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State of the Bangladesh Economy and an Analysis of the National Budget for FY2008-09

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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, Ecosystems, Environmental Studies 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 amongst 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, CPD has decided to bring out CPD Occasional Paper Series on a regular basis. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest will be published under its cover. The Occasional Paper Series will also include draft research papers and reports, which may be subsequently published by the CPD.

As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of the dialogue on ***State of the Bangladesh Economy and an Analysis of the National Budget for FY2008-09,*** held on 17 June 2008 at the Pan Pacific Sonargaon Hotel Ballroom, Dhaka. The dialogue was organised under CPD's IRBD Programme.

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Dialogue Report on

State of the Bangladesh Economy and An Analysis of the National Budget for FY2008-09

The Dialogue

The dialogue on *State of the Bangladesh Economy and an Analysis of the National Budget for FY2008-09* was organised by the Centre for Policy Dialogue (CPD) in keeping with its tradition, to put budget proposals under close scrutiny by civil society stakeholders. The dialogue was held on 17 June 2008 in the Ballroom of the Pan Pacific Sonargaon Hotel, Dhaka following the presentation of the national budget FY2008-09 on June 9, 2008 by the Honourable Finance Advisor.

Mr M Syeduzzaman, Member of the CPD Board of Trustees and Former Chairman of Bank Asia, moderated the dialogue as Chair. Finance Advisor *Dr A B Mirza Azizul Islam* was present at the dialogue as the Chief Guest. Former Advisor to the Caretaker Government (CTG) *Professor Wahiduddin Mahmud* was the Special Guest. *Professor Mustafizur Rahman*, Executive Director, CPD, presented the keynote paper at the dialogue.

A cross section of stakeholders including senior government officials and policymakers, economists, academics, civil society members, politicians, bureaucrats, business leaders and representatives of development agencies took part at the dialogue (list of participants is attached in Annex 1).

Introductory Remarks by the Chair

Mr Syeduzzaman welcomed the Chief Guest *Dr A B Mirza Azizul Islam*, Special Guest *Professor Wahiduddin Mahmud* and representatives of various stakeholder groups to the CPD dialogue. He observed that organising this kind of discussion session has become an annual event hosted by the CPD and is very important from the perspective of receiving feedback from the civil society of Bangladesh.

Mr Syeduzzaman hoped that the audience would discuss the budget proposals within the broad framework of macroeconomic management and from the perspective of raising allocative efficiency and ensuring distributive justice. He felt that the budget had been placed to the nation in the context of what had been a very difficult year, when the economy of the country had to encounter a host of difficulties and challenges. Indeed, the economy is continuing to face those difficulties and challenges. He thought that it would be an extremely difficult task for any Finance Minister to appropriately address all the challenges.

He noted that the experience during the outgoing fiscal year, with regard to outcomes, had seen both positive and negative results. On the negative side, he listed the larger than planned fiscal deficit, more acute food shortages, a higher than expected rate of inflation, particularly food inflation, declining public investment and a stagnant or near-stagnant investment-GDP ratio and dismal developments in the energy sector. On the positive side, he included the emphasis on public expenditure priorities, putting agriculture back to centre stage with both financial and non-financial support to which farmers responded very positively, the maintenance of food security through adequate imports and internal procurement to the largest extent possible, the expansion of the base of the social protection system to cover as many people below the poverty line as possible, the regaining of export momentum, a robust remittance inflow, greater use of foreign aid than has been the case in recent years and the mobilisation of revenue, which exceeded the target.

Mr Syeduzzaman observed that the Finance Advisor, in presenting his budget proposals, kept in view several challenges. These include the maintenance of overall macroeconomic stability, ensuring food security at the national as well as household levels, expansion and deepening of the base of the social protection network in order to access as many people below the poverty line as possible and putting in place protection mechanisms so that more people would not fall below the poverty line. He also noted that the Advisor has made an effort to make greater use of foreign assistance in the pipeline. He felt that the Finance Advisor, in his proposed budget, has also tried to allocate resources for strengthening the country's infrastructure, particularly the power sector. The budget has also made an attempt to provide incentives through fiscal and trade policies to create a business-friendly investment climate. Terming the proposed budget as the mother of all budgets, *Mr Syeduzzaman* said that in trying to put all these ends together, the Finance Advisor has formulated a budget proposal which may be called a borrowing budget in one sense, given the deficit proposed. He, however, cautioned about the challenges that the Advisor was likely to face in implementing the budget proposal.

Following these remarks *Mr Syeduzzaman* invited *Professor Mustafizur Rahman*, Executive Director, CPD, to make his keynote presentation.

Keynote Presentation by *Professor Mustafizur Rahman*, Executive Director, CPD

Professor Rahman registered his deep appreciation for the presence of such a distinguished audience. He also informed the audience that CPD's budget response was prepared by a team at the Centre, and he registered his deep gratitude to all his colleagues who had contributed to this joint effort. *Prof Rahman* reiterated what the Chair said earlier, that the dialogue was organised in keeping with the CPD's tradition, to create a platform for review and reflection on budget proposals. The dialogue is an opportunity for stakeholders to share their thoughts on the fiscal and budgetary measures proposed in the budget.

Crisis and Crisis Management

In his remarks, *Prof Rahman* stated that the Finance Advisor had termed the proposed budget for FY2008-09 as *"a document for overcoming crises"*. The Advisor mentioned that there were three broad objectives of the budget:

- Maintaining macroeconomic stability
- Accelerating growth
- Poverty reduction

And that there were eight priorities which included:

- Maintaining the price level of essentials within a tolerable limit
- Employment generation
- Widening and deepening of social safety-net programmes
- Reducing regional disparity
- Increasing agricultural production
- Ensuring food security
- Increasing power generation and
- The overall development of communication networks including information technology (IT)

Prof Rahman was of the opinion that the priorities mentioned in the budget have to be judged against the nature of the *'crises'*. In this context, he pointed out that the interim report prepared by the CPD has tried to identify the major challenges that the Finance Advisor faced in his macro management of the economy. Those are:

- Vulnerability to global developments
- High fiscal deficit
- Continuing high inflationary trend and its consequences
- Increasing subsidy burden
- Threatened food security

- Sluggish beginning of the industrial sector
- Acute power and energy deficit
- Balance of payments under pressure and
- Continuous fall in terms of trade

These challenges emanated from developments in both global and domestic markets. In the global market, the price of foodstuffs had gone up by 70 to 80 per cent and fuel price went up by about 100 per cent over the span of a year and this threatened both the food security and energy security of the country, he explained. He noted that the economy experienced high inflationary pressure, rising to double digits, and a larger fiscal deficit than what was anticipated. Sluggish industrial growth in the first and second quarters did not help the situation. Addressing the issue of the subsidy burden, *Prof Rahman* stated that the allocation for subsidy had to be significantly increased in order to ease the inflationary pressure originating from high prices of inputs. At the same time, the country had experienced acute power shortages, which had adversely affected the production sector. The situation has been aggravated by a deteriorating balance of payment situation and falling terms of trade, which resulted in lower capacity to procure importables with the same amount of exports.

Prof Rahman made a general observation that the country is in the process of finalising the second Poverty Reduction Strategy (PRS II) Paper for the years 2009 to 2011, and it would have been appropriate if the PRS was finalised first, after which the budget could have been prepared as part of the first year of implementation of the PRS II.

Prof Rahman emphasised that the CPD had tried to analyse the budget from the following perspectives:

- Redistribution (poverty alleviation and reduction of income and regional inequality)
- Growth (stimulating investment, promoting domestic industries, particularly SMEs, stimulating export-oriented sectors and enhancing production and productivity)
- Macroeconomic stability (inflation, deficit management, tensions and trade-offs)

Growth, Savings, Investment and Employment

Prof Rahman argued that against the backdrop of major crop losses in FY2007-08, the growth rate of 6.21 per cent appeared to be quite a good achievement compared with the 6.43 per cent achieved in the previous year, which was a normal year. However, he was not sure whether next year, in the revised budget, the growth of 6.21 per cent would actually remain unchanged. In connection, *Prof Rahman* raised concern about the estimates of real Gross Domestic paper (GDP) in the recent past where out of 13 years, for 10 years the provisional GDP growth rate was revised downward in the subsequent budget. The 6.21 per cent growth projected for FY2007-08 was underpinned by the recovery of agricultural growth, although the growth rate of agriculture itself had come down to 3.6 per cent from last year's 4.6 per cent; at the same time, the growth of industry also had come down to 6.9 per cent from the 8.4 per cent of the previous fiscal year. It was observed that many of the components of the industrial sector, including the energy sector and others, could not register high growth. However, overall, the data shows the service sector having registered a high growth rate of 6.7 per cent at a time when the economy was experiencing formidable difficulties in such sectors as trading, real estate and banking, he observed. Moreover, the incremental capital output ratio (ICOR), which is very important in terms of elucidating how the GDP growth rate was attained, remained the same, changing somewhat from 3.9 in FY2006-07 to 3.8 in FY2007-08.

Referring to poverty reduction as a major concern, *Prof Rahman* observed that poverty reduction could be accelerated by creating employment opportunities for the rural poor. Since the last Labour Force Survey (LFS) was conducted in FY2005-06, no real time data is available to come to any reasonable estimate about the present employment situation. Proxy indicators for the state of employment in FY2007-08, such as the pace of Annual Development Programme (ADP) implementation and the overall investment scenario, do not indicate a promising picture in this regard. According to the draft PRS II projections, the labour force is expected grow to 54.6 million in FY2008-09, 56.4 million in FY2009-10 and 58.3 million in FY2010-11, indicating the inclusion of an additional 5.44 million people to the labour force over the three year period. This indicates that an additional 18.1 lakh people will enter the job market each year. On the other hand, total employment was predicted to increase to 52.25 million, 53.97 million and 55.75 million in the respective years. These assumptions allude to an unemployment rate of 4.3 per cent throughout the PRS period, whereas according to the latest survey (LFS 2005-06) the unemployment rate was estimated at 4.2 per cent, he observed.

Revenue Earnings

With respect to public finance, *Prof Rahman* noted that the government has fixed a target of Tk 69,382 crore to be mobilised as revenue earnings. This is 14.6 per cent higher than the revised figure of FY2007-08. In addition to the revenue mobilisation, revenue-GDP and tax-GDP ratios are targeted at 11.3 and 9.3 per cent respectively, which are about the same as those of the revised targets of 11.3 per cent and 9.0 per cent respectively in FY2007-08. In connection, *Prof Rahman* noted that it was an encouraging sign that the share of income tax in tax revenue is rising and is currently about 23 per cent. However, by comparison with some neighbouring countries, this is still low. For example, direct tax accounted for about 35 per cent of the total tax revenue in Pakistan, whereas this was 25 per cent in India in the same fiscal year. Due to its progressive nature, efforts should be strengthened to increase the share of the direct tax, he stressed.

Prof Rahman drew attention to the targets set for FY 2008-09 which would require National Board of Revenue (NBR) tax earnings to achieve 18.6 per cent growth over the revised budget of FY2007-08, compared to the 27.1 per cent growth in the revised budget of FY2007-08 over the actual receipts of FY2006-07. This target would necessitate the NBR to contribute 78.6 per cent of the total revenue earnings in the next fiscal year, which was 75.9 per cent in FY2007-08, according to the revised estimate.

Government Expenditure

Prof Rahman dwelt briefly on the public expenditure issue. Public expenditure in the FY2008-09 budget approaches Tk 1 lakh crore, which is 26.5 per cent higher than the revised target for the previous fiscal year. He agreed with the increase and supported the proposal of the Finance Advisor. Considering the current inflation rate of 9 per cent, the growth of public expenditure is comparable to that of the last year. The share of the ADP in the total expenditure, which was already somewhat lower in FY2007-08 compared to the previous year, got further reduced in FY2008-09, he added. Furthermore, within the total expenditure, the share of ADP and non-ADP expenditure account for 25.6 per cent and 74.4 per cent respectively, while their respective shares in FY2007-08 (revised) were 26.1 per cent and 73.9 per cent. An analysis of the structure of the revenue expenditure revealed that expenditure on account of three major categories, “salary and allowances”, “interest payments” and “subsidies and transfers” accounted for 80.6 per cent of the total actual revenue expenditure. These grew by 4.7 per cent, 5.0 per cent and 21.0 per cent respectively in the budget for FY2008-09. Increased block allocation raises some concerns because this particular type of allocation goes against the principle of transparency as applied to the budget, *Prof Rahman* felt.

Prof Rahman remarked that the ADP for FY2008-09 is lower than the original ADP of FY2007-08, for the first time in recent record. The contributions of the foreign component and local component in the ADP were 47 and 53 per cent respectively. The size of the new ADP was 3.4 per cent lower than last year’s original ADP, equivalent to only 4.2 per cent of GDP, which is the lowest proportion since 1991.

Regional Balance

Prof Rahman noted that an attempt has been made in the budget to address the issue of increasing regional disparity. However, according to him it is hard to find any correlation between backwardness of a region and allocation in the budget, except in the case of Barisal. He added that this was surprising to note in a budget which mentions reduction of regional disparity as one of the major objectives in terms of resource allocation.

Budget Deficit

Prof Rahman noted that the overall deficit would be about 5 per cent of the GDP. This is to be financed from domestic borrowings of Tk 16,998 crore and aid resources of Tk 13,582 crore in net terms. He added that total aid of Tk 17,803 crore would be required during the next fiscal year, which is 2.9 per cent of GDP. This means about USD 2.6 billion gross aid inflow (USD2.0 billion in net terms) would be required during FY2008-09. An analysis of aid inflow to Bangladesh since independence reveals that the highest amount of foreign aid was received in FY1990, which was US$1.81 billion in gross terms. Thus, aid projections for FY2008-09 appear to be high in the historical context, and may not eventually materialise. If that is the case, the government could be forced to resort to increased domestic borrowings, possibly requiring even higher bank borrowing, *Prof Rahman* commented.

Fiscal Measures

With respect to fiscal measures, *Prof Rahman* mentioned that no change has been proposed in the budget with regard to tax slabs for personal income; however, benefits have been given to females and senior citizens. Some changes have been made with regard to corporate tax structure. The opportunity to legalize undisclosed legal income has been continued. It also includes an attempt to widen the Value Added Tax (VAT) net and some changes in import tariff structure. With respect to personal income tax, *Prof Rahman* felt that the Tk 150,000 threshold should be raised on account of inflation. He recalled that in India, the tax-free income level is Tk. 220,000, in Pakistan the limit is Tk. 190,000. With respect to females and citizens above 70 years, the tax exemption limit has been set at Tk.165,000, which is a welcome gesture. *Prof Rahman* thought that considering life expectancy in Bangladesh, tax benefits should have been given for citizens above 65 years and not 70 years.

With respect to the incentive of tax holiday, *Prof Rahman* noted that the tax holiday has been extended to FY2010-11. There has been quite extensive and widespread misuse and abuse of the system; however, the CPD team thought that the Advisor has taken an enlightened view in this regard by introducing a multi-tiered system. The tax holiday has been extended in a manner that would provide incentives for setting up enterprises in regions outside Dhaka and Chittagong.

Prof Rahman noted that the government has made some changes in the import duty structure which would be of benefit to importers of raw materials and intermediate inputs. The existing 5 per cent, 10 per cent and 15 per cent customs duties (CD) are replaced by 3 per cent, 7 per cent and 12 per cent respectively, whilst the existing 25 per cent highest slab remains unchanged. The budget also proposes changes in supplementary duties (SD), VAT and Harmonised System (HS) Code structure. He noted that in spite of the lowering of import duties, overall revenue earnings from import duty are expected to increase by 16.8 per cent. He felt that energetic steps are required to enforce payment of appropriate duties so that revenue targets can be achieved.

Price Stabilisation Measures

Regarding rising prices, the keynote speaker noted that the price hike of essential commodities has been one of the major challenges faced by the CTG. In the proposed budget for the fiscal year 2008-09, the Finance Advisor has identified "maintaining the price level of essentials within a tolerable limit" as one of the eight priorities. To ease the problem, a number of measures (both market-based and non-market-based) have been proposed to keep prices of essential commodities at a tolerable limit, he added. These measures range from fiscal measures (e.g. continuation of zero or reduced import tariff on certain commodities) to direct market interventions (e.g. continuing open market sales (OMS) of daily essentials). To mitigate the negative impact of the high price of food, the budget has proposed broadening its coverage of safety net programmes. In addition to this, the budget has proposed employment generation programmes for the poor and the marginalized. In this context, *Prof Rahman* noted the proposal to introduce a new programme titled '*100 Days Employment Generation Scheme*' with an allocation of Tk 2,000 crore to generate employment for 20 crore man-days for the ultra-poor and the rural middle and lower middle class communities. In addition, further allocation in terms of food worth Tk 1,578 crore has been proposed under the *Food for Work Programme*, which is expected to generate another 14.4 crore person-days of employment.

Sectoral Measures

Agriculture

Increasing agricultural production is mentioned as one of the eight identified priorities of the budget, *Prof Rahman* noted. Accordingly, agriculture and rural development have been given the highest priority in the FY2008-09 budget. Total allocation for agriculture and rural development in FY2008-09 is 16.4 per cent of the budget against 16.7 per cent of the budget in FY2007-08. Both the price and availability of agricultural products became major causes of concern for Bangladesh in FY2007-08. To a large extent this originated from uncertainties in the global market; however, part of this was also due to domestic causes. It was recommended that there be a renewed effort to procure as much rice/paddy as possible after the *Aman* harvests, particularly because of the volatility in the international market. Agriculture has been given a lot of support in the proposed budget along with allocation for diesel subsidy. Total subsidy for agriculture (fertiliser, diesel for irrigation and electricity) in the budget is Tk 13,648 crore; however, the amount of allocation is not specified for each of these components, he added. The private sector is coming to the agriculture credit market and this *Prof Rahman* thought of as a positive development. An analysis of prices of fertiliser and paddy revealed that to buy one kg of urea fertiliser in FY1997-98 farmers were required to sell 0.96 kg of paddy, but they would be required to sell 0.67 kg of paddy given the new price of urea. However, subsistence farmers who have surplus will nevertheless face difficulty procuring fertiliser at this price.

Special allocation of Tk 272.35 crore is proposed in the Budget FY2008-09 for agricultural development assistance and rehabilitation. *Prof Rahman* noted this with appreciation. However, allocation alone would not provide the desired result – an appropriate mechanism for allocation and implementation would be required. He recalled at this point that Tk 350 crore allocated for agriculture research in FY2007-08 has remained unused.

The budget has waived all duties and taxes on fish feed and has allowed the duty free import of equipment, medicine and vaccines, and livestock feed. The minimum taxable income limit for agriculture has also increased from Tk 1.9 lakh to Tk 2.0 lakh. At the same time, the limit is further revised for women and senior citizens from Tk 2.00 lakh to Tk 2.15 lakh which, according to *Prof Rahman,* is a good move.

Climate Change and Environment

A fund for climate change is an innovative introduction in the budget, which demonstrates concern for the possible negative impact of climate change, *Prof Rahman* noted. Bangladesh is at risk of being the worst-hit victim of climate change in terms of sea level rise, extreme weather and frequent natural disasters. The government had withdrawn import duty from effluent treatment plants (ETP) in the budget of FY2007-08 to encourage industries to use ETPs, which according to the speaker was a welcome step.

Industry

Prof Rahman sounded pessimistic with regard to the overall performance of the industrial sector. Performance of the manufacturing sector in FY2007-08 had not been satisfactory — growth of the sector was expected to be rather low at 7.4 per cent, which was lower compared to the past several years, which experienced growth of 9.7 per cent in FY2006-07, 10.8 per cent in FY2005-06 and 8.2 per cent in FY2004-05. Large, medium and small scale manufacturing industries experienced sluggish growth in the first and second quarters of FY2007-08; however, these gained some momentum in the latter half of FY2007-08. Slower growth of the manufacturing sector was to a large extent caused by uncertainties originating from institutional reform measures, inadequate infrastructure facilities (particularly power supply shortage), high inflation and high interest rates on borrowings from banks.

Regarding the state of existing information, the speaker emphasised the need for up to date data. He pointed out that the *Census on Manufacturing Industries (CMI)* data refer to 2001-02, *Census on Handloom Industries* to 2003 and *Bangladesh Small and Cottage Industries Corporation (BSIC)* data refer to 2001. In the absence of CMI-based information that captures recent trends and the structure of the industrial sector, results emanating from analysis of various measures proposed in the budget could at best be only indicative. In this context, it is critically important that adequate funds are allocated for generating up to date data with regard to the dynamics and changes being experienced by the industrial sector.

Prof Rahman noted that the government has initiated several fiscal measures, including an extension of the tax holiday facility, in a staggered manner, for new industries to be set up between July 2008 and June 2011. However, the ship-building industry, which is considered an emerging sector in Bangladesh and IT enabled services, should have been included in this list. In the case of import of capital machineries for export-oriented industries, the indemnity bond system has been replaced by a concessionary CD (one per cent). The government has decided to extend the Pre-shipment Inspection (PSI) system for a limited period with the appointment of fresh companies; however, allegations against some of the PSIs have necessitated changes in the current system.

Development of SMEs

Although the development of Small and Medium Enterprises SMEs bears critical importance for employment and income generation in the country, the sector’s development has often been constrained by various budgetary measures, or lack of budgetary measures, *Prof Rahman* remarked. He stated that in the budget of FY2007-08, the government had allocated an endowment fund of Tk 100 crore for the *SME Foundation*, with a view to providing credit to SMEs through private commercial banks. The government has decided to provide more funds to the Foundation in the FY2008-09 budget - an amount of Tk 100 crore has been allocated to support SMEs. Likewise, the

SME Refinancing Scheme of Bangladesh Bank has been allocated Tk 500 crore, up from Tk 300 crore in the previous budget.

Regarding export promotion, *Prof Rahman* stated that restructuring of the tariffs is welcome; however, incentives for some sectors such as pharmaceuticals, footwear and light engineering are inadequate. Information and Communication Technology (ICT) and handicrafts, though, have received some income-tax incentives, he added. Some of the domestic industries have received protection and better support which are welcome. With respect to ICT, the government has allocated about Tk 1000 crore, which is a forward-looking budgetary allocation. Duties on many computer accessories have been lowered, but incentives should be extended to other IT enabled services, he acknowledged.

Capital Market

With respect to measures for developing the capital market, *Prof Rahman* noted that the government had reduced the corporate tax rate for companies listed for public trading from 30 per cent to 27.5 per cent, for non-listed publicly traded companies from 40 per cent to 37.5 per cent, keeping the rate at 45 per cent for other corporate companies. He felt that it was not clear to what extent non-listed companies would be encouraged to become listed in the capital market in order to take advantage of the 10 per cent tax reduction incentive. To encourage greater participation by non-listed companies in the capital market, the Securities and Exchange Commission (SEC) should identify systemic concerns that inhibit greater participation in the capital market and should undertake appropriate corrective actions, he remarked. Announcement for the introduction of a "Book Building" system in the capital market in the budget FY2008-09 could possibly induce private companies, which have strong financial fundamentals to go for stock market enlistment, *Prof Rahman* commented.

Power and Energy

Prof Rahman drew attention to the unsatisfactory situation of power and energy in the country. This is a major bottleneck as far as the country's development is concerned – lack of power severely constrains investment and business activities in the country. Furthermore, new industries and economic activities are not arising because of the absence of adequate power supply. Existing units suffer from frequent outages, leading to the damage of equipment, production disruption and cost escalation originating from more costly alternative sources. All of these factors have jacked up the cost of doing business in Bangladesh. Currently, there is a large gap between demand and supply, which was 734 MW (mega watt) in May 2008. Taking the GDP growth rate of 6.2 per cent in FY2007-08, which is expected to be 6.5 per cent or higher in FY2008-09, the demand for power for the coming years should be estimated by considering a base case and a high case. The CTG and future governments need to introduce appropriate policies for power generation in the coming years to achieve the targets and meet the demand for electricity in the country. The government has planned to provide Tk 3,200 crore to Bangladesh Petroleum Exploration and Production Company (BAPEX) to strengthen its exploration programme over the next seven years. This plan should be implemented properly and funds should be utilised efficiently in the coming days. Government should take necessary measures to set up coal-based power plants by using the coal reserves of the country. To this end, the *National Coal Policy* should be finalised on an urgent basis, he stressed. Government's decision with regard to the reduction of CDon coal from 15 per cent to 7 per cent could be justified to the extent that the availability of local coal has been limited due to of lack of a national policy.

Transport and Communication

In context of the physical infrastructure, *Prof Rahman* noted that budget allocation for the transport sector in FY2008-09 is 4.4 per cent and 35.3 per cent higher compared to the original ADP 2008 and the Revised Annual Development Programme (RADP) 2008. It was rather unexpected that allocation for roads in FY2008-09 would decrease by 9.1 per cent, although it is 12.5 per cent higher compared to the RADP of FY2007-08. A number of reforms have been initiated in recent times including the strengthening of management, rationalisation of workforce size, strengthening of operational practice, competitive pricing and others for the *Biman.* Allocation to the Bangladesh Land Port Authority (BLPA) for the development and extension of infrastructure at Benapole Land Port in ADP FY2007-08 was Tk 3.31 crore, while RADP remained the same; only 6.34 per cent of this was implemented in the July-August 2007 period. Government has decided to develop and operate 12 land ports out of 13 (except the Benapole Land Port) on a build, operate and transfer (BOT) basis. The government has approved in principle the Padma Bridge construction project at a cost of Tk 10,162 crore; the design phase is currently underway, he added.

Real Estate and Housing

Prof Rahman noted that the government has allocated a total of Tk 2218.7 crore, or 8.7 per cent of the ADP, for the physical planning, water supply and housing sector in FY2008-09 which is 39 per cent higher than the allocation of the previous year. A number of projects have been initiated by the government for housing limited income people living in different regions of the country (Dhaka, Chittagong and Pabna), which will be completed by the next fiscal year. In order to reduce the cost of raw materials used for housing, the government has withdrawn 15 per cent VAT on imports of mild steel (MS) bar and rod, which is likely to positively contribute to real estate sector development. A specific supplementary duty of Tk 1500 per metric ton (MT) has been imposed in the budget FY2008-09 on raw materials for steel products used in the construction sector to stabilise the domestic market. *Prof Rahman* remarked that the government should decrease the high registration cost for transfer to discourage the propensity to evade taxes. This was also likely to enhance revenue intake, he felt.

Local Government and Regional Development

Focusing on local government, *Prof Rahman* noted that ADP allocation for local government is 13.76 per cent of the total ADP allocation for FY2008-09. Implementation has become a major concern, in the absence of a well-functioning local government. He observed that, for poverty reduction and reducing regional disparity, special allocation has been made for 276 upazilas of 39 poverty stricken districts. Local institutions receive 60 per cent of the total development assistance for this purpose. Allocation has been increased from Tk 20.6 crore in FY2007-08 to Tk 40 crore in FY2008-09 for special development assistance to 28 poverty stricken districts. However, he expressed his concern that implementation plans and appropriate modalities would have to be developed.

Social Sectors and Safety Net Programmes

Education and Technology

Prof Rahman stated that in FY2008-09, a total of Tk 12,259 crore has been allocated for education and technology, which is 12.3 per cent of the total budget. Allocation in FY2008-09 is 0.89 per cent lower than the FY2007-08 budget and 4.94 per cent higher than the revised budget of FY2008. Regarding quality of education, he made the point that it has been proposed that an allocation of another Tk 15 crore be made as an educational research grant in FY2008-09, even though Tk 10 crore allocated in FY2007-08 has remained unutilised. He emphasised the need for high quality implementation of these allocations. The budget announces that the six-year Second Primary Education Development Programme (PEDP-II) will be continued. As part of this programme, 55 lakh primary students have been receiving stipends annually. Total outlay for this programme in FY2007-08 was Tk 1,800 crore. He noted in a positive tone, the introduction of the Stipend Programme for Poor Male Students proposed in the budget, which was to be implemented in 121 upazilas.

Health

Allocation for the health and family planning sector is Tk 5862 crore which is 5.9 per cent of the total budget for FY2008-09. Allocation for health and family planning in FY2008-09 is 6.69 per cent higher than that of budget for FY2007-08 and 10.25 per cent higher than the revised budget for FY2007-08. Total utilisation of the budget for health sector was only 52 per cent in FY2007-08 (July-April), which was very low considering the size of the programme. In view of lower utilisation, he called for special measures to ensure effective implementation of budgetary allocation in the heath sector.

Women Development

Prof Rahman noted that gender sensitivity is mentioned as a major concern in the proposed budget. Some commendable efforts have been made to infuse gender sensitivity in the budget by increasing allocation for women development programmes, both in rural and urban areas. The government has taken a number of measures to ensure this include the proposal to recruit 60 per cent teaching staff for primary schools from female applicants and ensuring the security of Bangladeshi women working overseas. *Gender Equality Expenditure* has been increased from 23.5 per cent to 26.3 per cent of the total budget. The budget for FY2008-09 has proposed to raise the number of target beneficiaries for *Allowances Programme for Widowed, Deserted and Destitute Women* to 9 lakh, with the allowance being increased from Tk 220 to Tk 250 per month per person.

Social Safety Net

The total outlay for the social safety net in FY2008-09 is proposed to be Tk 16,932 crore, which is 2.8 per cent of the GDP against Tk 11,467 crore (or 2.1 per cent of GDP) in the revised budget of FY2007-08. Allocation for the social safety net has been increased by 48 per cent which is a significant increase, *Prof Rahman* noted. Also, the number of target beneficiaries of such programmes has been increased by 45.8 per cent. It was hoped that through these programmes, employment creation would be enhanced. Social safety net programmes were designed for social protection and social empowerment purposes and it is important that these allocations are appropriately used, he added. He noted that the budget for FY2008-09 has proposed a new programme titled "*100 Days Employment Generation Scheme*" with an allocation of Tk 2,000 crore to generate employment for 20 crore person-days for the ultra-poor and the rural middle and lower middle class communities. He appreciated this initiative and hoped that it will lead to income generation, particularly during the lean period.

Concluding Remarks

Prof Rahman concluded his presentation by emphasising four points. *Firstly,* from the revenue expenditure side, the budget is expansionary. This is a welfare enhancing and populist initiative in the good sense of the word. *Secondly,* from the perspective of revenue earnings, it can be perceived as traditional. No major break-through in terms of identifying new groups of tax payers is discernible. The country's tax net covers only 22 lakh people and of those only 6 lakh people pay tax, which is only 2 per cent of the total number of households. This is rather discouraging. *Thirdly,* some of the fiscal rationalisation proposals should be conducive to investment, particularly investment in SMEs. *Fourthly,* from the development expenditure perspective, the CPD team would like to stress that the budget is conservative. Bangladesh was ending a challenging year by registering a 6.2 per cent growth rate over the previous fiscal year. If FY2008-09 is a normal year, then setting a target of 6.5 per cent growth appears to be rather conservative. Bangladesh, with its high unemployment levels and inequalities needs higher growth rates.

Prof Rahman highlighted the need for coherence between the PRS-II, which is the medium-term plan, and the proposed budget. However, the PRS-II was yet to be finalised. The CPD team felt that the budget was to be implemented by the CTG for the first six months, and by a democratically elected government for the next six months. Maintenance of macroeconomic stability over the next six months will be important in terms of creating an environment conducive for democratic transition and for implementation of the budget during the latter half of the fiscal year, he emphasised. Macroeconomic variables would have to be kept under close scrutiny over the next six months so that the country has an election-supportive environment.

Floor Discussions

Overall Macroeconomic Condition was uncomfortable

Dr Osman Farruk, Former Education Minister, expressed his discomfort with the current economic situation, in view of the overall macroeconomic environment. He observed that the performances of major macroeconomic indices have deteriorated over time. He felt that the benchmark for comparison of the current situation should be earlier periods when political governments were in power as he believes that the overall economic environment was much better during the time of political government.

Terming the proposed budget as overambitious, *Mr M Mustafizur Rahman,* former Finance Secretary observed that, it will be difficult for the Finance Advisor to finance this huge deficit from the domestic sector, especially banking.

Mr Anwar-Ul-Alam Chowdhury, President of Bangladesh Garments Manufacturer and Exporters Association (BGMEA), appreciated the Finance Advisor for the proposed budget, especially for targeting income enhancement for the lower-income group. He stressed that the government has emphasised food security and provided incentives for local manufacturing industries and these measures were encouraging.

Dr Farruk thought that the projected real GDP growth for the outgoing fiscal year is lower than what was achieved in FY 2005-06. Gross domestic investment has not improved, and has registered lower growth compared to FY 2005-06, he added. Furthermore, the savings-investment gap has continued to widen, which means that the investment climate did not improve over the past year, he added.

Revenue Earning is Still a Concern

Dr Farruk congratulated the NBR, because they did a better job than in the past. However, with respect to the financing of the budget, he felt it is a matter of some concern that expenditure would increase at a faster rate than revenue generation.

Dr Abdur Razzaque, Former Member of the Parliament also congratulated the NBR for enhanced revenue earnings and said that in order to narrow the deficit; NBR should continue its current move. It was a matter of serious concern that the revenue-GDP ratio in Bangladesh is low compared to that of her neighbouring countries; though the ratio has improved somewhat, much needs to be done.

Reduced ADP Allocation will Affect Many Sectors

Dr Farruk highlighted one of the major concerns with regard to the public expenditure, which is the reduction in ADP allocation. In a country such as Bangladesh where poverty alleviation is one of the top most priorities as far as macroeconomic management was concerned, the ADP should put more emphasis on quality of implementation, he added. His expectation was that under the CTG, implementation bottlenecks would have been sorted out, and the size of the ADP would be larger. He argued that achievement of developmental goals and objectives are critically dependent on ADP allocation and utilisation.

Dr Razzaque, also pointed out the negative consequences of a smaller sized development budget, which is four per cent lower compared to the original allocation in the ADP of the previous fiscal year. He thought power, roads, irrigation, embankment development and the development of infrastructure which are the major concerns in Bangladesh would be affected because of the smaller ADP size. He thought foreign direct investment (FDI) inflow is low and if the development budget is also reduced at the same time, then it will not be possible to achieve accelerated growth.

Regarding public expenditure, *Mr Mustafizer Rahman* commented that for the first time the ADP has been downsized compared to the previous year’s original allocation. However, he did not see anything wrong in this. Analysis of ADPs over the last 10 to 15 years shows that whenever the size of the ADP tended to be large, it got reduced in the subsequent revised budget. According to him, GDP growth depends not only on the size of the ADP but also on the use of the existing resources and the quality of the new investment in the public and private sector.

Benefits of Subsidy Tend to Go to Rich People.

Addressing the subsidy burden on account of petroleum, *Mr Rezaul Karim Chowdhury*, Convener, Equity and Justice Working Group and Executive Director, COAST Trust, pointed out that the government is being compelled to allocate a huge amount of subsidy because of rise in fuel prices in the global market. Referring to benefits that originate from the subsidy, he recalled a statement by Advisor *Mr M Tamim* that "90 per cent of benefits of the subsidy tend to go to rich people in the urban areas and only 10 per cent accrue to poor people in the rural areas". Prices are sky-rocketing, and it appears that it is a never ending process, he stated. The government ought to take some measures to reduce dependency on fuel, *Mr Chowdhury* proposed. Many countries in the world are already pursuing policies which would facilitate behavioral changes in people. For example, construction of bicycle lanes in the cities, and some regulations to encourage use of energy saving bulbs in our cities could be well considered. In this regard, he proposed that Bangladesh should advance the day time by one hour so that optimum use of the daylight time is ensured.

Mr Rashed Khan Menon, President, Workers' Party of Bangladesh, observed that the way out of the present crisis is to step up agricultural production. He said that the government did indeed provide subsidies to agriculture, although the amount is below what was required on the ground. The budget proposes a rise in fertiliser prices. This, according to him, could have a significant negative impact, since fertiliser is an important component of agricultural inputs.

Dr Razzaque noted that the diesel subsidy has more than doubled in the agricultural sector in recent times, but it is still inadequate. In the last fiscal year, farmers' expectation was that they would receive a substantial amount of subsidy as support for their fuel spending. A large number of farmers had to even sell their cattle, their wives' ornaments, etc. They had hoped for some support, however, the support they had received was inadequate compared to their needs, he argued.

Financing the Budget Deficit will be the Major Challenge

Terming deficit financing as a major concern for the government, *Dr Farruk* observed that in the outgoing FY 2007-08, budget deficit as per cent of GDP was estimated to be 4.8 per cent; in the coming fiscal year, the projection has been set at 5 per cent, which he considered to be rather high for a country such as Bangladesh. He thought that budget deficits should not be allowed, and that this needs to be made constitutionally binding. This is the case in Indonesia, he noted. The economy should not fall into a trap where the government borrows today, designs a deficit budget, and leaves repayment to future generations. Bank borrowing from domestic sources could crowd out the private sector, which is supposed to be the main engine of growth. In view of the increasing budget deficit, he argued that under politically elected governments, budget deficit was kept low and that was a good sign of the efficiency of the elected governments. He thought that there should be an endeavour to keep the budget deficit low under the present circumstances as well.

Mr Jonathan Dunn, Resident Representative, International Monetary Fund (IMF), underlined the need for the rationalisation of revenue earnings and expenditure of the government. Regarding revenue earnings, he felt that many of the proposals in the budget could potentially weaken the revenue base rather than strengthen it. He observed that the addition of new industries that are eligible for tax holiday, reduction in CD and several other fiscal measures would weaken the revenue base. In the course of the upcoming fiscal year, the NBR should continue its efforts to mobilise resources as it had done during the last fiscal year. In order to ensure resource mobilisation, NBR will need to improve the efficiency of its administration. This is essential to meet the budgetary commitments on the revenue expenditure side, he emphasised. He was worried that if revenue performance cannot be sustained, then the task of meeting the expenditure could face trouble. It is important that the current efforts should continue. In the future, the government should carefully consider measures with regard to rationalisation of tax-exemptions, tax-holiday and other fiscal measures, he observed.

Mr Abul Hasan Chowdhury, Former State Minister, thought that the government borrowing from the banking system would not crowd out the scope for general investors. For the betterment of the investment environment, government could consider borrowing from other sources, he maintained.

General Fiscal Measures

M Anis Ud Dowla, Former President, Bangladesh Employers' Federation and Chairman and Managing Director, ACI, appreciated the Finance Advisor for making the provision of income generated from agricultural sector tax free. He stated that formal sectors should be involved in the financing of agricultural business. He expressed his view that if they come in a bigger way, current poor condition of land productivity would improve.

Regarding income tax, *Mr Mustafizur Rahman* noted that the non-taxable, or free limit of Tk 1,50,000 needed to be revised, considering the current inflationary pressure. In India, the limit is higher than Bangladesh whereas India had revised it substantially. The tax exemption limit in Pakistan is also higher than that of Bangladesh. He congratulated the Finance Advisor for being considerate towards the old age people and female tax payers in this regard.

Mr Mustafizur Rahman appreciated the Finance Advisor's revision of the tax holiday structure as well as the extension of that facility. In the earlier structure, when a new industry came, depending on the location, four to seven year provisions for the tax holiday were granted, but that was never good, he stated. He justified the introduction of the new tax slabs since industries are now required to pay tax after a two or three year period, depending on the location.

Addressing the issue of tax on capital machineries, *Mr Abdul Hai Sarker*, President, Banglades Textiles Mills Association (BTMA), pointed out that large scale industries would be the main beneficiaries of the existing per cent per cent tax. If the per cent per cent tax was imposed on capital machineries for export-oriented industries, it would create an extra burden for them. In this situation, the existing tax level should be brought down to 0.25 per cent for all textile machinery imported both for domestic and export-oriented industries, he proposed.

Dr Farruk observed that the consumer price index had gone up significantly, reflecting the rising inflationary pressure in the economy. This has affected the domestic economy quite severely. He suspected that the government would not be able to maintain the projected inflation rate of 9 per cent in FY2008-09. He would not put the blame the government since there were external forces to be considered. But if it has to be a poverty reduction oriented budget, the FY2008-09 budget should include appropriate interventions which would create opportunities for the poor people to overcome the inflationary pressure, he commented.

Mr Mustafizur Rahman thought that the most important challenge facing the economy was to keep the price level at a tolerable limit. This was also mentioned by the Finance Advisor in his budget speech, he conceded. In this regard, he stressed the need for effective policies to control the inflationary pressure.

Rationing System Suggested to be Introduced to Ease Inflationary Pressure Inflation

Mr G M Quader, Former Member of the Parliament noted that to ease the present inflationary pressure, the CTG has taken various programmes, particularly in support of government employees and the ultra-poor. However, no concrete steps have been taken for non-government officials and workers in readymade garments (RMG) and other sectors. In this regard, he proposed that a permanent system of supplying subsidized food and other essential items through the rationing system be introduced in the country. Those supports have to be on a long-term basis and should indeed continue for four to five years since the crisis would perhaps not be limited to the short-term, and its implications could continue in the long-term as well, he argued.

Mr Abul Hasan Chowdhury endorsed the idea of the rationing system and felt that it needed to be considered on an urgent basis. He thought that such a programme could be considered not only for garments workers, but for all working people including lower income groups. In his opinion, such a programme should continue for at least one year.

Mr Menon proposed that the government ought to introduce extensive OMS operations, covering not only workers but also low income group. He claimed that the withdrawal of OMS of rice operated by the Bangladesh Rifles (BDR) came at a time when the budget itself has proposed a number of programmes to keep the price of essentials stable. He demanded that the government should reintroduce the OMS immediately.

Regarding dearness allowance, *Mr Menon* mentioned that the impact of inflation was particularly bad for fixed income earners, such as workers. The government had announced dearness allowance for public sector employees to provide direct support. However, workers and labourers in the private sector were not provided with any such allowance. He thought that such discriminatory policies could potentially create unrest in the industries sector. He made the observation that workers in other private sectors would also demand this kind of benefits. He complained that the government had constituted a pay commission to ease inflationary pressure for the public sector; however, there is no wage commission for workers in the private sector.

Higher Budgetary Allocation for Agriculture suggested

Dr Farruk welcomed increased assistance for agriculture in the proposed budget through higher budgetary allocation in FY2008-09. He emphasised the need for target-oriented allocation. He recalled that an endowment fund was created in the last budget during the Awamileague regime for agriculture; however, the status of this fund was unknown.

Dr Razzaque thanked the Finance Advisor for making significant allocations for agriculture sector in the budget. He argued that agriculture should be developed in a manner so that it contributes effectively to the overall economic development of the country. In the coming days, the country will need to look for rapid production enhancement to ensure her food security, he remarked.

Regarding agricultural productivity, *Dr Razzaque* observed that agriculture has experienced impressive growth in favourable areas. But in unfavourable areas, such as coastal and hilly areas, productivity has continued to remain extremely low. He thought that the government should consider ways and means to increase cultivable land for agri-production purposes, which is also necessary to ensure food security.

Ms Aroma Dutta, Executive Director, PRIP Trust observed that increased productivity during the last *Boro* season was achieved thanks to right decisions at the right time. She observed that focus should be put on export oriented industries, particularly efforts to develop agro-based industries in the country.

RMG *Sector should be Provided with Facilities to be Able to Compete in the Global Market*

Regarding wages, *Dr Wajedul Islam Khan*, General Secretary, Bangladesh Trade Union Kendra, noted that there is no sign of wage increase for the majority of workers who are engaged in the productive sectors, The prevailing wage that the workers are getting is very low, and workers can barely survive on this minimum wage. The real wages have gone down by more than 50 per cent and it is the duty of the government to help the working class by introducing a rationing system, he demanded. Most of the workers in the garments sector are living in tiny slum dwellings where even minimum necessities of life are absent. He recommended that the government set up dormitories and rent these out to workers on the basis of monthly payment.

Mr Abul Hasan Chowdhury mentioned that the country needs an export-friendly environment considering both short-term and longterm needs of the economy. The export sector has experienced three major weaknesses: poor infrastructure, lack of skilled manpower and high interest rates on loans, he observed. Bangladesh's competitors are enjoying substantial comparative advantages. To enable the RMG sector to compete in the global market, the sector should be provided with tax-holiday facilities for 10 years and if not, at least for five years, without any staggering, he added. *Mr Abul Hasan Chowdhury* claimed that industries in the export processing zone (EPZ) were receiving benefits in terms of tax holidays. Industries outside the EPZ should not be treated separately, he maintained. The industries located in the EPZ are also competitors of the RMG units located outside the EPZ areas. He demanded uniform policy for all RMG units, within and outside of EPZs.

Mr Abul Hasan Chowdhury emphasised the need for a system of cash incentives which he felt is necessary for the development of bigger industries, especially backward linkage industries in the RMG sector. In this regard, he felt that the cash incentives should be at least 10 per cent. Production costs in Bangladesh are very high, to a large extent because of high interest rates on loans. As a result, investment has become expensive, he added.

Regarding *'garments palli'*, *Mr Chowdhury* felt that in the budget, he did not find any reflection of the support required for relocation of garment industries. Failure to relocate garments units outside of the limits of Dhaka city will make it difficult to build Dhaka into a modern, livable city. At present, a large number of factories are situated within the city. The government should build special economic zones by setting up all industrial units in one area, he stressed.

Government Should Focus on Generating Power on an Urgent Basis

Touching on the issue of power shortages, a major concern for the industrial sector of Bangladesh at present, *Mr Dowla* noted that it is the government's duty to provide power for the industralisation of the economy. Many industrial units have imported expensive machineries for production purposes; but later they were forced to shut-down the units due to power shortage. Government should focus on generating power on an urgent basis by designing an appropriate energy policy. He lamented that at present there is no comprehensive policy with regard to the development of the electricity, gas and coal sectors of the country.

From the perspective of accelerated development, it is essential that industrial units and households are ensured adequate infrastructure for the supply of electricity, *Mr Abul Hasan Chowdhury* observed. By 2010, only 450 MW are to be added, though consumption has been increasing by more than 10 to 12 per cent per annum, he noted. He recommended that the private sector should come forward for the development of infrastructure. The government however is planning of develop infrastructure only with its own funds. In this regard, he mentioned that the government could invite the private sector to set up infrastructure projects on a BOT basis. He cited examples of Thailand and Malaysia where infrastructure was developed on a private sector BOT basis. He noted that the Bangladesh shouldn't go to the World Bank or the IMF for credit; rather she should look for alternative options. He assured that if the required skilled manpower, good infrastructure, political stability and other necessary facilities were available, then the cost of doing business in Bangladesh would be low and the garments sector would be able to maintain a minimum growth of 20 per cent per annum.

Mr Menon argued that more attention should be paid to the power generation situation - almost all the industries of the country are affected by power shortage and outage. Generation of power is in turn being affected due to inadequate supply of gas. He said that people were blamed in the past for halting initiatives to export gas. However, given the current scenario, in retrospect, that seemed to have been a good decision for the country. Now they were being blamed for opposing coal mining by companies like Asia Energy. Why not strengthen BAPEX, he questioned. The government has provided Tk 3,200 crore over the last seven years and BAPEX has been successfully exploiting one of the four coal reserves, the Barapukuria. In this regard, he recalled that his teacher, *Prof. Rehman Sobhan*, had proposed the release of government bonds for financing coal exploration with its own resources, instead of handing over the task to foreign multinational corporations (MNCs).

Budget Failed to Protect the Jute Sector

In terms of employment generation, agriculture accounts for the largest share, *Mr Menon* observed. He argued that the jute sector could have served as a great opportunity for significant additional employment generation. However, the jute industry has been allowed to slide into decay. The budget failed to provide any measure to protect the interest and ensure the progress of this industry, *Mr Menon* observed.

Property Registration Fees need Revision

Engineer Tanveerul Haque Probal, President, Real Estate and Housing Association of Bangladesh (REHAB) appreciated the initiative of the Finance Advisor with regard to the tax-holiday facility. However, he called for some changes in the policy. Regarding location, he said that if this incentive is applicable for remote areas where facilities like electricity are not available, it would be unrealistic to expect real estate developments to build multistoried buildings in those places.

Engineer Probal proposed a reduction of the registration cost from the existing 16.5 per cent of the asset value which includes stamp cost, gained tax and the VAT. If someone buys a property of around Tk 1 lakh, he has to spend Tk 16,500 for registration cost, which is rather high, he argued. To compare, in India, the total registration cost is around 7 per cent; in Pakistan, it is around 5 per cent and in Nepal, it is around 4 per cent. In Sri Lanka, the fee was fixed at zero per cent at one point in time to encourage housing, he informed the audience. *Engineer Probal* felt that if the registration cost was fixed at about 5 per cent, total revenue would increase substantially. A large number of apartments and a significant amount of land still remain unregistered. He argued that if the registration costs came down to a reasonable level, more revenue will be collected from this sector.

Regarding the secondary market for apartments, *Engineer Probal* noted that in Bangladesh, there is no secondary market to deal with this product. It is rather troublesome to buy and sell old apartments and properties. In order to buy an old apartment, buyers have to register with a 16.5 per cent fee again, which is the same as the first-time registration fee. Registration fee should be about 1.5 per cent, he noted.

Flow of FDI has Slowed Down

Dr Razzaque emphasised that FDI is one of the major driving forces of economic development. Experience reveals that countries such as Vietnam, India, China and others had posted high growth with the help of FDI. However, the current flow of FDI has slowed down and the investment environment is not conducive, he added. *Dr Razzaque* argued that by using the remittances earned by poor young countrymen abroad, the economy could achieve the growth pace.

Employment Guarantee Scheme: Implementing the Challenge

Mr Menon thanked the Finance Advisor for broadening the safety nets and introducing the '*100 Days Employment Generation Scheme*'. However, the employment generation scheme is expected to prevent the poor from sliding back into poverty. More medium to longer term solutions were required, he felt. He also called for effective institutions and modalities to implement the 100-day employment generation scheme.

Say 'No' to interest groups and ensure support to Farmers

Dr Kamal Hossain, President, Gono Forum, called upon the government to devise innovative ways to ensure support for the poor. 'Provide food to those who cannot pay for food'- he stressed. At the same time he reminded the audience that it is not charity. The right to survive and the right to food are the fundamental human rights. *Dr Hossain* termed the proposed budget as an encouraging document in terms of social security. He felt that rationing sounds very old fashioned; the concept is that it would compensate for market deficit or market failure. He argued that government interventions are necessary because most of the people are not able to purchase necessary items at high prices. The country should think of introducing a mechanism of rationing but one needs to be cautious about the bureaucratic 'rationing system'.

With regard to food security, *Mr Quader* noted that the government has fixed a food procurement target of 32 lakh metric tonnes. The lion's share of this procurement will come from farmers and mill-owners. Previous experiences show that procurement has been done through the millers, and millers are generally a middleman group who purchase food grain from the farmers at a relatively low price and supply to the government at higher prices. Thus, the support that was initially aimed at farmers was eventually diverted to the middlemen. He recommended that the government should start learning to say “no” to vested interest groups.

Government should Set up a Central ETP System

Mr Abul Hasan Chowdhury observed that the government had withdrawn import duty from ETPs in the budget of FY 2007-08 to encourage industrial development. But last year’s experience was not very encouraging. To set up an ETP for an individual industry is very expensive. He suggested that for setting up ETPs enterprises should have access to adequate funds and with lower interest rates. At the same time, the government may consider setting up a central ETP system.

Mr Sarker, also agreed with this view and noted that the government should do this as early as possible.

Proper implemention of Safety Net programme started.

Dr Farruk appreciated the Finance Advisor’s decision to expand budgetary allocation for safety net programmes. He felt that there were a number of good measures in the budget: the proposed budget expands safety net programmes, allocates more funds for mitigating the impact of climate change, keeps funds for lowering regional disparity and makes enhanced allocation for agriculture, he observed.

Mr Dunn congratulated the Finance Advisor for some of his initiatives on the expenditure side. According to him it was appropriate to expand the safety net programmes at a time when Bangladesh was facing formidable inflationary pressure that led to erosion of real income of particularly low income people. He, however, stressed the need for proper implementation of the programmes.

Dr Razzaque also appreciated the safety net programmes that the Finance Advisor has proposed in the budget. He however, thought these should be further widened and deepened.

MDG Target on Poverty Needed to he Reflected in PRS II.

Dr Razzaque welcomed the CPD for presenting an in-depth analysis of the poverty situation. He observed that recently the CPD team had conducted studies on the state of the economy. Some of those data were very revealing, he added. Referring to the CPD’s analysis on poverty, he stated that the poverty level has increased by 8.5 per cent and per capita income of the general people has gone up by 41.9 per cent during the last three year period. He felt that the survival of the poor has become impossible. Regarding longterm objectives, he mentioned that during the last few years, the country has been preparing and implementing budgets in view of attaining the eight Millennium Development Goals (MDGs). He recalled that Bangladesh has set her target to reach the MDG goal to halve the poverty level to 29.4 per cent by 2015. There was a need to reflect this aspiration in the PRS II, he added.

More Focus on Gender Inequality Issues is suggested

Ms Rokeya Kabir, Executive Director, Bangladesh Nari Progoti Sangstha, thought that it is important to strengthen the Ministry of Women and Child Affairs with adequate budgetary allocation so that the Ministry can perform effectively. She observed that though the allocation for the Ministry has increased in the proposed budget, it is still inadequate. More focus is also needed on gender equality issues in the PRS II, *Ms Kabir* added.

More Allocation for Local Government Proposed

Ms Aroma Dutta, stressed the need for strengthening local government. She noted that implementation of the safety net programmes is under question. Effective planning and effective implementation of projects under local government could resolve many of the difficulties that Bangladesh faced for making development a reality. In this regard, *Ms Dutta* thought that there should be more allocation for safety net programmes under the aegis of the local governments.

Recovery of Undisclosed Money Would add to Revenue Earning

Regarding undisclosed income, *Dr Farruk* observed that he was pleased to see that the government recognised the economic value of addressing the issue of bringing undisclosed money within legal ambit. In this connection, he reminded the dialogue audience that the political government has also done so in the past. The extension of this provision would contribute to additional revenue mobilisation and also will encourage investment in the economy, he noted.

Implementation is a serious concern

Dr Hossain underscored the need for upgrading the management and project implementation capacity of the government. He felt that the country is not only in deficit, but also suffers from lack of accountability. He also urged that the government should leave a parting report for the next political government articulating what the CTG experienced during its two-year period of governance, particularly focusing on the bottlenecks and difficulties faced. In this regard, he noted that institutions that are relevant for ensuring good governance need to be strengthened on an urgent basis.

Based on his experience, *Mr Shah Abdul Hannan, Former Secretary and Executive Director, CSPS* shared his thoughts as regards the implementation of the ADP. He recommended that the Implementation, Monitoring and Evaluation Division (IMED) should be strengthened by taking proper steps, including continued monitoring of project implementation, and appointment of qualified people who would go around the country and find out the status and constraints which hamper implementation of projects and offer solutions.

Dr Razzaque, however, disagreed with the idea that low ADP implementation originated from low capacity of the government. He recalled that Bangladesh achieved self-sufficiency in rice production during FY2001-02 under *Begum Motia Chowdhury*, Former Minister for Agriculture. He felt that this was because of the right decisions taken by, *Ms Chowdhury;* she worked tirelessly and drove the concerned ministry officials and stakeholders like a shepherdess. He drew the conclusion that good governance is needed for good implementation, including proper distribution of inputs and overall success in management of the development process.

Mr Abul Hasan Chowdhury emphasised on the need for quality implementation of the safety net programme at a time when people's representatives, for example, MPs, Chairmen and others are not there. Resources which are being allocated should be used for good quality infrastructure development which has multiplier effects on the economy, he noted. The million dollar question is how do we monitor and carry out these things in the absence of representatives, *Mr Chowdhury* asked.

Appropriate use of land is stressed

Addressing the issue of the diminishing size of land under cultivation, *Dr Anwara Begum* of BIDS noted that land has decreased by more than 1 per cent per annum in Bangladesh. Land is being used for various purposes like roads, industries, etc. By the year 2050, land will indeed become a scarce commodity, for cultivation as well as housing, she cautioned. Plans for compact villages and contained cities are needed which has actually been proposed in the PRS. Contained cities are built on vertical designs with best use of urban land and compact villages based on maximum utilisation of rural land. In this regard, she felt that infrastructure and funds could be mobilised for *"haor"* or *"char"* as well as inaccessible areas. There have been frequent demands for a *"char tahabil"* (char fund), because those are the areas from where one fifth of our food grains are produced. Most of these areas are inundated for a large part of the year. The government ought to think about appropriate use of land, *Dr Begum* stressed.

Contain the Current Population Growth Rate

Addressing the role of population control, *Mr Shah Abdul Hannan* stated that service delivery, such as family planning programmes, should be well-functioning and of the desired quality, even at the village level. Bangladesh should also take energetic steps to control and contain the current population growth rate, *Mr Hannan* thought.

Develop State of Art Technology

Mr Hannan recommended that the government should develop three or four state of the art laboratories, which would conduct very high quality research. In the proposed budget, allocation of yet another Tk 15 crore has been kept for educational research grants even though Tk 10 crore allocated in FY2007-08 remained unutilized, he added.

Comments from the Special Guest

Professor Wadiduddin Mahmud Former Advisor to the Caretaker Government underscored the need for a balance between short-term and longterm government measures. Regarding the comment on overcoming *'crises'*, made by the Finance Advisor, *Prof Mahmud* observed that both the current and the previous budget were actually budgets for overcoming crises. Many commentators have argued that only short-term policy measures are highlighted in the budget, and longterm policy measures are not adequately reflected. The fact is that crises are, by definition, of short-term nature; however, the way out that is required, is both of a short-term as well as longterm nature. There is no conflict between the two; rather there should be a compromise between these two solutions. Referring to *The Economist*, he recalled the economic *tsunamis* coming from food prices and observed that in the case of Bangladesh, these have to be addressed at a critical juncture of history when very important political reforms are being undertaken.

Prof Mahmud added that as an economist, he has to believe that no country is so poor that it cannot meet the basic needs of its people. In this regard, he emphasised the need for effective safety net measures to help poor people meet their basic needs.

Prof Mahmud highlighted the issue of revenue mobilisation, and underscored that if additional revenues were used for safety net programme, income redistribution would always be justified. At the same time, economic theory would justify that. But when safety net expenditure is financed by additional borrowings, internal borrowings that are used to finance social safetynets, by curtailing public investment, directly or indirectly, then there is a trade-off between the need to cater to aggregate investment demand in the economy and additional resources that are needed for short-term measures. There is a trade-off between how we meet the short-term exigencies of human poverty arising particularly from the food crisis and maintaining a high pace of investment, both in the private and public sectors, for creating employment opportunities in the long-run. He pointed out that if some of the underlying problems prevail in the longer-term, including high food or fuel prices, there will need to be a balance between short-run and long-run measures.

Prof Mahmud remarked that the budget has been framed at a period of extreme uncertainty; these uncertainties originate not only in internal political transition but also from domestic and international economic uncertainties. Consequently, throughout its implementation period, the budget will have to be under continuous review and monitoring, and there will perhaps be a need for midway corrections, he commented. He added that one of the adjustments the country has already witnessed concerns the price of urea, since the adjusted price of urea in Bangladesh is now approximately that of neighbouring India.

Prof Mahmud raised question with regard to the higher price of rice in the domestic market in Bangladesh despite bumper *Boro* production. The price of essentials, especially rice, is not the usual post-harvest lower price, he noted. The traders are opting for food stocks instead of selling the rice, to attain higher profit in future. He maintained that the government will have to build adequate food stocks to sell rice and wheat at subsidised prices to the poor. If the country depends on commercial importers, prices of food would rise, he cautioned.

Asymmetric information often leads to management problems with regard to implementation capacity of the public investment within the ADP, *Prof Mahmud* observed. He put emphasis on the implementation mechanism of the '*Employment Guarantee Scheme*', which has been considered for the first time in the FY2008-09 budget. He cautioned that the government should be careful about *"ghost workers"* and the wastage of resources which is a common phenomenon in government administered programmes in Bangladesh.

Response from the Chief Guest

The Honourable Finance and Planning Advisor *Dr A B Mirza Azizul Islam* gave his reactions to the questions raised by the dialogue participants. He appreciated the contribution made by the keynote speaker, the Special Guest and the discussants from the floor in terms of sharing their insights and thoughts on various proposals presented in the budget for FY2008-09. He appreciated the participants for addressing a number of key issues regarding macroeconomic management at a very critical time. Terming participants' comments as valuable, he stated that he agreed with some and disagreed with others. He observed that many of the comments were right on their individual merit, but when these were put together, often they were not mutually consistent. Consequently, a judgment call was needed, after which there would be different opinions on what had been proposed. Dr Islam identified several points in the comments of dialogue participants which he thought to be important: i) the proposed budget had a low size of ADP; ii) social safety net programme are good but there is still need for more; iii) particularly in the area of the development program there is a need for more allocation to various sectors, such as power, agriculture and so forth; and iv) there is a concern that the budget has proposed a high deficit.

Refuting the critics who felt that the proposed budget had proposed only short-term remedial measures, *Dr Islam* maintained that the budget did not forget about medium-term challenges. Justifying short-term measures, he stated that when a patient goes to a doctor with pain the doctor tries to minimise the pain first and then goes for a deeper diagnosis. Agriculture and rural development, energy and power, transport and communication, health and education and human resources development are among the major areas where several medium-term measures have been proposed, he argued. It is from the medium- to long-term policy perspective that the budget has structured the CD, reduced corporate tax rates and extended tax-holiday with some restructuring. These are aimed at creating an investment-friendly environment, he stressed. He thought that fiscal incentives, for infant industries, should not continue in the long-run, and efforts should be there to help them run on a competitive footing.

Responding to the criticism of the budget being overly ambitious, the Finance and Planning Advisor argued that the financing method or modality that has been proposed in the budget is realistic. He stated that the NBR tax-revenue posted 23.4 per cent growth for the period July to April FY2007-08. For the upcoming fiscal year FY2008-09, the proposed budget has targeted a growth rate of 18.6 per cent, which approximates what has been achieved. He termed the target as realistic. He observed that if real GDP growth is to be 6.5 per cent and money inflation about 9 per cent, nationally this would induce at least 15.5 per cent money income growth. In the budget, only a modest increase of 3.1 per cent has been proposed. This was by no means unrealistic or overly ambitious, he argued. He added that NBR has already taken various initiatives to mobilise additional resources and it will be able to achieve the target. At the same time, he pointed out that almost no increase has been proposed in non-tax revenue.

The Advisor defended the size of the deficit financing, to the tune of Tk 30,580 crore and GDP growth projection of 6.5 per cent, which some participants had termed as unrealistic. He downplayed the concern that loans to the private sector may be affected in the coming FY 2008-09 due to enhanced government borrowing from the banking sector. In this regard, he maintained that he did not see any serious threat or any threat at all for private sector credit being crowded out due to rise in bank borrowing by the government. Private sector credit growth was 17 per cent higher, during July-March of the outgoing fiscal year, compared to the same period of FY2006-07 despite Tk 2,000 crore more borrowing from the banks by the government. The Finance Advisor thought that this did not justify apprehension about a possible crowding-out as far as private sector credit needs were concerned. The Finance Advisor did not see any link between government borrowing and growth of private sector loans. There was excess liquidity in the banking system as of March 2008, which amounted to more than Tk 12,000 crore, he noted.

The Finance and Planning Advisor, however, was somewhat defensive about the concern regarding the budget deficit, arguing that it was still lower than those of other neighbouring countries including India. He also rejected the argument that increasing bank borrowing by the public sector will make loans for private sector even more costly. He conceded that the interest payment by the public sector on bank borrowing will increase, but felt that it would not have an adverse impact on the economy. He argued that the government had enough indications that net foreign borrowing would be more than what was anticipated for FY2008-09. The budget deficit is estimated at 5 per cent of GDP for FY2008-09, and was 4.8 per cent in the revised budget for the current fiscal year, the Advisor acknowledged.

The Chief Guest, however, was concerned about the poor implementation of the ADP, which was set at Tk 25,600 crore for FY2008-09. Regarding implementation capacity, the Finance and Planning Advisor remarked that raising the quality of implementation was a challenging task and one should not expect dramatic improvements in this regard. This would require longterm investment in public sector management capacity within the government. Responding to a query on poor performance in the energy sector, he said that around Tk 800 crore has been allocated for the sector in the FY2008-09 budget compared to the revised figure of the FY2007-08 budget.

The Advisor did not agree with the proposal to enhance the ceiling for tax-free income, which currently stands at Tk 150,000. He maintained that there should be a relationship between per capita income and the tax exemption limit. Some have cited the example of India, where the tax exemption limit is higher but the per capita income in India is much higher than Bangladesh, he noted.

The Finance and Planning Advisor, however, opined against additional fiscal incentive measures saying that these often do not help achieve the expected goal of higher industrial growth. It is important to raise competitive strength and lower dependence on financial support from the government, he argued. On food security, the Advisor said that the government has decided to create a stock of 32 lakh tonnes of rice for the next fiscal year to address the threat of food shortage. He was hopeful that a good government food stock, both through imports and domestic procurement, will help ensure the food security of the country.

The government has tried to make the budget more investment and production friendly, the Finance and Planning Advisor maintained. Government investment accounted for hardly 25 per cent of the total investment in the economy; consequently, even if government investment was increased by another 20 to 30 per cent, this would not make a significant difference in terms of overall investment in the country. The private sector has to come in if there is to be significantly higher investment in the economy, he noted.

The Chief Guest, in his concluding remarks, expressed his hope for better implementation of the budget in the upcoming fiscal year. He added that the government must focus on full implementation of the ADP.

The Finance and Planning Advisor informed the dialogue that whilst finalising the budget, he will carefully review and consider all the proposals made by the participants. He thanked the audience for their valuable inputs.

Closing Remarks by the Chair

Mr Syeduzzaman thanked the honourable Advisor for his comprehensive, logical and frank responses. He appreciated the Advisor for his careful consideration of the comments and sharing his thoughts with the audience.

Mr Syeduzzaman highlighted two points which he thought should be of concern to policymakers. Firstly, the size of the public investment as percentage of the GDP has fallen to about 4 per cent, which is historically at its lowest level. Secondly, total investment in the economy has also fallen substantially. As against gross national savings of about 28 to 29 per cent, overall investment, including public and private, has stagnated at around 24 to 25 per cent. This clearly demonstrates that the economy has foregone growth because of the low amount and low quality of public sector investment, high transaction costs, inadequate expenditure, weak infrastructure, etc. Private sector investment has suffered because of such a state of affairs with public sector investment.

He felt that short-term measures are justified when there is concern with regard to social protection and subsidies for agricultural inputs. However, those schemes cannot be sustained in significantly large sizes in the medium-term, without consequent adverse effects in terms of the availability of resources for investment.

Mr Syeduzzaman observed that everyone had expected the CTG to lay the foundations of a commercially viable energy sector. However, real progress in this regard has been rather poor. Erstwhile, elected governments have failed miserably to address and rectify the power sector problems. The general public is waiting to see what will happen in the remaining six months that the CTG will be in power, he added.

Mr Syeduzzaman felt that the Bangladesh Bank needs to receive some indications from the highest policy making level as to which policies are of the topmost priority to foster faster economic growth in the Bangladesh context. With respect to safety net programmes, *Mr Syeduzzaman* observed that service delivery would play a key role in ensuring appropriate resource allocation for the poor. Even in developed countries, administering the social welfare system is a daunting task. An effective local government system with the required political, administrative and fiscal decentralisation could play an important role in this respect, he noted.

Identifying the current caretaker government as the mother of all CTG, with a duration of 24 months, *Mr Syeduzzaman* observed that it could have done more in the time it has been in power. He felt that the agricultural sector will not be the panacea for Bangladesh's economy. Agricultural growth, increase in productivity and diversification of agriculture are necessary, but not sufficient factors to address the multidimensional poverty problems of Bangladesh, he observed.

Mr Syeduzzaman was of the opinion that Bangladesh needs to address the emerging critical issues including those that originated from structural changes in the economy. The country is in need of diversified industrialisation, faster export expansion and strengthened global integration. The country needs to significantly enhance the efficiency and competitiveness of her industrial units, improve her infrastructure and increase her energy supply and availability by giving these tasks the top priority from the policy perspective. Along with these tasks, improvements in education, development of quality and manpower skill and expansion of the role of the ICT in all spheres of economic activities should also continue to claim priority attention if Bangladesh is to join the rank of middle-income countries in the next 10 to 12 years, *Mr Syeduzzaman* maintained.

Bringing the dialogue to its close, the Chair registered his deep appreciation to all the dialogue participants and also the Chief Guest and the Special Guest for being present in the dialogue and for sharing their valuable insights. He hoped that whilst finalising the budget proposals, the Finance Advisor will take into consideration comments voiced at the CPD dialogue.

List of Participants

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