

## State of the Bangladesh Economy and Budget Responses 2005

### The Dialogue

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

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

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

### Introductory Remarks by the Chairman

Professor Rehman Sobhan, Chairman of the Centre for Policy Dialogue (CPD), welcoming the guests pointed out that CPD has been organising the budget dialogue since 1994 with the participation of a distinguished cross section of the society. He thanked honourable Finance Minister M Saifur Rahman for his valuable presence and mentioned that from the very early occasions the Finance Minister has been participating in the CPD dialogues, both as Finance Minister and as opposition front bench. Professor Rehman Sobhan said that this particular occasion is

special as it gives an opportunity for the Finance Minister to engage with a broad and distinguished cross section of people to discuss the budget which he has presented before the parliament. This occasion gives a unique opportunity for the Finance Minister to not only listen to what the policymakers, government officials, business leaders, academics and experts have to say about the budget but also respond to their comments in his institutional and professional capacity. He hoped that this tradition of professional discussion will be sustained and CPD will continue to create this space for an engagement between the Finance Minister and his counterpart both in the political world and in the civil society.

### Keynote Presentation by Dr Debapriya Bhattacharya, Executive Director of CPD

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

### Benchmarks

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

foreign aid off-take, though marginal, has been seen. Buoyant remittance flow continued during the year. Dr Bhattacharya mentioned all these as positive benchmarks of the year.

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

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

monitoring estimates show that during the last five years the income differential between the top 10 per cent and the bottom 10 per cent of the population has increased from 20 times to 24.5 times.

Dr Bhattacharya congratulated the Finance Minister for his condensed budget speech this year and for integrating the two parts of the budget in one. He said that the speech was contextualised. He appreciated the Finance Minister's word that whatever this country has achieved does not belong to a group or a party rather than it is a national achievement. He said a much more poverty friendly language has been seen this time. However, he added that there were some parts missing. For example, as everyone expects, there should be a part at the end of the speech giving the summary of the net outcome of the fiscal measures, that is, how much money is coming due to the new fiscal measures and how much has forgone due to the same. For another example he noted that the Finance Minister in his budget speech stated that 54 per cent of the budget has been allocated for poverty reduction. An annex in the end could have made it clear which sectors and which programmes are really pro-poor to provide an explanation of the number "54%". He expressed his contentment as 4 of the CPD proposals found place in the budget, 2 in the safety-net programmes and 2 in the investment programmes.

### Economic Performance

Dr Bhattacharya said that GDP has posted a 5.4 per cent growth this year while the PRSP target was 5.5. He mentioned it as quite satisfactory, keeping the flood in mind. But the problem is, the GDP growth rate of FY2004 has been revised upward to 6.3. He expressed CPD's concern that this substantial upward revision of the GDP figure needs to be somehow clarified. There is a need for transparency and the last thing anyone wants to have is a debate on the GDP figures over time across the board and it definitely creates problem abroad when talking about the country's own economic performance. Dr Bhattacharya added that though GDP growth rate of 5.4 per cent along the flood is quite fine, if this figure is compared with other South Asian countries, it looks quite moderate as most of these countries are targeting 6.5 per cent to 8 per cent of growth. He said most of the South Asian countries and the Asia as a whole are going through high growth spell dynamism and this dynamism is partly touching Bangladesh. The issue is to capitalise on this new growth upsurge in the coming years.



## Sources of Growth

Dr Bhattacharya mentioned that following the Flood 2004, negative growth in crop sector of (-) 3.3 per cent in FY2005 is understandable. Most of the other sectors have shown positive growths. But the concern is, the Real Economic Sector, which includes crop, livestock, fisheries, manufacturing, queering and mining all together, declined from 33.6 per cent in FY2004 to 27.3 per cent in FY2005 in their incremental contribution and the contribution of the service sector has increased from 45 per cent to 61 per cent. This indicates that the growth is service sector oriented and quite often this has low employment linkages and the accessibility of the poor remains constraint. He added that the growth is good, but it needs to be changed in favour of the manufacturing sector, in favour of the processing sector, in favour of the labour intensive industrial sector and that will give a better employment impact.

## Per Capita Income

Dr Bhattacharya said that per capita GDP and GNI for FY2005 were US\$ 445 and US\$ 470 respectively. The per capita income of Bangladesh is still very low when compared with the same of other South Asian countries. It is 28.7 per cent less than Pakistan, 44.3 per cent less than India and 135.2 per cent less than Sri Lanka. This indicates that Bangladesh needs to do better.

## National and Domestic Savings

Dr Bhattacharya said that national and domestic savings is one of the major indicators of the economic performance and the poverty. He noted that national savings rate has started to move after a long stagnation. The share of national savings in GDP increased moderately in FY2005 to reach 26.49 per cent as against 25.44 per cent in FY04, registering a rise of 1.05 per cent. Domestic savings increased marginally to 20.16 per cent of the GDP in FY2005 from 19.53 per cent in FY2004. When compared with India and Pakistan it can be seen that Bangladesh is doing better than Pakistan but not as good as India. The share was 28.1 per cent in India and 17.6 per cent in Pakistan.

## Investment

In his discussion on Gross, Public and Private Investment Dr Bhattacharya mentioned that during the last five years (FY2001-FY2005), the gross investment rate has increased by only 0.3 per cent of the GDP. This

is significantly low (by 1.07 per cent of GDP) compared to the MTMF target of PRSP which was set at 25.50 per cent for FY2005. He said that the gross investment has increased by 0.41 per cent. This investment has come in the face of a declining public sector investment of 0.3 per cent and the private sector investment has increased by 0.7 per cent. This means if the public investment was better this year the private investment could have been even more because of the linkage and complementarities which was there. So when looking at the investment situation the villain of the piece is ADP and public investment. Public investment may emerge as the constraining factor for the private investment in the coming years whether it is through electricity generation or it is through port situation or other communication issues. He said it is very much important for the government to improve the performance of public investment.

## Revenue Earnings

Dr Bhattacharya noted that growth target of revenue for FY2005 (16.7 per cent) fell short by (-) 5.08 per cent. However, realisation in FY2005 was 10.73 per cent higher than FY2004. He added that the country experienced a 10 per cent to 12 per cent average revenue growth during the last decade which is a steady growth and it is marginally above the inflation growth rate that gives again a marginal growth in the Tax-GDP ratio. New target for revenue earnings in FY2006 is 16.64 per cent. Last year the single largest incremental contribution came from VAT (53 per cent). Customs duty contributed about 18.4 per cent. Incremental contribution of direct tax was 15 per cent. He said tax system is undergoing a change, moving away from international taxes to direct taxes and VAT. The issue is which is going to move at what pace. He made the point that collection from direct taxes should be higher than indirect taxes because direct taxes are income based and indirect taxes are paid irrespective of what people earn, whenever and whatever they consume in a flat rate. So the effort of the government should be on direct taxes. From the growth target of FY2006 it is seen that incremental growth of VAT is targeted to be 32 per cent from 53 per cent and for direct taxes it will increase from 15 per cent to 17 per cent. "It is a welcome change", he said. But he added that what bothers is the non-NBR tax and non-Tax. Dr Bhattacharya said he was surprised to see that in non-NBR tax, the taxes on vehicles registered a negative growth where everyone knew how many new cars are getting on to the streets. Again, the taxes on land transaction registered a negative growth which he

mentioned as another surprising issue. He said these are obviously the sources of leakages and need to be plugged. So non-NBR remains a major area for creating resources, he said. Similarly, in non-tax, the TNT is incurring a huge deficit which is affecting the whole revenue collection situation. "We quite often get stuck with the NBR, but NBR is comparatively doing better than the rest of the areas", he added.

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

### Public Expenditure

Dr Bhattacharya said during the last few years, average growth of revenue earnings was 13 per cent against the public expenditure growth of 8 per cent. He noted it as satisfactory as it is needed to develop the revenue growth at a faster rate than the expenditure growth. Again, in the targets of FY06, revenue earnings growth is targeted at 19.5 per cent and public expenditure growth is targeted as 15.7 per cent. He said that he agrees with the plan but how much will be implemented that remains a challenge. Looking at the macroeconomic stance, development expenditure should grow at a faster pace than revenue expenditure. But in FY05 revenue expenditure registered a 17.4 per cent growth against a 7.9 per cent ADP growth. So the revenue expenditure growth was twice as fast as the investment programmes. If the targeted volume of public expenditure is realised in FY05, still a 38 per cent ADP is achieved against revenue expenditure of 62 per cent. Analysing the sector wise distribution of total public expenditure, Dr Bhattacharya said that other than the public services, single largest growth will happen in health and education sector with 33.5 per cent and 33.0 per cent growth respectively which is quite in line with the PRSP. Also, social security and welfare will receive another 20 per cent increase. Regarding defense, he said it is a sensitive sector and the relative shares have declined from 7.4 per cent to 6.7 per cent in 2006. It is a moderate growth of 5 per cent with incremental allocation of 225 crore taka. But he added that this is not the entire defense budget and defense budget is spread all over the other sectors.

### Annual Development Programme

Dr Bhattacharya noted that ADP for FY05 was fixed at

Tk 22,000 crore. The new ADP has been fixed at the 24500 crore which is 11.4 per cent higher than the original ADP of FY05 and 19.5 per cent higher than the revised ADP of FY05. But he said implementation of a fuller ADP is the major issue rather than the size and issue of quality is no less important. In a comparison between the political regimes in terms of ADP implementation, Dr Bhattacharya noted that from the beginning year of this government the actual size of ADP is going down and this year it came down to 5.6 per cent of GDP which is lowest ever ADP implementation in the last 15 years. He said it is a major point and ADP implementation remains one of the major sources of vulnerability. So the size of allocation is not the issue, rather the money allocated to various sectors that are not being able to utilise them is the major concern. Taking his discussion on ADP further, Dr Bhattacharya said that the share of block allocation in ADP increased from 12.7 per cent to almost 20 per cent. Among the block allocation there are two types of allocations. One is the sectoral block allocation which is allocated to different sectors and will be subsumed for new programmes in process. The second is the general block allocation. Regarding the general block allocation, he said that the share has increased from 8.2 per cent to 11.4 per cent. "Can we really allocate money without allocating the purpose? Is it really a fiscal balance in that way?", Dr Bhattacharya raised the question.

Within the sectoral allocation of ADP, the single largest increment is taking place in local government. Dr Bhattacharya mentioned it to be a very interesting incident. He said it will be interesting to see whether adequate fiscal transparencies and accountability will be enforced to support such big monetary growth in local government.

Education and Health sector got increase of 6.2 per cent and 5.2 per cent in their respective allocations. Dr Bhattacharya said it is interesting that power (electricity) sector got a negative growth of (-) 3.8 per cent with no new money allocated to it. He said the Finance Minister in occasions has mentioned the need for public investment in order to build infrastructure. If this is the case it is surprising to see why there is no more allocation in infrastructure when the private sector response is poor. The government will have to supply electricity, roads and communication to the people. So it is surprising how the electricity allocation be so low at the moment. He added that it is also bothering to see the health and education sector are also two lowest performers in the ADP.



## Revenue Expenditure

Dr Bhattacharya noted that the block allocation within the revenue expenditure has increased significantly. When no more money is needed for pay and allowances, which is the reason for the last year, why it is needed to have so much free money under revenue expenditure needs to be explained, he said. While mentioning the major features of revenue expenditure, he noted the high growth of "Repairs, Maintenance and Rehabilitation" (43.8 per cent) in FY05, largely because of the flood 2004. He added that the interest payment is going up.

## Budget Deficit

Dr Bhattacharya said a systematic fall in budget deficit was observed during FY01-04, from (-) 7.0 per cent in FY01 to (-) 4.2 per cent in FY04. This year the budget deficit has increased, partly due to the financing required by the flood. But mainly it is due to the low implementation of the ADP, budget deficit remains under control. So when it is said the deficit is under control, it does not necessarily mean that one has managed it efficiently or managed more resources, but it may mean that one has spent less. But at the end of the day the budget deficit of Bangladesh is under control even when compared with the neighbouring countries. "The deficit is under control but due to the wrong reason", he said.

## Fiscal Measures

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

- **Personal Income Tax:** Dr Bhattacharya noted that tax level has been increased and minimum income tax has been increased. Those who will be earning 10000 taka in a month will receive a rebate of 10 per cent. Those who will be earning 31000 taka per month will be getting a rebate of 18 per cent. Upto 56000 taka income one will get a rebate of 14 per cent. Those who will earn more will get 11 per cent. He expressed his doubt that the benefit is not evenly distributed. He said the benefits are somehow biased towards the middle. He said the exemption limit is much lower than India, Sri Lanka and other countries although their marginal tax rate is higher. Dr Bhattacharya welcomed the new revised personal income tax schedule for the increase in the minimum income level and the minimum income tax. But he also added that new

schedule remains most relevant to the salaried people with very transparent income.

- **Tax Amnesty for Undeclared Income:** Dr Bhattacharya mentioned this as a red heading. This is one topic that made people forget all the other major issues that could have been discussed. He termed this measure as unethical and economically inefficient. In no countries in nowhere this measure has been introduced and kept for long. It remains good only when it is done in a time bound fashion and followed up by strong enforcement. If one knows that after the time period is over, even if it is over next year, the government is not going to catch the tax dozers, it will have no effect. In a soft democracy like this country has, where one cannot enforce as much as it is required, this measure is not economically efficient. Dr Bhattacharya mentioned that India introduced this measure in 1997 only for nine months and the disclosers gave them an estimated 10050 crores at that time. He termed the measure as a shock treatment, efficiency depending on the time limit, political will and its enforcement. He added that as there is no account of black money in the country, it will be very difficult to measure how much effective it really was.
- **Tax on Real Estate:** Dr Bhattacharya noted that taxing of investment in real estate has been increased to 175 Tk/M2 and imposition of 2.5 per cent tax on the price of land to be deducted at source at the time of registration. It is also a final settlement. According to him it is another way of whitening the black money because if anyone with black money invests on real estate and it is a final settlement, no one is going to ask any question. But at the same time, he added that this is also going to encourage investment in real estate and he is in favour of that. He expressed his doubt about the efficiency of this measure and expressed his concern that real estate developers will not be very pleased with this measure.
- **Consideration as Final Settlement:** Dr Bhattacharya noted that there are a number of final settlement decisions in the budget. In number of occasions in the budget it has been said that deduction at source will be treated as final settlement. He said it is a good measure which streamlines the tax administration, brings in more transparency and possibly less harassment. He said, in one occasion in the budget, it is mentioned that "Royalty & Technical Know-how fee" and "Professional & Technical service fee" at present are 10 percent and 5 percent respectively, which

very often cause confusion because the "fees" are of same nature. In order to remove this confusion, the rates of tax for all these fees are re-fixed in the proposed budget at 10 per cent. He argued that if other cases have been considered as final settlement, this issue could have been taken as a final settlement as well.

- **Other Direct Taxes:** For other direct taxes, Dr Bhattacharya said most of the measures are positive. He said he agrees that banks are to be allowed to make provisions for bad and doubtful debts up to 1 per cent in place of 2 per cent of the total outstanding loans till assessment year 2006-07. He also agreed with the proposal for rate of advance income tax applicable to profits from approved securities and bonds to be reduced to 10 per cent from the prevailing 20 per cent. He also agreed on the reduced rate of tax at 10 per cent on income from computer software business to be continued up to 30 June 2008. He said continuation of this measure is good, but it would have been even better if supports like tax holidays and others were provided. Dr Bhattacharya said tax-rebate for donations to philanthropic and educational institutions by any individual or industrial enterprise is a positive measure. This measure was introduced before by the Finance Minister in 1992. The minister then took it away due to abuse issue. He said it is also important now to be cautious about the abuse issue but on the whole it is a positive measure. This measure will encourage private philanthropy in the country.
- **Tariff Structure:** The three-tire tariff structure has been retained with marginal rate of 25 per cent. Dr Bhattacharya said this is fine and he also supports that the five supplementary duty Structure has been revised and brought down to three. He said that the whole new tax structure which has been revised, particularly taking away some of the zero tariffs and the overall trend, is going to support import competing industries and the trend is positive. These will bring clarity to the structure of indirect tax and will promote transparency in mobilisation of indirect taxes.
- **Incentives for Investment:** Dr Bhattacharya mentioned a number of steps the budget has proposed to encourage investment. These are recasted tax holiday facility for selected industries, continued cash compensation scheme, widened gap between listed and unlisted companies, provision of preferential treatment for import of raw materials and tax deduction at source as final

settlement of tax. He pointed that reduction of import tariffs for some intermediate inputs could have helped to combat price hike in both domestic and international markets. For example, import duty on newsprints increased to 25 per cent in FY05 deserves consideration for reduction.

#### Tax holiday

Dr Bhattacharya noted that the government has continued tax holiday facility for 18 selected sectors. He termed it as a good compromise and this is likely to have positive impact on investment. However, he pointed out that "High Value" RMG is ambiguous and there is no energy sector within the selected sectors.

#### Enhancing dispersion between listed and non-listed company

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

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

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



- **Power and Energy:** Dr Bhattacharya noted that in FY2006, allocation was only 0.47 per cent higher than the revised allocation of FY05 where India has increased the allocation by 33.4 per cent in FY06. He said power sector is emerging as a fundamental constraint to the industrialisation process of Bangladesh. He also pointed that in power sector only 22 per cent fund was allocated for generation, 17 per cent for transmission and the rest 56 per cent for distribution. He said there is a scope for review of distribution of funds among generation, transmission and distribution.
- **SME's:** Dr Bhattacharya mentioned that under the proposed tax holiday facility, major SME oriented industries such as plastic, melamine, ceramic and sanitary ware, insecticide and pesticide, computer hardware, agricultural machineries, boilers and compressors, textile machinery, etc. have been included. He remarked that this will have positive impact on investment in these sectors. But he expressed his concern that though under "SME Refinancing Scheme" an amount of Tk 250 crore had been allocated at 5 per cent interest in the last year, which was fully utilised, there is no new money allocation this year.
- **RMG and Textiles:** According to Dr Bhattacharya, textile got a lot of support this year. He said government has decided to continue cash compensation for backward linkage textiles, at 5 per cent, which is a positive decision. He also mentioned other positive measures like package of support for deemed export, zero-tariffed import of spare parts for machineries and waste cotton RMG and Duty rebate on import of dyes and chemicals, etc. But he also expressed his concern that within the budget there is not much scope for handloom industries which, according to the PRSP spirits, is a large generator of rural employment. He noted that India has allocated Tk 58 crore to adopt and promote cluster development approach for production and marketing of handloom products. Comparing the RMG and Textiles sector of Bangladesh with other countries, Dr Bhattacharya said that Bangladesh is doing good but not as good as some other countries are doing. At the same time he expressed a word of warning that the export of woven-RMG during January-April of the current year has decreased by (-) 7.1 per cent compared to last year and although knit-RMG is showing robust growth of 32 per cent in the first four months, the overall growth of RMG is 7 per cent. So the competitive pressure is showing up and in 2007 it

will show up more. Mentioning the other countries effort, Dr Bhattacharya said in Sri Lanka, government has proposed establishment of a SME Bank by this year to provide required working capital and investment needs of the apparel industry, and to modernise the factories. Sri Lanka has also allocated support for productivity improvement measures and promotion of markets for apparel exports. In its FY2005-06 budget India has offered a number of incentives to apparels/textile sector, for example created a Rs 435 crore Technology Upgradation Fund, instituted a 10 per cent capital subsidy scheme, pronounced cluster development approach, made provision for more than Rs 4000 crore support for textile sector, etc. He said, what is required is more investment in technology upgradation and productivity growth like creating a textile/RMG technology upgradation fund, providing more support to backward linkage activities, supporting the restructuring in the sector, promoting cluster approach for textile/RMG and putting in place a comprehensive plan for RMG workers, both for skill upgradation and rehabilitation.

- **Telecommunication:** Dr Bhattacharya mentioned reduction of import duty on telephonic machinery and reduction of supplementary duty on telephone answering machines and dictating machines as positive measures. He also said that local producers will be benefited by the increase in import duty on mobile phone battery from 7.5 per cent to 15 per cent. But he mentioned imposition of a tax of Tk 1200 for SIM/RIM Card as a negative measure. He said this is likely to create distortions in the mobile telephone market and this is a disincentive for lower income group. This will also create entry barrier for new entrants and may encourage anti-competitive behaviour. However, the mobile operators on their part, rather than passing the whole burden on the customers, could take up steps towards burden-sharing, e.g. reduce call rates, he said.
- **Manufacturing Items:** For manufacturing items, Dr Bhattacharya said reduction of customs duty on some raw materials is a positive measure. He also supported reduction of customs duty on some raw materials for local Bicycle industries. But he expressed his doubt on the vehicle sector. Customs duty of vehicles within the range of 1500cc to 1649cc in CKD and also for vehicles exceeding 1649CC in CKD has been raised. He said it is not understandable whether it will stimulate local vehicle body building industry or not.

## Local Government

Dr Bhattacharya noted that an allocation of Tk 120 crore for Union Parishads and Tk 60 crore for special programme under Gram Sarker has been made. Local government also received a total block allocation of Tk 826.5 crore for various institutions under 11 heads in ADP which is 5.3 per cent higher than the revised budget of FY04. He also mentioned that Tk 244 crore has been earmarked for the CHT as investment project in FY06, which is 31.1 per cent higher than the revised budget of FY05.

## Social Sectors and Safety Net Programmes

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

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

For safety net programmes he noted his observation that the Finance Minister has continued some of the programmes introduced in the earlier regime and expanded them and allocated new money on them. Allocations have increased. But he said allocation does not mean implementation. As an example he mentioned the old age allowances scheme. The actual implementation was less. This was also the case for block allocation for poverty alleviation. Not much of

money could be utilised there. But he mentioned the increase in the coverage of beneficiaries. He said if 40 per cent of the people over the age of 57 of the rural areas are poor, then coverage of 48 per cent of the disadvantaged people is approached. He said in a country like Bangladesh this is positive. Dr Bhattacharya mentioned the new safety net programmes like Allowance for the Fully Retarded and Seasonal Unemployment Reduction Fund. He said both are positive and supportable. He also mentioned Programmes for Mitigating Economic Shocks as understandable.

## Concluding Observations

Dr Bhattacharya termed the budget for FY2006 as a budget of care, compromise and collusion. He gave a brief explanation of these terms. He said caring conscious of the budget has been seen by 1. a maximum increase in the area of health and education, 2. inducement to stimulate agriculture and rural development, and 3. effort to expand and deepen the social safety net programmes. This is why he terms this budget a budget of care. He said like any other budget, this one has also done some compromises and some of which are positive. These compromises are 1. continuation of a tax holiday provisions 2. continuation of cash incentive scheme for certain sectors (textile, leather, agro-processing) and rationalisation of tariff and para-tariff structure that provided protection to particular sectors. He added that the third trend in the proposed budget for FY06 suggests that the fiscal measures were in fact generated through a collusive behaviour, referring to the Tax Amnesty for Undeclared Income. He suggested the withdrawal of this decision and remarked that if this decision is not withdrawn, the creditability of all the positive measures the Finance Minister has come through with good intentions will be questioned in the coming time.

Comparing what the budget was supposed to do in the previous year and what it actually achieved, Dr Bhattacharya said faster revenue earnings growth than revenue expenditure growth was a target that the budget could not achieve. He also mentioned about faster growth of development expenditure than revenue expenditure, one that was also not achieved. He said in general the economy is under-performing when juxtaposed to the targets set by the MTMF of the PRSP.

Dr Bhattacharya made his comment that no single policy instrument can fully address the emerging macro



situation. Possibly, a combination of three major approaches will be necessary to address the situation. He mentioned these approaches are 1. Adjustment of nominal interest rate in line with the inflation rate making the real rate marginally positive, 2. Downward revision of the exchange rate of Taka to attain its equilibrium value, and 3. Moratorium on governments recurrent expenditures and streamlining of ADP.

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

## Floor Discussion

### Poverty

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

of the people and how much is going to the lower 40 per cent of the people and how the access to the resources of the lower 50 per cent of the people is enhanced.

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

### Savings and Investment

Chairman, Bank Asia and Member, CPD Board of Trustees Mr M Syeduzzaman noted that according to the latest figures, the national saving is about 26 per cent and foreign aid is available. Total saving available for investment is about 28 per cent whereas the actual investment is less than 25 per cent. He raised the question on the rest of the money and wondered whether there are idle savings sitting in the economy or not. He mentioned this as a paradox.

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

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

### Revenue

In the discussion on revenue collection effort of the country, M Syeduzzaman, Chairman, Bank Asia and member of CPD Board of Trustees, noted that this

year revenue earning is below 5 per cent of the target. He said this year the economy experienced significant respectable growth of industries, respectable very large surge in the volume of the import which provided a much large base for taxation. He said keeping these factors in mind, the performance becomes more disappointing when it is considered under the new GDP growth of 6.3 per cent.

In this regard A M A Muhith, former Finance Minister, remarked that improvement has taken place simply from expectations, not measures. He said if searched for measures in this budget, only two income-tax related measures can be found, namely increment in source collection and advance collection. But he said structural reforms should be considered. He raised the question on why revenue shall be yield substantially from direct income when it needs to have a powerful local government to manage. He suggested delegating the responsibility for VAT to some distinctive local organisations. "That will really result in something creative", he said. He added that it is not impossible but a matter of changing administration, changing objectives and changing policies.

### Budget Deficit

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

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

### Development Vs Non-Development Budget

Honourable Member of the Parliament Dr Mohammad Abdur Razzaque mentioned from the budget that this year revenue income will be 45,000 crore taka. It is about 6,000 to 7,000 crore taka higher than the last year's revised income. He noted that only 10,000 crore taka will be spent for development activities and most of the funds will be used for non-ADP expenditures, although non-ADP includes some development activities, small about 2500 core taka. He said budget has been increased but only ten thousand will be spent for development. And there will be non-development fund for government officers, bureaucrats for buying vehicles and other support services. Dr Razzaque expressed his concern that the Finance Minister in his budget has not mentioned any suggestion regarding how the non-development expenditure to be brought down. He also mentioned about the SOE's. He wondered whether the Finance Minister has decided to disinvest those or not.

Referring to Dr Debapriya's presentation, Mr M Syeduzzaman, Chairman of Bank Asia and member of CPD Board of Trustees, said that growth rate of revenue expenditure is much higher than the growth rate of revenue earnings and growth rate of revenue expenditure over the growth rate of development expenditure is even higher. He noted that this year it is 62 per cent of revenue expenditure and 38 per cent of development expenditure. He said this is a worrying indicator and it is needed to increase the development expenditure as compared to revenue expenditure.

### Annual Development Programme (ADP)

A very much live discussion among the participants took place regarding the annual development programme. Major topic of discussion was the poor implementation issue.

Honourable Member of the Parliament G M Quader emphasised on the issue of timely release of fund. He remarked that if the line ministries are asked why a project is not being implemented, they always refer to the Finance Ministry that the money has not been given to them. Allocation is there but money is not released. So it is not the line ministries that are failing the ADP all the time. Fund availability to the ministry is not always done at the correct time. He added that the development budget mainly fails due to the inability to collect the revenue in proper time. This time the budget gives a very ambitious target for revenue earnings and also a very ambitious revenue expenditure and



development budget. So there is a risk that so much of money will not be collected in the revenue and the country will not be able to spend the money in development and also in revenue as per the target as have been stipulated in the budget.

The same issue has been raised by Mr Abdul Khaleque, honourable member of the Parliamentary Standing Committee on Ministry of Finance. Mr Khaleque said that certain problems are faced as a member of parliament. He said projects are taken but funds are not released at the right time. Also the Ministers say they are not getting funds from the Finance. He remarked that to implement the projects timely release of fund is a must. He added that in Bangladesh only six months are available to work, especially in the villages, due to the rainy season. So fund release should be done accordingly so that projects are timely implemented.

Honourable Member of the Parliament Dr Mohammad Abdur Razzaque remarked that the implementation level of ADP is extremely poor. It is never more than 80 per cent. This year's challenge is to take it over 90 per cent. But this requires new strategies to follow. He expressed his concern that the budget did not provide any such suggestions.

### **Block Allocation**

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

Honourable Member of the Parliament Mr G M Quader said like everyone else he is worried about the money allocated as block allocation. He said he agrees with Dr Debapriya that when everything has been taken care of like the increased pay scale, this special allocation is not logical and should not be kept in every place. He also mentioned that Gram Sarkar is formed by government nominated members. He expressed his worries that 60 crore taka allocated as block allocation for the Gram Sarkar may be used just for performing upcoming election works. He said it is not clear where these funds are going and there is lack of transparency that gives rise to these questions.

Md Abdus Shahid, honourable Member of the Parliament and Chief Whip of the Opposition, mentioned the block allocation of 6000 crore taka is very objectionable. He said he thinks it is rather a drive to the party workers and with this money they will work for the party in the elections.

Supporting the comments of Mr G M Quader regarding block allocation in Gram Sarkar, honourable Member of the Parliament Dr Mohammad Abdur Razzaque said that Gram Sarkar is not in agreement with the constitution of the country. He said it is not an administrative unit and without an elected representative a government institution cannot be formulated. But this institution has been formed and now question is raised whether it really functions or not. He said resource is scarce in Bangladesh. Village people cannot even buy medicine to bring down the temperature of their children. In this situation 60 crore taka for Gram Sarkar will be a total waste.

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

### **Agriculture and Agricultural Subsidy**

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

Chairman, Bank Asia and Member, CPD Board of Trustees Mr Syeduzzaman made a suggestion regarding funds availability to the deserving farmers. He said there are 12 million farmers in the country, 2.5 million are large farmers, and the rest are small and marginal farmers. So other than the large farmers there are 9.5 million farmers. If a cash disbursement of 1220 taka is given to each of these farmers it comes to roughly 12 crore taka which is the amount of subsidy in the ADP. Mr Syeduzzaman said in that way it will be progressive because the smaller farmers will get much higher subsidy per acre of his cultivated land than the large farmers. The question is, to implement this all the small and marginal farmers are required to be identified. But everyone has access to the land records which shows how much land is owned by everyone. So

identifying the small and marginal farmers will not be an impossible task. But Mr Syeduzzaman also mentioned that to monitor this there is a need for effective local government. He said that this country unfortunately does not have a strong local government. At the same time, he brought it to the attention of the Finance Minister that like the pay commission, effective local government was also an election pledge of this government.

Honourable Member of the Parliament Mr G M Quader said it is the concern of the entire nation that the farmers are being marginalised and they are becoming poorer every day. This country is losing number of farmers as they are becoming Rickshaw pullers and other labours. So agricultural subsidy, both in the production and in the price support, should be there. Though amount is being increased every year, in the fields the farmers are not being benefited out of these agricultural subsidies at all. They are getting poorer, prices of fertilisers and other inputs are increasing and government price is not found in the local level market. At the time when they need these, the prices are always high.

### RMG & Textile

Mr A Matin Chowdhury, Former Chairman, BTMA and Managing Director, Malek Spinning Mills Ltd, acknowledged that the textiles industry has been in the forefront of all government policies and in every budget support has been provided by the government which helped the business to come up. He said two problems in hand are the employment and the BOP, and textiles in the garments sector is the only area which can address both of these problems. But he said that the market is in global competition with the removal of the quota. It has now become a business of effectiveness. As a result, huge investment has taken place all over the world and Bangladesh is in risk with those who are much bigger like China, India, Pakistan, and Turkey. These countries are appropriating more resources to their industries which is therefore creating an uneven business fields for Bangladesh. Quoting Mr Chowdhury Mustaq Ali Chima, Textiles Minister of Pakistan, he said that because incentives are not allowed, Pakistan is framing it under development programme and giving 6 per cent incentives for research programmes. The Indians are giving 5 per cent extra subsidy to the sector under the Technological Upgradation Fund, again bypassing the requirement of the WTO. Something new is that, India is giving 10 per cent capital subsidy, which means for a project of 100 crore, government is going to give 10 crore and then

negotiate with the bank on a 8 per cent interest, the government will give 5 per cent and the industry has to pay 3 per cent. These are creating a very uneven competition for Bangladesh. Mr Chowdhury added that the Finance Minister has reduced the duty on dyes and chemicals. But the industries are still paying 32 per cent duty on dyes and chemicals whereas both India and Pakistan have taken away the interest and textiles has been exempted 100 per cent from sale tax and import tax. So those are areas which are big challenges for Bangladesh. "We know our resources are constraint but we still need to look at bigger challenges and we need huge investment", he said.

### Export

Sayeeful Islam, President, DCCI and Managing Director, Concord Garments said everyone is concerned what the post MFA scenario is. The government in some places has mentioned the economy be based on export led growth strategy. So there is the issue of export diversification. He said in this issue the government has really not worked because the country is in extremely vulnerable position is being dependent on one product. It is really of extreme concern that RMG and textiles remain such so preponderantly dominating the export scene. He mentioned that the Commerce Ministry has identified some thrust sectors, IT, and agro-processing. But to really diversify the export, there needs to be linkage between import policy, export policy, industrial policy and most importantly the education policy of the country. He noted that for the education policy there has been a correct move - far more allocation in the vocational education sector. He said without vocational training the country cannot go into new products. Now the concern is to make sure that this is reflected in the implementation. How this vocational training is going to be made needs to be addressed, he said.

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



their part and to play the part in a highly effective and coordinated fashion.

### **Interest rate**

Professor Abu Ahmed, Department of Economics, University of Dhaka, Chairman, Board of Directors, Bangladesh Shilpa Bank, said everyone apprehended there will be some problems when switching on to the floating exchange rate. But fortunately, credits to the BB, it was well managed at the beginning and then upto this time. But recently some fluctuations have been observed, upto 4 taka within a week. And at the same time a signal is given that intervention should move up. Two or three years it took to bring the interest rate 2 to 3 per cent down and when everyone was saying that the economy was expanding or credit flow to the private sector is also going up, suddenly a signal is being passed over that the interest rate should be moved up again. He said one year is not enough to make good results out of the low interest rate. It is a recognised fact that minimum three to four years time is taken for the low interest rate to give the desired results. He raised the question whether to move to a higher interest rate and higher price than exchange rate which is going against the Taka or not. Professor Ahmed requested the CPD to conduct a study to reveal whether Taka is really over valued or not.

Chairman, Bank Asia and Member, CPD Board of Trustees Mr Syeduzzaman noted that this year it was 62 per cent revenue expenditure and 38 per cent development expenditure. There is no revenue deficit and there is a slight public sector surplus. But he raised a danger signal that this year if the revenue is not materialised and foreign aid is not materialised, there is a risk that the interest rate may even go up higher next year. He also brought it to the attention of all that during the whole budget speech there is not a single sentence urging the people to cut down the expenditure and reduce wastage.

### **Whitening of Black Money**

A live session took place regarding whitening of the black money issue, which was probably the most debated issue of the budget 2006.

Regarding the black money issue, Md Abdus Shahid, honourable Member of the Parliament and Chief Whip of the Opposition, mentioned that, over 10 per cent tax has been imposed on the general people but in case of black money to be white it is only 7.5 per cent. He mentioned it as an unfair measure. He said this is

not only unethical in a sense that the black money owners are getting advantages, but this measure also demoralises professional ethics.

Honourable Member of the Parliament and Chairman of the Parliamentary Standing Committee on the Ministry of Finance Mr Mushfiquir Rahman said that a very interesting debate is going on in the country about whitening of the black money, as if it is a new thing. But he noted that this whitening of black money has been going on for long time, even during the previous government. He mentioned that the Finance Minister is also not in support of this. But, on the other hand, there is an economic side also for this measure. He said it is not right to blame only from the unethical ground. But there is an economic ground also. He remarked that the Finance Minister is fully aware of the matter and the government would like to see how this measure works this time hoping that some improvements may come out.

### **Inflation**

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

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

### **Governance**

Former Deputy Speaker, Professor Ali Ashraf said that in the budget nothing has been mentioned about the governance and about the transparency and accountability of public funds when the country have been a champion in corruption for last three or four times. He said there is no measure taken in the budget to curb the corruption. He also mentioned about the alarming disparity between the poor and the rich. In this context he said that the allocation is very huge and it has placed lots of hopes and aspirations before the people. But he warned if corruptions are not curbed and transparency and accountability are not ensured, all the efforts will go in vain.

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

### Miscellaneous

**Diesel:** Pointing to the diesel price, honourable Member of the Parliament Mr G M Quader said this is the most important and interesting part. He said diesel is used for the large part for agricultural purposes. Almost 85 per cent of the agriculture in this country depends on the supply of diesel and diesel is not being supplied in proper quantity at the time the farmers need it. The price is also high and in this situation the government has raised the price further up. He said that the farmers will have to pay at least 25 to 30 per cent over to that price.

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

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

Honourable Member of the Parliament and Chief Whip of the Opposition Mr Md Abdus Shahid said in IT sector, the mobile phone is a part of the family. The imposition of tax on SIM card is discouraging for this market. He said this market is playing important role in creating job opportunities. Twenty-five million new faces are coming to the labour market for job every

year. Only half a million is getting job facilities and the rest remains unemployed. He said this is a major question and the honourable Finance Minister should look into it more seriously.

### Response from the Government

Responding to the debate on block allocation in the budget, Finance Secretary Mr Zakir Ahmed Khan made some technical comments. He said in the revenue budget the block allocation is about 1100 crore which is there every year to meet unforeseen circumstances and there is about 600 more this year, which is very transparent. Block allocation is for development projects transferred to the revenue budget if the allocation is unutilised and when the time is over. There is another allocation which is for new recruits as many ministries are depending on priorities and they will be recruiting people. As it is not known how many will be coming, block allocation is kept. Also, due to the integration of the budget with PRSP goals, a transitional phase is going on. There is a long list of unapproved projects which need to be linked with PRSP targets. These projects are subject to more scrutiny before approval. So once they are approved, they can get money from the block. Mr Zakir Ahmed Khan mentioned that this is a sectoral block which is not transferred from one sector to another and in this transition phase, when new projects are in line, block allocation has to be there for the time being. In fact, this block will gradually move as more projects come in line with the PRSP goals, he said.

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

### Response from M Saifur Rahman, Minister for Finance and Planning

Honourable Finance Minister M Saifur Rahman in his initial comments thanked CPD for organising the budget discussion and getting views from a galaxy of



distinguished people. He also mentioned that he has been participating in the CPD budget dialogues from the very beginning. He added that Dr Bhattacharya has worked out certain points which takes serious efforts and it is very good work he has done.

The Finance Minister mentioned that this is a budget of a political government and commitment of government will be reflected in the budget. This is democracy and BNP has got mandate of the people and works as the people want them. It is not an executive budget, it is not a civil servant's budget, it is a budget of a political government. He said it is needed that one goes to every bit of area of this country, every villages of this country, every unions of this country to know what people want, where they want their sanitation, where they want their water supply, what they want in their own area, what school they want. He said many people come to him and discuss this matter sitting in Dhaka and around. "It is alright to discuss these things in a five-star hotel, but when you go to the fields, you find the picture different", he said. The government deals with the people in rural Bangladesh, where majority of the people live, about their education, their health and their welfare. So the budget reflects the party philosophy and the function as a Finance Minister is to work for the overall interest of the nation. He said if the people have voted BNP for the second time then really BNP knows how to govern and how to deliver to them. This budget is meant to deliver that sort of situation. He said during the occasion it has been discussed what percentage the budget is implemented and about the size of the budget. This is a country of 144 or 142 million people. That does not mean the budget has to be conservative. Nowhere in the world budget is 100 per cent implemented. Comparing to the budget implementation situation in the neighbouring India, the Finance Minister said that Bangladesh has a much better situation. So the Bangladeshi people and government together, right from the beginning, managing very well in the budget process and changing of government does not really make any substantial or significant difference in the process. It is more or less the same sort of people worked in 1991-96 and again the same sort of people in 1996-2001. Referring to the point Mr Muhith has made, that the whole structure of the budget making, the responsibility, the local government features, etc. has to be changed, the Finance Minister said he agrees that it is needed to bring a change in the institutional setting. The institutions are not excellent or accountable institutions that this country has. The institutions have a lot of weaknesses and there should be seminar or

symposium to work out how to strengthen the whole governing processes or make better use of the resources to bring institutional improvement. "Unless we can make the institutions strong, no budgetary allocation will be able to bring the desired result", he said.

Terming the local government institutions as one of the reckless, irresponsible institutions in Bangladesh, the Finance Minister said that if the local government institutions are not strengthened, their accountability are not enforced and their regulations are not introduced then it is very difficult to finance local government.

Referring to Dr Bhattacharya's presentation, the Finance Minister said that the economy registered, despite the three recurrent floods, 5.5 per cent growth. He said everybody including the World Bank and IMF presumed that there will be dooms day for export, as the MFA is withdrawn. But there was no dooms day. Every thing is going fine. He also mentioned about the good production of the Boro crop. He mentioned about the FDI proposal that is coming up because of a hospitable, healthy investment environment. He said that the capital market has been improved and the government is trying to give whatever support is needed for the capital market. Dr Bhattacharya's presentation also said that there is robust credit expansion in the private sector but there is no investment. The Finance Minister explained that the credit is going for the import of capital machinery. The larger part of the import bill having a serious dent on the foreign exchange reserve. He said machinery imports mean investment. If one goes from Dhaka to Mymensingh, he will see many new factories are coming up. Right and left, there is hardly any land available there. He also noted that in Rangpur and Dinajpur or other area, there is also no land available for expansion of poultry and fisheries and such kind of activities. He said Dhaka city based economists making all sorts of remarks will not see it. About inflation the Finance Minister said one will have inflation if he wishes for it. Blaming the perspective of the majority of the country, he said that everyone always saying something negative and do not say something positive. Everyone asked for the Pay Commission, asked for the salary to be increased of the government officers. But when the salary was increased, everyone including the Television started to ask "Will the price go up?". He added that if one wants to create inflation by his wishing, he cannot help it. He also mentioned that it is possible to check inflation though monetary policy measures and the central bank

are there. They are controlling the monetary policy. They are managing it. The Finance Minister said that till today they have been doing very well. If something goes bad, the government is trying to rectify its policy in the process.

About the improvement in the foreign aid situation mentioned in Dr Bhattacharya's presentation, the Finance Minister said that the country needs to improve more because it is only a marginal improvement.

Responding to the budget implementation debate, the Finance Minister said it is true that there is no power of the line ministries to spend money to their work. They have to get their money from the Finance Ministry. But he said it is the implementation capability that is hindering the implementation. Implementation capability has to be improved. It is the governance issue. Budget cannot solve all these problems altogether. It runs across the whole government. And it is not exclusively to BNP or AL or any government. Any party who comes to power, the question is to what extent it can make the administration rigorous, dynamic and resilient so that they can take up the challenge of development which is reflected in the budget. When on 20th of the March the finance ministry finds that 1400, 1300 or 1600 crore taka is available as it remained unutilised, it is too late at that time to allocate the budget to another ministry. The Finance Minister mentioned that even in the month of May and June, the finance ministry has been doing the re-appropriation of budget from one ministry to other ministry. The money is just remaining unutilised. This money could have been allocated to local government, education ministry or in other sectors. Responding to the former Finance Minister Mr Muhith, the Finance Minister said it is true that the government is giving the whole budgetary process to the micro ministries, that is the line ministries. They have been given training and detailed directions. They will know what their estimated allocation would be. They have been given guidelines of their objectives within the framework. They will decide their policy within the total package. This is the first year and this will be the first stage. Next years they will be given the indications. First year will be exact, second and third year will be a little bit estimates. The Finance Minister said institution cannot be built up overnight. Budget was previously made by Finance Ministry, now the government is decentralising it. It will take time for this new thing to develop institutionally and take sound route in this country. The Finance Minister assured that if the parliament sits together and brings about a local government

institution, he will support it and provide monetary and other support. He also mentioned that the Parliamentarians have responsibilities because whether it is in the Finance Committee or in the Planning Committee; the opposition parliamentarians are as vocal as any parliamentarians and this is why he found more support from them than his own people. They became more vocal. In the Parliament they do not spare any body whether one is in government or not. When one goes to the Committee they make his life miserable. That is where parliament works and that is why the parliamentary committee is very important, he said. He added that when the opposition says something, it is listened very carefully.

Regarding the block allocation the Finance Minister said he personally does not like block allocation. But there are certain circumstances that require it. He said ministries have to recruit, for instance, 3000 doctors or 20,000 teachers. But sometimes these numbers of teachers are not recruited. As soon as the specific ministry says that they need fewer recruits, then the money is transferred to the ministry. Not a single funding from the block allocation is done. The problem of Bangladesh is in the project identification, preparation, implementation and monitoring. These four points still remain a disturbing feature in Bangladesh. Till today, the country has not been able to do very much in this area. For an example the Finance Minister said, to identify a project outsiders come and they identify the project. Then there is a project scheme and the MPs have to sit with a sheet of paper and write what they want without considering the feasibility of that project. This is why the Planning Commission cannot approve the projects. There are certain features, certain traditions how it is to be done. The Finance Minister said he is the most unhappy man for non-utilisation of funds which is due to ineffectiveness of the administrative machinery of the government. But he said this needs time to be improved.

The Finance Minister said people have mostly come up with two issues of this budget. One is the SIM/RIM card issue and the other is the black money issue. He explained the black money issue. He said he was strongly opposing the measure when the decision was made. But people should understand that there may be a good intension for what has been done. He mentioned that although he was against the measure, he observed some behaviour in the capital market, exchange rate, banking liquidity, LC opening and others. He also mentioned that earlier there was some control over LC opening like down payment of 25 per cent. But due to World Bank's pressure every one is



now free to open LC's. The Finance Minister said this leaves nothing in his hand to control if something goes wrong. This also requires that sound structure of monetary, fiscal and other management institutes to be put in place. He also noted that this was no new measure. Some governments gave untaxed income full freedom, some gave half freedom and he gave little freedom. But still he is not glorified of that and he is very much uncomfortable with it. But he had to harmonies between the moral discounting and economic compulsions. He said the government is going to strengthen many of the institutions and financial management system. He also mentioned that the government has gone for a floating exchange rate only for two years. He said it is surprising how the government has maintained stability where in many countries when it was introduced it jumped out from sixty to hundred or something like that. He expressed his expectation for the support of all. Otherwise, a good accountable governance will not be achieved. Many of the institutions of this country need to be improved. He said collectively the parliament is failing to improve the democracy in the country. He was unwilling to blame any particular party. He said every one is just not putting their head together to bring about a betterment of the institutions for which the parliamentarians were elected. He said it is a high time to do something about it. May be a third party can be brought into the conference but for him alone it is impossible.

Responding to Mr M Quader's comment, the Finance Minister said that he was a bit surprised as Mr. Quader is one of the most informed people as a leader of the opposition. He noted that the Finance Ministry does not control any money after the budget is over. If any minister says to go to the Finance Minister for any approved project financing, he recommended taking the issue further with the minister as the Finance Ministry is only involved in the fourth quarter of the year to see what has been done actually.

The Finance Minister then responded to the issue of non-development expenditure growth being higher than development expenditure. He remarked that there is no such differentiation like development and non-development expenditure. All expenditures are development expenditure. For example he mentioned about giving salary to the school teacher, scholarships to the students and scholarships to women of the universities. He raised the question whether these expenditures can really be treated as non-development expenditures. He mentioned that previously he has brought many projects out from the development

sector to the non-ADP development sector. He said it has been seen that the fisheries ministry are giving projects to create fish fry and the forest ministry is giving projects to distribute tree plants. The Finance Minister remarked that it is the normal course of duty of the fisheries ministry to create and distribute fish fries and forest ministry to distribute tree plants. He raised the question how these can be included as development projects. He also mentioned jute ministry and ministry of cultural affairs in this regard. The Finance Minister said this is the reason why he had brought about 250 crore allocation away from the core development budget to the non-development budget and next year he wants to take it further. He expressed his intension to create a single budget in due course of time. He noted that in this country only the tangible part is taken as development. As an example he said textile machinery is taken as a part of development but not the chief executive officer without whom this machine remains useless. So the chief executive officer is a greater part of the development than the machinery. So there is no border line between these two.

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

In his comment on the diesel subsidy issue, the Finance Minister said if he could provide 20 per cent subsidy for electricity it was also possible for him to provide this support to diesel. But he said this was not possible and it cannot be controlled like that. Claiming himself a farmer, he said diesel is used for many purposes, from running machines for fish cultivation to irrigation, and for many other sectors. But subsidising diesel more is just not possible as it is already subsidised at the level of 11 taka per liter in Bangladesh. He claimed that in Bangladesh energy is provided at the lowest cost compared to other countries like India, Pakistan or Sri Lanka. He mentioned that in India it is 62 Bangladeshi taka per liter and in Bangladesh it is 36 taka. This reveals the amount of subsidy in it.

Drawing a conclusion to his speech, the Finance Minister said he agrees that this country will not be improved by the budget but with good governance. The governance issue is to be improved upon and this country needs to improve upon the institutions. To improve upon the institutions there is a need for dialogues between the parliamentarians and the others.

Sooner these dialogues can occur, the better it will be for the country.

### Concluding Remarks by the Chair

Professor Rehman Sobhan expressed his gratitude to

the Finance Minister M Saifur Rahman and all the other guests for their valuable participation in the dialogue. He concluded the session with an expression of hope that the tradition of budget discussion will continue over this and successive regimes and appreciated the cooperation of all in the process.



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