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Bangladesh Economy and the Forthcoming Development Forum 2002

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The Centre for Policy Dialogue (CPD)*, established in 1993, is an innovative initiative to promote an ongoing process of 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 major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is 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. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.*

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 CPD include The Independent Review of Bangladesh's Development (IRBD), Governance and Development, Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System and Leadership Programme for the Youth. The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.

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 held at the CIRDAP Auditorium, Dhaka on March 6, 2002 on the theme of ***Bangladesh Economy and the Forthcoming Development Forum 2002.***

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Dialogue on
Bangladesh Economy and the Forthcoming Development Forum 2002

The Dialogue

The Centre for Policy Dialogue (CPD) organized a dialogue titled “Bangladesh Economy and the Forthcoming Development Forum 2002” on March 6, 2002 in CIRDAP Auditorium. Mr M Saifur Rahman, MP, Hon'ble Minister for Finance and Planning was present at the dialogue as the *Chief Guest*. Mr Amir Khosru Mahmud Chowdhury, MP was the *Special Guest* and Mr Tofail Ahmed, Member, Presidium Council, Bangladesh A.L was the *Guest of Honor* at the dialogue. Professor Rehman Sobhan, Chairman of CPD, delivered an introductory speech. This was followed by a key note presentation entitled *State of the Bangladesh Economy in FY02: An Early Assessment* by Dr. Debapriya Bhattacharya, Executive Director of CPD. The presentation was followed by discussion, participated by representatives of the various stakeholder groups present at the dialogue. Participants of the dialogue included high level policy makers, entrepreneurs, academicians, development activists, members of the diplomatic missions, journalists and representatives from grass roots organisation. This report provides highlights from the keynote presentation, and documents the important points raised during the open floor discussion.

Introductory Remarks by the Chairman of CPD

Professor Rehman Sobhan initiated the dialogue with a welcome address to all the participants.

In his opening remarks Professor Sobhan underscored the importance of CPD’s exercise which has been an ongoing endeavour of CPD over the last seven years. A major objective of the IRBD exercise was to put policies of the government of the day to public scrutiny and to stimulate a healthy public debate around key developmental issues. Such a debate was important from the perspective of both policy design and policy ownership, he pointed out. Development Forum 2002 was taking place at a critical point of time in Bangladesh’s history. Macroeconomy was under considerable pressure, and state of governance in the country needed radical improvement. Professor Sobhan further observed that the Development Forum Meeting provided Bangladesh an opportunity to assess the current macroeconomic situation and identify areas of interventions to address the emerging challenges. "Although it is an early assessment, some of the important issues addressed in the keynote paper will need serious consideration" - he observed. He invited Dr. Debapriya Bhattacharya, Executive Director, CPD to make the keynote presentation.

Presentation by Dr. Debapriya Bhattacharya

Dr. Bhattacharya informed the audience that the key note presentation would mainly concentrate on macroeconomic challenges facing the country in the current context.

Dwelling on the background of his presentation Dr. Bhattacharya informed the participants that the Interim IRBD2002 was prepared as CPD's contribution to the discourse during the forthcoming Paris Consortium Meeting. Thus, the focus of the Interim IRBD2002 was kept in line with the major issues which were expected to come up during discussions in Paris. He mentioned that IRBD FY2002 looked at four areas: Macroeconomic Development, PRSP Process, Agriculture Sector and External Sector. He initiated his presentation by drawing attention of the audience to the shocks currently facing the economy. "We are facing two shocks- fiscal deficit and deteriorating balance of payment that have exposed the entrenched vulnerabilities of Bangladesh economy" – he observed. He cited three reasons as being mainly responsible for such developments. These are – fundamental structural weakness, failure to undertake the necessary reform measures and confluence of external factors subsequent to the twin tower tragedy on September 11, 2001. He added in this context, that it was important to identify whether the present situation is a short-run phenomenon, or it was a result of long term structural weaknesses that may undermine early achievement and may lead to an extensive loss in employment and income. He was of the opinion that although the policies of the *100 Days Programme* were steps in right direction, in many instances the programme failed to remove uncertainties and impart predictability in the market. Accordingly, Bangladesh needed a cogent and realistic **"Recovery Package"** designed to effectively arrest the backsliding of the economy in a manner which imposed least cost on the public welfare.

In the above context, Dr. Bhattacharya focused on a number of key issues.

The Revenue Situation

Dr. Bhattacharya noted that Bangladesh's Tax-GDP ratio registered some increase in the mid-1990s and was followed by a decline; it started to rise again after FY2000. However, in the context of the future demand the ratio was still very low. To face the emerging challenges, Bangladesh should broaden tax base, more particularly the direct tax net, plug leakages, strengthen non-NBR component, tap non-tax sources and rationalize (and not increase) public expenditure.

Revenue Expenditure, ADP and Public Expenditure

Dr. Bhattacharya further noted that Bangladesh's revenue expenditure is rigid. To meet the challenges in the area of revenue expenditure she should freeze it in real terms (not in nominal terms), take no expenditure-enhancing populist decision, prune losses in the SOEs, reduce government borrowing and constitute a *public expenditure review committee*. To face the challenges in the area of ADP, Bangladesh need to slash down ADP by about Tk 1000-1500 crore, review projects under supplier's credit, prune ADP projects, identify ADP projects for private sector financing, encourage use of foreign aid in the pipeline particularly for the projects financed by foreign aid and design a core-ADP. He came up with an interesting suggestion to the effect that Bangladesh should not go for deep cuts in the ADP. This was because of the existence of a persistent implementation default. In this context he recalled that only 23% of the plan had so far been implemented in the first six months of FY2002.

Gross Budget Deficit

Dr. Bhattacharya continued by saying that Gross Budget Deficit ratio was declining after FY1994 but then going upward after FY1998. In order to meet the challenges of Fiscal Deficit Bangladesh needed to keep public expenditure growth rate lower than the revenue receipt growth rate and enact Fiscal Transparency and Responsibility Act. He was of the opinion that Bangladesh should declare a fiscal deficit target which would be valid for a period which would be longer than one year. This would impart flexibility in macroeconomic management and help enforce a dynamic capping on government borrowing.

Domestic Credit Expansion

Dr. Bhattacharya cited some emerging developments in the area of Domestic Credit Expansion in Bangladesh in 2001. There was a high aggregate credit growth (18%) which was systematically higher in government sector (25%) and exceptionally high (12%) in public sector organizations. Credit growth in the private sector suffered a declining trend (69%). To meet the challenges in the area of Domestic Credit Dr. Bhattacharya suggested that the Government should restrain credit supply to loss-making SOEs. This was necessary to ensure allocative efficiency, control credit needs of the government and to ensure adequate credit supply to the private sector.

Government Borrowing

Dr. Bhattacharya informed the audience that net increase in government borrowing was 4.15 crores during the July-December period; net government borrowing in December, 2001 increased by 1.25 times compared to the corresponding period of 2000, however, it declined abruptly in January-February 2002 by Tk 1.8 crore. "It reflects the slow implementation of the ADP, because when you are borrowing less it is a signal that you are spending less and when you are spending less it is another issue" – he added. He further observed that to meet the challenges of government borrowing Bangladesh should curtail government borrowing. He thought that if so required the government should borrow from the central bank, and further rationalize interest rate on saving instruments.

Inflation

Dwelling on the issue of inflation, Dr. Bhattacharya observed curiously that notwithstanding uninterrupted high monetary growth during the recent past, obvious signs of inflationary pressure was hardly discernible in the Bangladesh economy. The inflation rate (moving average) has remained as low as 1.58% in FY01. The corresponding point-to-point figure was 1.66%. The low level of food grain prices, ensured by successive good harvests, possibly dictated such a sustained low level of inflation, he thought. Incidentally, early data on FY02 indicates that the inflation rate (point-to-point) is showing sign of marginal increase. From the base rate of 1.66% (June ’01), the inflation rate gradually increased to 2.0% in December 2001. This crawling increase in the inflation rate has been underwritten by the increase in the non-food price index in both the rural and the urban areas. However, during the same period the food component of the index has remained steady in both the areas. In order to meet the challenges of inflation we have to closely monitor nature and magnitude of "real" inflation, control money supply growth and maintain stability of the food prices which is a key issue. There was a need to channel finance to productive investment. In this context, he hoped that two issues would be adequately discussed in the dialogue: (a) does low expectation express demand depression? (b) will a somewhat higher inflation rate be helpful for the economy?

Food Grain Production

Dr. Bhattacharya raised the issue of current food grain production situation in the country. The country produced a total amount of 26.76 million metric ton of food grains last year (FY01) recording a 7.5% growth in food grain production. Rice production during this period increased by 8.8% (25.09 million metric ton), while wheat production fell marginally to 1.67 million metric ton. The target for food grain production for FY02 had been fixed at 27.92 million metric tons, i.e. about 4.3% higher that the preceding year's benchmark. Rice production is targeted to reach 26.08 million metric ton, i.e. 3.95% above the benchmark. Initial figures on the *aus* harvest in FY02 show that the production had been in the order of 1.81 million ton, which is less than the target figure (1.84 million metric ton). He pointed out that *aman* and *boro* are the major crops which determine the food availability situation in the country. There was an apprehension that the *aman* production would somewhat suffer as a consequence of the prevalence of a mild drought during the harvesting season. However, early forecast shows that the shortfall in *aman* production to be in the range of 0.7 million metric ton whilst the target figure was 11.55 million metric ton. Thus, in order to record a positive growth in crop production during FY02, an additional 0.5 million metric tons will have to be produced over the benchmark of 11.25 million metric tons for FY01. Dr. Bhattacharya thought that in order to meet the food requirement, the government does not need to have additional commercial import that is envisaged in the food budget (150000 MT rice and 200000 MT wheat). In his opinion the government may safely continue the present import policy without reducing import tariff (40.5%) and LC margin requirement (25%); procurement price of Boro paddy should be increased from Tk 8.25/kg to Tk 9.00/kg and that of wheat should be increased to Tk 9.00/kg. Government should also have a special plan for next Aman season and a plan in place to supply improved early and late T. Aman varieties to ensure for better output next year. Price of Urea should not be increased and government must continue its role in ensuring sufficient supply of quality inputs.

Manufacturing Production

As regards the performance of the manufacturing sector, Dr. Bhattacharya observed that a point-to-point comparison shows that the *Quantum Index of Production* (QIP) for large and medium manufacturing units declined by 0.54% during July-November, 2001. The comparable figure for FY01 recording growth of 12.95% indicates a quite troubling reversal of fortunes in manufacturing growth during the first half of FY02. The sluggishness in manufacturing growth is better captured once performance of the sector during the eleven months (January-November) of the calendar year 2001 is compared to that of the preceding year (2000). Such a comparison reveals a marginal growth of 0.60% during the year 2001 compared to the more robust growth registered in 2000. This deceleration in manufacturing growth appears to reflect the negative trends in the RMG sector, as a result of which export has shown a negative growth in the recent time. He pointed out that manufacturing production did register some increase in December 2001 mainly because of higher quota-fill performance of RMG exports. In order to meet the challenges faced by Bangladesh's manufacturing sector Dr. Bhattacharya proposed that a task force be constituted to identify policy-related and structural factors which led to an erosion of the country's industrial competitiveness. In this context, he recommended medium and short term measures to strengthen the industrial competitiveness of the country and emphasised the importance of institutional reforms as against price related ones; he urged for improvement of quality aspects of the measures for investment promotion. He also called for more effective government- business policy coordination.

Foreign Investment

Dr. Bhattacharya noted that data for the months of July-October, 2001 indicates that the country has received only $32 million worth of foreign direct investment, which compares very unfavourably with the already low figure of $113 million for July-October, 2000. Investment in the EPZs was relatively encouraging: $15.23 million was received during the July-September period of FY02. He observed that, to meet the challenge Bangladesh should resolve uncertainty in the energy sector to resume flow of FDI and send appropriate signals to other sectors, expedite institutional reforms in trade and investment, strengthen supportive infrastructure and improve the image of the country.

Capital Market

Dr. Bhattacharya observed that the All Share Price Index (ASPI) in June 2001 (716.06) remained lower than the pre-boom benchmark (999.05, June 1996). The ASPI for the DSE at the end of December 2001 stood at 817.79 (DSE20 at 1075.72) which is more than 27% above the corresponding figure of the preceding year. However, the main problem for Bangladesh is that IPOs are generally over subscribed. "So people have no faith in secondary market and creates this disincentive in the industrial sector"-he added. In order to meet the challenges of the capital market Bangladesh needed supportive institutional measures. He also called for strengthening of the capacity of oversight agencies, particularly SEC and restoring confidence in self-regulating bodies, particularly the DSE.

Trade Performance

Dwelling on the external sector performance of the country, Dr. Bhattacharya observed that import restraining measures of the government which was geared towards slowdown of the import growth is a “double edged sword” – in the present context it may have a beneficial effect on the balance of payment situation, but subsequently, negatively impact on domestic economic activities. Fresh opening of L/Cs during the July-December 2001 period is indicative of further reduction of imports during the coming months. The L/C opening figures for the period show a fall by 9.74% of imports. While most of the major categories experienced a fall in imports in real terms, import of capital machinery continues to grow at an exceptionally high rate (23.03%) during the first half of FY01.

Settlement of import L/Cs for the period July-December 2001 indicates a negative growth of imports, i.e. by 3.34% in US$ term. Structure of commodities imported under settled L/Cs indicates a high growth of import of capital machineries (37.51%). Input of intermediate goods (2.73%) and machinery for miscellaneous industries (0.74%) registered only a modest growth. To meet the challenges of import we have to discourage import-intensive public expenditure, deploy market based selective import discouraging measures such as increase of L/C margin and other regulatory duties, arrange concessional financing (aid) for petroleum import and avoid cash purchase of food grains.

Dr. Bhattacharya observed that the drastic fall in export receipts during the first half of FY02 has transmitted a strong shock to the economy. Export earnings during the July-December period was 16.45% short of the target and more than 11.47% lower than that of the matching figure of FY01. The country's premier export products, *viz* woven and knit garments, which account for more than three-fourth of our export receipts, experienced negative growth possibly for the first time since the emergence of the RMG sector in Bangladesh. During the period July-December 2001, woven, knit RMG and shrimp exports fell by 11.28%, 8.23% and 30.2% respectively.

Foreign Reserve

Dwelling on Bangladesh's reserve situation and inflow of foreign remittances Dr. Bhattacharya noted that early figures for FY02 indicate that the depletion of the forex reserve continued during the months of July–December, 2001. At the end of December, 2001 the reserves stood at $1305.35 million, which is almost 13.9% less than the comparable figure for FY01. The reserves experienced a further fall in January '02 reaching $1173 million (as of January 24, 2002), which is 18.35% lower than the comparable figure for the preceding year.

Balance of Payment

To meet the challenges in the area of BOP, Dr. Bhattacharya suggested that the following steps be taken by the GOB – design a short term management of external payments; enhance export and monitor import; take the benefit of foreign aid pipeline; secure BOP support from external sources such as IMF, address the issue of 'unaccounted for' foreign earnings; encourage FDI and take energetic steps to increase the flow of worker's remittances to the country.

Foreign Remittance

Dr. Bhattacharya found it encouraging to note that the flow of foreign remittance recorded a robust growth of 20.36% ($1116.91 million) during July-December, 2001. He, however, observed that it will be interesting to observe how these early signals are maintained in the upcoming months. To meet the challenges of remittance flow Bangladesh needed to continue with institutional measures to increase official flow, take measures to increase the ratio of skilled labourers in the migrant labour force, pursue active exchange rate management, explore new labour markets and pursue proactive policy in GATS to promote Mode-4 (movement of natural persons).

Concluding Remarks by the Key Note Presenter

In concluding his presentation Dr. Bhattacharya came up with a number of policy suggestions. He urged the government to formulate a comprehensive *Recovery Package* of 2-3 years' duration which would be an integral part of the design of the Revised ADP for FY02 and would be taken cognisance of in preparing the supplementary budget for FY02 and also the upcoming budget for FY03. He also argued in favour of defensive restructuring of macroeconomic stance to adjust the economy at a low equilibrium through consolidation measures. He noted that a trade-off may have to be made between economic growth and macroeconomic stability. He thought that highest priority should be given to the issues of price and exchange rate stability and called on the GOB to expedite structural reforms in the area of public expenditure, privatisation, financial sector, capital market, public utilities and trade supportive infrastructure such as ports and customs.

A Resume of the Open Floor Discussion

A number of important issues highlighted during the keynote presentation was subsequently taken up by the dialogue participants during the open floor discussion. Discussion on some of the issues put under close scrutiny and generated lively debate since participants came up with opposing views.

The Issue of Reducing the Level of Public Expenditure

Dr. Mirza Azizul Islam, Former Director of UN-ESCAP observed that the economy is slowing down and inflation rate is quite low. "If this be the case, I don't quite understand the rationale for suggesting public expenditure cut"- he observed. He also thought that efficient allocation of resources for public expenditure could lead to higher growth rate. IMF often calls for public expenditure reduction on the ground that this potentially creates large current account deficits. However, Bangladesh's BOP is currently suffering a deficit mainly because of reduction of export earnings. Because of demand contraction Bangladesh's exports in the global market has declined and the decline is observed both in terms of price as well as volume. "Massive public expenditure is not what creates budget deficit" he noted, and went on to say that Bangladesh's public sector deficit was not as high as that of India. He also thought this to be only a short run phenomenon. He was in favour of large-scale public sector expenditure.

Dr. Fakhruddin Ahmed, Governor, Bangladesh Bank opposed the view of Dr. Azizul Islam. He was of the opinion that the Government should rather curtail public expenditure in such a manner that it does not constrain growth potentialities. He thought that public expenditure ought to be reduced to achieve macroeconomic stability and a better balance in the current account.

Professor Muinul Islam, President of Bangladesh Economic Association, however, supported Dr. Islam's point of view and thought that the level of public expenditure should not be reduced. He urged for reduction of the revenue expenditure rather than the scaling down of development budget. He proposed the reduction of defence expenditure, specially in the Chittagong hill tracts in real terms and called for exclusion of unnecessary, lavish and politically motivated projects from the ADP.

Dr. Kaniz Siddique, Associate Professor of Economics, North South University made the observation that the issues of expenditure switching was more important than expenditure reduction. She informed the dialogue participants that more than 1500 unnecessary projects were approved at the time when the current Budget was being designed. She urged for rationalization of expenditure budget and reduction of defence spending.

Dr. Tawfiq-e-Elahi Chowdhury, Former Secretary, Government of Bangladesh supported the view favouring government expenditure on the ground of existence of low inflation in Bangladesh. He thought that public expenditure stimulated both value addition and efficiency in the economy. He underscored the importance of providing support to the external sector, and favoured continuing public expenditure. He advised the government to examine and support maintenance of healthy BOP situation in a manner that supported continuing public expenditure for the good of the country.

Contesting the rationale for continuing with large public sector expenditure Mr. Syeduzzaman, former Finance Minister and Member Board of Trustees, CPD supported the call for public expenditure cut arguing that the country lacked adequate resources and revenue earnings of the country was also low at this point in time.

Continuing the debate on the issues of public expenditure Mr. M Saifur Rahman, MP, Hon'ble Minister of Finance and Planning made the remark that closing down loss incurring SOEs will reduce government spending; he however, informed the audience that the government was not contemplating about reduction of development expenditure, as this may negatively impact on the employment situation in the country.

The Issue of Reducing Defence Expenditure

Professor Muinul Islam and Dr. Kaniz Siddique urged for reduction of defence expenditure. The Finance Minister in this context observed that a country has to incur a minimum amount of defence expenditure and this was perhaps unavoidable. He pointed out that as Bangladesh's military equipments were not modern, it would be unwise at this particular point in time to reduce the defence budget.

Concern about Trade Gap

According to Dr. Fakhruddin Ahmed, the country should take some concrete steps in order to stimulate the export sector. These included:

(a) Maintaining a favourable exchange rate
(b) Creating a sound infrastructure; for example, if the efficiency of Chittagong port could be improved, it will be highly conducive to export expansion
(c) Diversifying Bangladesh's export in terms of outlet and product range
(d) Identifying new markets for the export-oriented RMG sector. Amongst other countries, Japan, Russia and Australia could be targeted.

Supporting the view of the Governor, Bangladesh Bank, Mr. Farooq Sobhan, Former Secretary and President of Bangladesh Enterprise Institute (BEI) observed that Bangladesh has so far been concentrating only in the EU and US markets, though the Indian market holds immense opportunity for the country. Consequently he noted, Bangladesh should be vigorously seeking duty free access to the Indian market.

Professor Muinul Islam noted, "In case of export there is no short run relief; however, in case of import I think we can do a lot". He emphasized on curtailing unproductive import to improve Bangladesh's trade balance.

Taking part in the discussion Hon'ble Minister for Commerce, Mr Amir Khosru Mahmud Chowdhury, MP noted that agro-based industries registered a 16% growth in the last fiscal year, at a time when Bangladesh was faced with a global recession. Bangladesh needed to invest more in agricultural products and enhance its contribution in the export basket. He also thought that the existing interest rate in terms of export related investment and activities is high and this created a lot of disincentive for exporters. We should set a benchmark for the interest rate.

Mr Saifur Rahman supported the view of the Minister of Commerce stating that Bangladesh should concentrate on the export of agro-based products and IT sectors in which Bangladesh has comparative advantage to increase her export. This was the way to diversify the export basket and boost export income of the country. He added that the country's trade gap is rising because of increasing import of raw materials and machineries, it is beneficial for the country in the long run, since this import is transient and creates value addition in the country.

Mr. Tofail Ahmed, Former Minister for Commerce and Industries raised the issue of Good Governance as an important element of good export performance. He recalled that during the period of Awami league government export growth rate was positive and it did not suffer decline even during the period of the disastrous flood and the South Asian crisis in 1998. He noted that export growth trend in both India and Pakistan are positive, though exports in Bangladesh has been slowing down. He thought that the major contributing factor to this decline is the absence of transparent and good governance.

Donor Pressure

Mr. M A Rouf Chowdhury, Director, FBCCI noted that donors are putting tremendous pressure for reforms in Bangladesh's finance sector; however, many of the reforms cannot be adequately implemented in the context of the current macroeconomic situation. Thus, we are trapped in a vicious circle and cannot adopt any independent policy. He added that Government, the opposition and the civil society should work together to make the policy work towards stability and growth which will eventually reduce poverty. As the ruling party currently enjoys more than two-thirds majority in the parliament it is very convenient for them to energetically pursue any policy they perceive to be important for the country. Mr. Rouf went on to say that if we privatize the loss incurring companies, our savings – GDP ratio will go up and the need for foreign aid will diminish.

Importance of Remittance Flow

The participants discussed the issue of increasing foreign remittance through formal channels as against the *hundi.* According to Professor Muinul Islam if Bangladesh wants to improve her foreign reserve situation she should provide adequate incentives to the remittance earners in order that they send their earnings through the formal channels. He added that 50% of the foreign earnings are lost through the *hundi*, which was in effect a capital flight and a parallel capital market. Mr Anisul Islam Mahmud, former minister for Foreign Affairs, agreed with this view.

Dr. Mohammed Farashuddin thought that higher incentives and a good banking system are crucial in terms of increasing the inward flow of remittance from abroad.

Good Governance

Dr. Kaniz Siddique underscored the importance of good governance and observed: "One thing that I think is missing in the discussion is the issue of good governance and law and order situation". If law and order is not good, hardly any FDI will come to the country, she noted.

Mr. Anisul Islam Mahmud added in this context that economic policies may be excellent from the viewpoint of theory, however, a society may have to pay a high price if policies give rise to social and political turmoil. He thought that unemployed youths are mainly responsible for the deterioration in the law and order situation in the country. A good government should give priority attention to this problem.

Mr Hasanul Haq Inu, Secretary General, Jatyio Samajtantric Dal (JSD) expressed his frustration by saying that he found little value addition from all the seminars and meetings which were held over the last two decades. The overall environment in the country was not conducive to economic growth. This is the reason why the growth rate is well below 7%, a not unachievable target. He put forward a number of proposals for improving the overall situation which included – good governance to diminish terrorism and local government oriented development policy.

Mr Tofail Ahmed thought that the present government does not want cooperation from the opposition. He noted that major reasons for the current economic vulnerability was the present law and order situation which was more critical than even the fiscal deficit and balance of payment problems. "Until and unless law and order situation is radically improved alright, no economic development will take place"- he observed.

Concern about Inflation

Dr. Kaniz Siddique raised the issue of inflation and observed that Bangladesh should carefully analyse the trade off between growth and inflation, and the government should strive to keep the inflation at low levels to achieve stability.

Professor Abu Ahmed, Professor, University of Dhaka observed that over the last two years though money supply was doubled inflation rate was between 1.2%-2%. He noted that if there was a fall in aggregate demand or an increase in aggregate supply, inflation trend would tend to be low; however, this was not the case. He added that inflation measurement method in Bangladesh begs improvement. Food is no more the main item in the consumption basket of the middle class in Bangladesh. The middle class currently spends substantial amount of money on other (non-food) items and this fact should be taken cognisance of whilst measuring the rate of inflation.

In responding to the paradox posed by Mr Abu Ahmed. Dr. Mohammed Farashuddin put forward three factors as having contributed to the low inflation in the country in recent years: (a) Growth in agricultural and food production, (b) Significant monetisation of various parts of rural economy and (c) Inflow of substantial amount of *hundi*.

These three factors, according to him, kept the inflation rate low though there was an expansionary monetary policy.

Government Borrowing

Mr. Abu Ahmed thought that there should not be any deficit financing target and Bangladesh should reduce government borrowing to make room for other sectors.

Dr. Mohammed Farashuddin disagreed with the view of Dr. Bhattacharya as regards the justification for borrowing from the Central Bank. "This is suicidal to try to increase borrowing from Central Bank"- he thought adding that it may create inflationary pressure.

Dr. Rushidan Islam Rahman, Research Director, BIDS noted that change in the investment growth rate is a long term phenomena. She noted in this context, “When government borrowing is more productive than private investment, government borrowing is not a problem”. She emphasized on the issue of crowding out effect by saying, "It has been observed that during the last fifteen years, without exception government borrowing has resulted in lower private investment".

Mr. Amir Khosru Mahmud Chowdhury shared the view of Dr. Rahman on this issue and noted that the country's deficit in balance of payment is much larger than the decrease in export earnings. He noted that current government borrowing is essentially sound from the perspective of macroeconomic management.

The Finance and Planning Minister informed the dialogue participants that the government is trying to find sources other than the banks for the purpose of borrowing which, he hoped, will help establish the efficiency of the private sector.

Establish an Efficient Capital Market

Professor Abu Ahmed noted that public confidence in primary market is currently higher compared to that in the secondary market. The government should design a package programme to introduce a transparent and accountable stock and capital market. Mr. Syeduzzaman supported this view and underscored the importance of capital market in the economy. The Commerce Minister also supported this view saying "Capital market should be the prime source of investment". Mr Saifur Rahman supported Mr. Abu Ahmed's observation and said, "No private sector led growth is possible in the absence of an efficient capital market".

Concern about Foreign Exchange Reserve

Professor Abu Ahmed cautioned against over anxiousness as regards the country's foreign reserve. If foreign reserve is efficiently managed, even a relatively small foreign reserve should not be a cause for major concern. Since Bangladesh economy is small and underdeveloped, she need not to follow a flexible exchange rate- he further added.

Investment Issues

Mr. Farooq Sobhan was of the opinion that foreign direct investment (FDI) should be encouraged through supportive activities on the part of the government. Initiatives need to be taken to encourage flow of FDI to the public sector. In this context he noted that performance of EPZs in attracting FDI has been quite good.

The Finance and Planning Minister added in this regard that Bangladesh needed investment in equity based industrial and Human Resource Development (HRD) sectors in order that more employment can be created through value adding activities. This was an important factor from the perspective of eliminating poverty. He added, "Our main advantage is the ability of our entrepreneurs." He further observed that wherever Bangladeshi entrepreneurs have invested, they have brought good harvest. What was required is a good environment which is conducive to investment.

Underground Economy

Dr. Mohammed Farashuddin emphasised the importance of bringing into the discourse the issue of the underground economy. He thought that activities performed by the underground economy could, to some extent, explain the puzzling problem of Bangladesh’s Tax-GDP ratio, low inflation and the decreasing trend of the foreign reserve. He also drew attention of the participants to the largescale unofficial import which comes every year to the country. Mr. Amir Khosru Mahmud Chowdhury added in this context that there was huge wastage through the functioning of informal economy through smuggling.

Privatisation

Taking part in the discussion on privatisation Mr. G M Quader, MP observed, "Privatisation is not the only solution, and elimination of mismanagement is now more essential than privatisation”. Mr. Saifur Rahman noted in this respect that privatisation had to be carried out in a manner which is sensitive to the interest of common people so that nobody gets hurt in the process.

Fuel and Electricity Price

Mr. G M Quader observed that the price of petroleum and furnace oil was registering some rise in the recent period. As a consequence the *Pakshi Paper Mill* and other mills in North Bengal are facing formidable difficulties. He apprehended that this may give rise to unemployment since the mills would like to cut down their cost. "We need to rationalize the government policy" – he noted. He got full support from Mr Tofail Ahmed in this respect who noted that with the hike in the price of electricity and oil price, farmers will incur losses and industrial and manufacturing growth may also slow down.

Responding to the apprehensions of some of the dialogue participants, Mr. Saifur Rahman assured the speakers by saying that the issue would be taken into consideration by the government.

The Issue of the Membership in the Group of LDCs

Mr Tofail Ahmed informed the participants that with inclusion of *Senegal* the numbr of LDCs has reached 49. He pointed out that by remaining in this group Bangladesh receives preferential treatment in the context of export and foreign aid. Bangladesh is considered the leader of the LDCs in the WTO and if she leaves the group she will lose the special and differential treatment which is currently being accorded to her.

Mr. Saifur Rahman held a somewhat different view and was of the opinion that Bangladesh’s economic condition is not so weak as is often perceived by others. In this context he pointed out that the country has already negotiated with the IMF in terms of improving her foreign reserve. Bangladesh’s balance of payment situation is not the same as many other countries belonging to the African group of LDCs. Bangladesh’s social indicators are also better than most LDCs. Many of the deferred deadlines accorded to Bangladesh under the S&D treatment will continue only for another two years; besides international fora tend to have a pathetic look at Bangladesh since it belongs to the group of LDCs. He also pointed out in this context that cost of borrowing also goes up immediately if a country is an LDC. He hoped that if Bangladesh is able to ensure good governance in managing the economy and harmony in conducting her politics, the situation will improve quite perceptibly and flow of investment to the country will also increase. He thought that in the long run Bangladesh would benefit if it comes out of the LDC group.

Concluding Remarks by the Chairman

In his concluding remarks Professor Rehman Sobhan summed up the major issues discussed in the course of the dialogue. Professor Sobhan underscored the importance of policy recommendations and suggestions put forward in the course of the dialogue and expressed his optimism that GOB policy makers would be able to make good use of it. On behalf of the CPD, he sincerely thanked all the participants for their keen interest and active participation in the dialogue deliberations.

Annex 1

List of Participants
(*Arranged in alphabetical order*)

Professor Abu Ahmed	Department of Economics, University of Dhaka
Mr Afsar Karim Chowdhury	Vice President, DCCI
Professor Ali Ashraf	Former Deputy Speaker
Mr Md Almas Uddin Miah	Banker
Mr A Mannan, MP	Former State Minister for Civil Aviation
Mr Amir Khosru Mahmud Chowdhury, MP	Hon'ble Minister for Commerce Government of Bangladesh
Maj Gen Anisa Amin	Former Ambassador
Barrister Anisul Islam Mahmud	Former Foreign Minister, Govt. of Bangladesh
Ms Annamarie Minder	Deputy Resident Coordinator, SDC Embassy of Switzerland
Professor Ayubur Rahman Bhuiyan	Department of Economics, University of Dhaka
Mr Md Badil Alam	Samachar
Mr Badiur Rahman	Secretary, Planning Division Ministry of Planning, Govt. of Bangladesh
Mr Bazlur Rahman	Editor, The Sangbad
Dr Binayak Sen	Senior Research Fellow, BIDS
Mr Dt Ude Heinbuch	Head of Development Cooperation Embassy of the Federal Republic of Germany
Mr Enayetullah Khan	Editor-in-Chief, Holiday
Mr Farooq Sobhan	President, Bangladesh Enterprise Institute
Dr Mohammed Farashuddin	Former Governor, Bangladesh Bank
Mr Mohammad Fazlul Azim	Former MP and Chairman Azim Group of Industries
Ms Ferdous Ara	Secretary, DCCI
Mr Golam Samdani Fakir	Director, Training, BRAC
Mr Hasanul Haq Inu	Secretary General, Jatyio Samajtantrik Dal (JSD)
Mr Hans P Melby	Counsellor, Norwegian Embassy
Barrister Ishtique Ahmed	Former Member, Advisory Council of the Caretaker Government
Mr Jamaluddin Ahmed	Former Deputy Prime Minister Government of Bangladesh
H E Mr J L Ijzermans	Ambassador, Royal Netherlands Embassy
Mr John Moore	Counselor & Head of Aid Canadian High Commission

Dr Kaniz Siddique	Associate Professor, Department of Economics North South University
Mr Khandker Mosharraf Hossain	President, Bangladesh Chamber of Industries
Mr Mahbubul Karim	Senior Vice President, Proshika
Mr Mamun Rashid	Chief Operating Officer, Citibank N.A.
Mr M A Rashid	Director, Tr., PRIP Trust
Mr M A Rouf Chowdhury	Director, FBCCI
Dr Michele Forster	Deputy High Commissioner Australian High Commission
Dr Mirza Azizul Islam	Former Director, UN-ESCAP
Professor Momtazuddin Ahmed	Department of Economics, Dhaka University and Member, GED, Planning Commission
Mr Mosharraf Hossain	MDS, PATC
Ms Nasreen Awal Mintoo	President, Women Entrepreneurs' Association of Bangladesh
Mr Paul Zwetsloot	First Secretary and Head of Development Royal Netherlands Embassy
Dr Reazul Islam	DFID
Dr Rushidan Islam Rahman	Research Director, BIDS
Mr M Saifur Rahman, MP	Hon'ble Minister for Finance and Planning Government of Bangladesh
Dr Salahuddin Ahmed	Deputy Executive Director, BRAC
Mr Md Shah Alam Sarker	Director, BDC
Ms Shamim Hamid	Principal Officer, UNDP
Mr S H Kabir	Chairman, Renata Ltd
Dr Salahuddin Ahmed	PATC Project
Ms Sandra Nicoll	Financial Management Reform Manager, DFID
Mr S M Al-Husainy	Former Secretary, Ministry of Energy and Mineral Resources, Government of Bangladesh
Mr Syed Jamaluddin	Former Economic Minister in Geneva
Mr Syed Tanveer Hussain	Secretary, Ministry of Housing & Public Works
Dr Tawfiq-e-Elahi Chowdhury, BB	Former Secretary, Government of Bangladesh
Mr Tofail Ahmed	Member, Presidium Council Bangladesh Awami League
Mr Vilaisan Campbell	First Secretary, Development Assistance Australian High Commission
Mr Waliur Rahman	Director, BILIA

List of Journalist

Mr Asif Sowkat	The Daily Matribhumi
Mr Shahidur Rahman	Bangladesh Television
Mr Nurul Hasan Khan	The Daily Dinkal
Mr Md Abdullah	Bangladesh Television
Mr Mir Mostafizur Rahman	The Independent
Mr S I Quadir	The Daily Manabjamin
Mr Saiful Islam Shamim	BSS
Mr Masumur Rahman Khalili	The Daily Inqilab
Mr Khawaza Moin Uddin	The Bangladesh Observer
Mr Mahbub	ATN Bangla
Mr Ezaz Hossain	The Daily Janakantha
Mr Masum	The Daily Ittefaq
Mr Rahim Hurmachi	The Daily Bhorer Kagoj
Mr Mahtab Haider	The Weekly Holiday
Dr Sushanta Sarkar	The Ajker Protasha
Mr Moinul Haque Chowdhury	The Daily Arthaneeti
Mr Julfiker Ali	Channel i
Mr Zia Islam	The Daily Protham Alo
Mr Rafiqul Alam Rana	Dreptro Kantho Magazine
Mr Syed Shahnewar	The Daily Jugantor
Mr Aminur Rashid	ETV
Mr Sujan Mahmud	The Ajker Kagoj
Mr Asjadul Kibria	The Daily Prothom Alo
Mr Rejaul Karim Byron	The Daily Sangbad
Mr Shahriar Kabir	The Daily Star
Mr Shaugat Ali Sagor	The Prothom Alo
Mr Meer Saiful Islam	UNB
Mr Rajiur Rahman	The Daily Star
Mr Zahirul Abedin	The New Nation
Mr Md Samsuddin	Free Lance Journalist