister for any approved project financing, he recommended that the issue be taken up with the Minister as the Finance Ministry is only involved in the fund release of the fourth quarter of the year. On the question non-development expenditure growth being higher than development expenditure the Minister remarked that there is no such differentiation as development and non-development expenditure. All expenditures are development expenditures. For example, he mentioned about giving salary to the school teacher, scholarships to the students and scholarships to women of the universities. He raised the question whether these expenditures can really be treated as non-development expenditures.

He went on to explain further and gave another example. He said textile machinery is taken as a part of development but not the chief executive officer without whom this machine remains useless. According to him along with the machinery the chief executive officer is also very much a part of the development. So there is no border line between development and non-development.

The Minister mentioned that previously he has brought many projects out from the development sector to the non-ADP development sector. He said it has been seen that the fisheries ministry is giving projects to create fish fry and the forest ministry is giving projects to distribute tree plants. According to him it is the normal course of duty of the fisheries ministry to create and distribute fish fries and forest ministry to distribute tree plants. These can not be included as development projects. The Finance Minister said this is the reason why he had brought about 250 crore allocation away from the core development budget to the non-development budget and next year he wants to take it further. He expressed his intention to prepare a single budget in due course of time.

Responding on the deficit issue the Finance Minister said that 4 per cent or 4.5 per cent deficit for a country like Bangladesh is not a big deficit and it is quite within the PRSP target. Half of the deficit is being financed from the internal resources and the rest come from outside.

On the issue of diesel subsidy, the Minister said if he could provide 20 per cent subsidy for electricity it would have been possible for him to provide this support to diesel. But he said this was not possible. Claiming himself a farmer, he said diesel is used for many purposes, from running machines for fish cultivation to irrigation, and for sectors other than agriculture & fisheries. At the moment the amount of subsidy to diesel is Tk. 11.00 per litre. Subsidising it further will not be possible, he informed. He said that in Bangladesh energy is provided at the lowest cost compared to other countries like India, Pakistan or Sri Lanka. He mentioned that in India it is 62 Bangladeshi taka per litre and in Bangladesh it is only 36 taka.

Drawing conclusion to his speech, the Finance Minister remarked that this country will not be improved by a good budget but by good governance. The governance issue need to be improved and at the same time our institutions need to improve. In order to bring improvement in the institutions there is a need for dialogues between the parliamentarians and the others. Sooner these dialogues can take place, the better it will be for the country.

CONCLUDING REMARKS BY THE CHAIR

Professor Rehman Sobhan expressed his gratitude to the Finance Minister *M Saifur Rahman* and all the other participants for their valuable inputs. He concluded the session with an expression of hope that the tradition of budget discussion will continue in the successive regimes and appreciated the cooperation of all in the process.

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Mr Mominul Haque Azad	The Daily Ajker Kagoj
Mr Raihan M Choudhury	The Financial Express
Mr Saif Islam Dilaj	The Daily Amar Desh
Mr Bishawjit Dutta	The Daily Amader Shomoy
Mr Nazmul Haque	The Sangbad
Mr Obaidula Haque	The Daily Sarkar
Mr Motaher Hossain	The Azadi
Mr Md Mamun Hossain	The Banglabazar Patrika
Mr Amran Hossain	The Daily Star
Mr Jibon Islam	The Bhorer Kagoj
Mr Md Towhidul Islam	The Daily Inqilab
Mr Mir Saiful Islam	UNB
Mr Shahidul Islam	The Daily Samakal
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Ms Sakila Jesmin	Channel I
Mr Asif Showkat Kallal	The Daily News Today
Mr Jahangir Kazal	The Daily Amar Desh
Mr Shafiq Kazal	The Daily Samakal
Mr Asjadul Kibria	New Age
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