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ANNEX

Dialogue Report on
State of Bangladesh Economy and Analysis of the National Budget FY2011-12

This Dialogue Report is prepared by *Mr Mashfique Ibne Akbar*, Research Associate of the Centre for Policy Dialogue (CPD).

THE DIALOGUE

The dialogue titled *State of Bangladesh Economy and Analysis of the National Budget FY2011-12* was organised by the Centre for Policy Dialogue (CPD) on 18 June 2011 at the Ruposhi Bangla Hotel, Dhaka. The dialogue focused on an in-depth analysis of the various proposals and the fiscal stances taken by the government in the national budget for FY2011-12. Participants of the dialogue included high-level policymakers, members of the national parliament, leaders of political parties, representatives from the private sector, non-government organisations (NGOs), civil society, academics and other stakeholders.

Chairman, Parliamentary Standing Committee on Public Accounts and Former State Minister for Planning, *Dr Muhiuddin Khan Alamgir*, *MP* was present at the dialogue as the Chief Guest; Special Guest of the event was *Mr Amir Khosru Mahmud Chowdhury*, Former Minister for Commerce and Chairman of Sarina Group. The keynote paper was presented by *Professor Mustafizur Rahman*, Executive Director, CPD, which contained a critical appreciation of the FY2011-12 Budget and CPD's views on various budgetary proposals. The keynote paper was followed by comments from the panel of discussants which included *Dr Mustafa K Mujeri*, Director General, Bangladesh Institute of Development Studie (BIDS); *Dr S R Osmani*, Professor, University of Ulster, UK and Visiting Professor, Department of Development Studies, BRAC University; *Major General (Retd) Amjad Khan Chowdhury*, President, Metropolitan Chamber of Commerce and Industry (MCCI) and Chief Executive Officer, Pran Group; and *Dr A B Mirza Azizul Islam*, Former Advisor to the Caretaker Government, Ministries of Finance and Planning. The dialogue was chaired by *Mr M Syeduzzaman*, Member, CPD Board of Trustees and Former Finance Minister. A full list of dialogue participants is attached at the end of this Annex.

THE KEYNOTE PAPER*

Professor Mustafizur Rahman made the keynote presentation on behalf of the CPD Team of IRBD (Independent Review of Bangladesh's Development). He started his presentation by referring to the tagline put forth by the Finance Minister in the budget speech for FY2011-12 – *Towards building a happy, prosperous and caring Bangladesh*. He emphasised on the twin aspects of implementation of the budgetary proposals and also the Annual Development Programme (ADP) from the perspective of attaining this goal. *Professor Rahman* recalled the benchmarks prevailing at the outset of the outgoing fiscal year 2010-11 as a reference against the budgetary targets. He appreciated the commendable record with regard to collection of revenue by the National Board of Revenue (NBR), and drew attention to the then comfortable state of the balance of payments (BOP), an impressive export growth, and the excess liquidity of Tk. 35,000 crore in the financial system. On the other hand, he stated that inflation was gaining momentum, energy sector was facing setbacks with rising subsidy burden, and that investment was not picking up.

Professor Rahman underscored the major trade-offs faced by the proposed national budget for FY2011-12. Discomforting early signals for FY2011-12 noted by *Professor Rahman* related to the fact of rising inflation, mounting subsidy requirements and the under pressure BOP situation. Energy sector faced formidable implementational bottlenecks in spite of some improvement with regard to generation; liquidity situation of the economy was also coming under some pressure. He also sounded some cautionary note with regard to the foreign reserve situation, remittance flow, and uncertainties related to foreign aid and food security in FY2011-12. In this connection, the speaker drew attention to the commitments in the earlier budget for FY2010-11 that were not fulfilled.

Professor Rahman mentioned that there would be four major trade-offs in the implementation of this proposed budget. The first being the trade-off between growth and macroeconomic stability. Here, maintenance of a low inflation rate would be the key factor. The target was set at 7 per cent in the budget. Payments on account of subsidies and the opportunity cost involved concerned the second trade-off; the third would be the need for higher government borrowing with consequent adverse impact on availability of funds for the private sector. The fourth trade-off related to managing the exchange rate in a manner that took care of the apparently conflicting interests of the export and remittance sectors and the import sector. He also highlighted the missing links in the various targets set out in the Medium Term Macroeconomic Framework (MTMF) and expressed doubt with regard to attaining some of the targets. In relation to MTMF, he raised the question of whether a growth rate of 7 per cent of the gross domestic product (GDP) could be attained in the backdrop of credit growth target having been reduced from 27 per cent to 20 per cent, growth of broad money (M2) coming down to 16

*A detailed CPD analysis of the national budget for FY2011-12 is presented in the Chapter 2 of this volume.

per cent from 20 per cent, and export target being reduced from over 40 per cent to 14.5 per cent. High dependence on borrowing from the banking system to finance the deficit could crowd out private investment, he apprehended. He also expressed his expectation for more clarity and transparency with respect to the subsidy being given by the government to various sectors, particularly to the power sector. He cautioned that, this could lead to serious macroeconomic management problems.

Professor Rahman dwelt on the issue of budget deficit which would be financed for the most part through domestic borrowing, which was likely to account for 60 per cent of the overall borrowing. In view of the crowding out effect on the private sector, he suggested more dependence on foreign aid, particularly in the form of grants, to ease the credit situation in the economy.

The budget for FY2011-12 proposed that 27.9 per cent of the additional taxes will need to be generated from non-NBR sources. This would be a challenging task. The speaker noted that out of Tk. 6,465 crore of additional revenue, Tk. 5,000 crore would be generated through non-tax revenue. In view of this, it was important to identify the prospective sources and state in a clear manner as to how these significant additional resources will be generated in FY2011-12.

Professor Rahman indicated that a large part of the revenue is increasingly going towards interest payments since domestic debt burden was rising. As a consequence, reliance on domestic resources is creating an added pressure on the economy. Another cause of concern was that the revenue income and revenue expenditure were of the same magnitude, resulting in absence of any surplus in the revenue budget. Hence, the development budget of Tk. 46,000 crore will need to be financed through foreign and domestic loans. He pointed out that the majority of the projects under the ADP belonged to the category of carryover projects (from previous year); only a small number of projects were actually 'new.' *Professor Rahman* expressed his concern regarding the cost-escalation effect of such carryover projects. Potential beneficiaries were deprived of the benefits owing to the delayed implementation.

A detailed overview of fiscal measures was presented by *Professor Rahman*. In the backdrop of increasing income inequality and higher levels of inflation, he appreciated the proposed increase of income tax threshold, payment of surcharge tax on wealth valued above Tk. 2 crore, and withdrawal of tax exemption for parliamentarians and government officials.

Professor Rahman commented that allocation for the agriculture sector appeared to be low: 4.23 per cent lower than in FY2010-11. He also took note of the lower allocation for agricultural subsidy in the budget. He criticised proposals relating to the industry sector, particularly with respect to tax holiday which conflicted with the stance taken in the Industrial Policy 2010. He also emphasised on the need for more support to the information and communication technology (ICT) sector. He supported the proposal to raise tax rate for brokerage houses. *Professor Rahman* stressed on the role played by the energy sector in the economy. In this regard, he observed that only 75 per cent of the rental projects went into operation in due time. Thus, generation was lower than what was projected in the medium-term energy plan. He emphasised on the need for more allocation for the education sector. With regard to safety nets, *Professor Rahman* noted that number of beneficiaries has indeed seen some fall in the budget; allocation for this sector has also seen some reduction in the proposed FY2011-12 Budget.

In conclusion, *Professor Rahman* identified four defining factors which would be critically important from the perspective of effective implementation of the budget for FY2011-12. These were: a) maintaining the balance between the financing options considered by the government; b) ensuring prudent macroeconomic management; c) strengthening institutions that deal with development expenditure; and d) a conducive political environment.

PANEL DISCUSSION

Dr Mustafa K Mujeri, Director General, BIDS

Initiating the discussion, *Dr Mustafa K Mujeri* thanked Professor Mustafizur Rahman and the CPD Team for preparing a sound analysis of the national budget. *Dr Mujeri* referred to the Sixth Five-Year Plan (SFYP) and projected that changes will be brought about in the MTMF as the year proceeded. He felt that the major target of all budgetary proposals should be poverty alleviation. *Dr Mujeri* was concerned about the sectoral composition of allocations for agriculture, industry and services sectors in the proposed budget in view of what has been set out in the SFYP. He thought that the industry sector should serve as an important and dynamic driver of growth. However, on the other hand, agriculture sector will continue to have important implications from the perspective of poverty reduction. Given the better record over the past years, he proposed to revise the poverty alleviation target set out in the SFYP to much lower than 30 per cent.

A major concern from *Dr Mujeri* related to the decline of investment-GDP ratio by one percentage point in the proposed budget. More specifically, he was worried about public investment since shortfall in public investment could also affect private investment, which was likely to have adverse impact on attainment of the growth target set out in the FY2011-12 Budget.

Dr S R Osmani, Professor, University of Ulster, UK and Visiting Professor, Department of Development Studies, BRAC University

Dr Osmani thanked CPD for a detailed and wide-ranging analysis of the proposed budget for FY2011-12. He commented that the fate of an economy depends on the policies and actions of cumulative years, and not on the fiscal policy and budget of a single year; and thus, he based his presentation on an analysis of the past budgets and compared this with the proposed FY2011-12 Budget.

Dr Osmani concentrated on fiscal policies of the government and put his focus on the major challenges that Bangladesh will face next year from the point of view of macroeconomic management. He pointed out that the relationship between fiscal policy and the overall growth of the economy was important. He thought that fiscal policy could stimulate aggregate demand as also the entire economy; fiscal policy could also influence the supply side of an economy by raising production capacity through new investment. He noted that the fiscal policy of Bangladesh has been mildly expansionary in the recent past, and he appreciated such expansion in a developing country such as Bangladesh. The main concern for *Dr Osmani* was the financing of the budget deficit and future investment. He observed that, currently budget deficit financing is dependent on domestic resources. While traditionally, other countries have borrowed from the central banks, Bangladesh had seen a tendency to borrow from the commercial banks. Borrowing from the central bank increases money supply and in return induces inflationary pressure on the economy. While Bangladesh, thus far, was able to avoid inflationary pressure, the country is having to assume the liability of increased debt repayment in the future. *Dr Osmani* stressed this point by mentioning that the government could fall into a classical debt trap. Over the last 20 years, interest payment on domestic debt has increased as a percentage of GDP. As a result, the additional government revenue is increasingly utilised for debt repayment, and the government is having to borrow further to keep up with these payments, and limiting resources for other purposes. The speaker observed that internal revenue was often not adequate to finance development expenditure; this exerts pressure on the domestic market as the government has to finance budget deficits through domestic borrowing. Also, the private sector would be affected by the crowding out effect as the public sector struggles to meet its own borrowing demands.

Major General (Retd) Amjad Khan Chowdhury, President, MCCI and Chief Executive Officer, Pran Group

Major General (Retd) Chowdhury began by congratulating CPD and Professor Mustafizur Rahman in particular, for the intricate analysis of the national budget for FY2011-12. He felt that the budget proposed by the Finance Minister would be rather difficult to implement on a complete scale. He felt that poverty alleviation and employment generation could be solutions to high inflation. He noted the low foreign direct investment (FDI), exchange rate volatility, instability in law and order situation, and below-par resource generation are the major challenges facing the government for FY2011-12. The fact of double taxation at the corporate level as well as on dividends, was thought of as irrational by the speaker; he expected a more prudent approach towards fiscal governance. He stated that price hike was a major problem in Bangladesh. Bangladesh should exploit particular sectors where the economy had comparative advantage. The MCCI President concluded his comments by noting that the economy required to generate economies of scale to ensure sustainable development and that investment should be directed towards priority sectors which included both processing as well as production sectors.

Dr A B Mirza Azizul Islam, Former Advisor to the Caretaker Government, Ministries of Finance and Planning

Dr Islam was supportive of Dr Osmani's observations regarding the financing of budget deficit, and further noted that domestic borrowing essentially imposes a fiscal burden on the economy. However, domestic borrowing does not impose a macro burden as the repayment of domestic debt goes back to the citizens. Concern was expressed by the speaker regarding revenue generation which was raised in a distortionary manner, and hence, was not optimal. He observed that in the last decade or so, there was neither any distortion in the flow of credit to the private sector, nor was there any interest rate fluctuation in Bangladesh. But in recent times, due to higher levels of domestic borrowing by the government, there appears to be a liquidity crunch in the economy. The speaker criticised the target amounting to 2 per cent of GDP from external sources to finance the budget deficit and expressed serious doubts as to whether these resources could be mobilised. *Dr Islam* complimented the Finance Minister for recognising some of the challenges in the economy such as fall in remittance inflow. He also agreed with the proposal to cover this decline by exploring new labour markets. Noting that the economy was experiencing high levels of inflation and that ideally the economy would require lower non-essential expenditure, *Dr Islam* mentioned that the budget for FY2011-12 proposed no such reduction. The speaker also noted that the enhancement of government revenue was primarily required for the management of the budget deficit; however, there were no clarification of how the higher government revenue target would be achieved. He also stressed that reduction in money supply and credit supply to the private sector would not only decrease aggregate demand, but may also create problems for the supply side. The speaker indicated concern about the hefty losses that the state-owned enterprises (SoEs) were incurring as there has not been any significant development in this sector.

Dr Islam concluded that fiscal policy measures often matter less to the potential investors compared to political stability, law and order situation, adequate supply of infrastructure, discipline in the labour force, and the supply of skilled labour. He stressed that import duty structure should be reformed. Because of the existing irregularities, there are opportunities for unofficial negotiation between tax collecting officials and importers. Reforms of the import regime which took place in the 1990s were preceded by an in-depth trade policy study in the 1980s. The speaker concluded his remarks by proposing that a similar approach for the reform of the current import regime should be considered by the policymakers.

FLOOR DISCUSSION

Growth Targets

The 7 per cent growth rate proposed in the budget of FY2011-12 would require a private sector investment to the tune of about 28 per cent of GDP which was more than USD 30 billion. Keeping in mind the two prime sources of capital supply – the capital market and the banking system – the 7 per cent growth target was felt to be unachievable by *Professor Abu Ahmed*, Department of Economics, University of Dhaka and Former Chairman of Bangladesh Shilpa Bank, on the ground that the crowding out effect on the private sector from higher government borrowing and the troubled capital market was likely to have a negative growth impact. On a different note, *Mr A K M Abdus Sabur*, Research Director, Bangladesh Institute of International and Strategic Studies (BIISS) pointed out that a 7 per cent GDP growth does not necessarily mean that it would automatically translate into prosperity of the masses if inequality is also not addressed in tandem. *Mr Md Shafiul Islam*, President, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) also pointed out that real growth would be adversely affected because of the increase in prices of fuel and raw materials leading to further price hike, which may also result in a rise in wage level undermining the competitive strength of the enterprises.

Budget Deficit and Financing

Noting that the economy could head towards fiscal-financial indiscipline, *Professor Abu Ahmed* attributed the reason to the fact that deficit was being financed by commercial banks and this created a crowding out effect for the private sector. *Mr Hasanul Haq Inu*, *MP* and Chairman, Parliamentary Standing Committee on Ministry of Posts and Telecommunication and President, Jatiya Samajtantrik Dal, further added to the discussion by saying that if public investment is financed by borrowing from the commercial banks, then the private investment climate could undergo significant deterioration in near future. Since lending rate was low and Bangladesh was accorded a higher credit rating in recent years, *Mr Md Shafiul Islam* suggested that the government should borrow from the international market to ease the pressure on domestic borrowing.

Overall Investment

Mr M Fazlul Azim, *MP* and Chairman, Azim Group said that investment has not been up to the mark, particularly in the power sector. In his view, the reasons for overall low level of investment included inadequate power supply, financing inefficiencies, poor law and order situation, and lack of political stability. On the other hand, *Mr Md Jashim Uddin*, First Vice President, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and Vice Chairman, Bengal Group of Industries expressed concern about the absence of allocation in the budget for providing electricity, fuel and infrastructure to the newly introduced economic zones. This could undermine investment, he thought.

Mr Md Jashim Uddin shared his concern about the increase in advance tax payment of necessary goods from 3 per cent to 5 per cent as this measure would discourage investment. He also added that the enhanced tax on exports from 0.4 per cent to 1.5 per cent on the invoice or free on board (FOB) price was actually an imposition of 30 to 35 per cent on profit which would further push back investment. *Mr Azim* stated that the observed growth of 40 per cent in the export sector was not the real growth as this was achieved in the backdrop of a significant increase in price of raw materials. He expressed discomfort about the decision to increase export duty. To him, investment and export would further be affected because of the economic instability that was emerging in the developed world.

Subsidies

Mr M A Mannan, *MP* and Member of Parliamentary Standing Committee on Ministry of Finance strongly suggested that the agricultural subsidy should not be reduced from the present level, and if possible be increased, as higher agricultural subsidy induces higher level of net output, higher productivity and better food security. The speaker also emphasised on the need to distribute the subsidy in an appropriate manner so that it reaches the poorest farmers and not the relatively richer ones. He further suggested that the subsidy in the energy and the fuel sectors be revised and further rationalised. *Ambassador Salma Khan*, President, Women for Women noted that the 16 per cent increase in fuel subsidy proposed in the budget will mainly serve the private sector, and may not be justified from the perspective of equity and justice.

Mr Asif Ibrahim, President, Dhaka Chamber of Commerce & Industry (DCCI) and Vice-Chairman, New Age Group and Industries referred to the taxing system of India and China. India was allowing significant subsidies in the textile sector and China allowed tax exemption for the textile sector. He suggested that tax structure in the manufacturing and the poultry sectors should be compared with those in the neighbouring countries and relevant policies should be designed in the same line.

Although subsidy in the education sector has increased in FY2011-12, *Ambassador Salma Khan* believes that this should have been higher keeping in line with the neighbouring countries which allocated 4 per cent of GDP as education subsidy. She also added that subsidy for the health sector was not adequate for a low-income country such as Bangladesh.

Creating Employment Opportunity

Mr Hafiz Ahmed Majumder, *MP*, Chairman of Pubali Bank Ltd. and Chairman, Brindabon Tea Estate stressed the need for creating employment opportunities if the economy was to prosper. *Mr M A Mannan*, *MP* in this regard emphasised on the importance of the 80-day work programme, Food for Work (FFW) programme, Work for Money programme and other supplementary employment programmes, and recommended that these programmes should be further strengthened. *Mr M S Shekil Chowdhury*, Senior Vice President, DCCI and Chairperson, Centre for Non Resident Bangladeshis expressed his concern regarding tax on the brokerage houses being raised from 0.05 per cent to 0.10 per cent. He felt that this could impact negatively on self-employment.

The Issue of Black Money

Untaxed income in the economy should only be allowed to be converted into white money if these are channelled into investment-oriented sectors, stated *Mr Hafiz Ahmed Majumder*, *MP*. *Mr Shahidullah Chowdhury*, President, Bangladesh Trade Union Kendra and Presidium Member, Communist Party of Bangladesh supported the argument of Mr Majumder, stressing the reality of depressed investment situation in the economy.

Price Stability

Professor Abu Ahmed was of the opinion that many of the indicators in the economy could prove to be growth-reducing. He particularly noted the depreciating exchange rate of Taka vis-à-vis major currencies and the inflation rate that was more than 8 per cent. The speaker also added that the proposal to control inflation, which aimed at reduction in money and credit supply to the private sector, could negatively impact on growth and employment generation in the long-term, which in turn could lead to higher levels of inflation in the economy. *Mr Asif Ibrahim* stated that higher level of inflation could occur as a result of the enhancement of taxes in the manufacturing and poultry sectors.

Mr Hasanul Haq Inu, *MP* mentioned about the commodity price levels at the international market and stated the necessity to take action to keep the domestic prices stable. He noted that about 50 per cent of the economy is linked to the international market. He expressed concern that the government has not been able to keep the price of necessary goods stable. He further added that a combination of price stability and the expansion of the economy was essential from the proposed growth perspective. *Mr M A Mannan*, *MP* agreed with Mr Inu and stated that it was necessary to stabilise prices in the economy along with raising the level of income of the population.

Capital Market

The intervention of the government in the capital market was considered to be necessary by *Mr M A Mannan*, *MP*. He believed that this would bring stability to the market in the days to come. *Mr M S Shekil Chowdhury* stated that the recent capital market crash was affecting the non-resident Bangladeshis (NRBs) as well.

Digital Bangladesh

Mr Syed Almas Kabir, Treasurer, Bangladesh Association of Software and Information Services (BASIS) was of the view that there is hardly any reflection of the digitisation of the economy in the proposed budget. He added that *Digital Bangladesh* would mean infrastructural development and human resource development. To him, the increased import duty for optical fibre in the proposed budget contradicted the mandate and could hinder digitisation of the economy. He compared the imposition of 15 per cent value added tax (VAT) on internet against only 1.5 per cent on gold, and noted that this type of policy signal was alarming for a real *Digital Bangladesh*.

Remittance

Mr M S Shekil Chowdhury reemphasised the importance of remittance as a major contributing sector to the gross national product (GNP). He stressed on the importance of economic diplomacy in the Middle East so that more workers can go to countries in that region. He also suggested that the government should encourage public-private partnership (PPP) with NRBs to finance hospitals and schools in rural areas.

Implementation of the Proposed Budget

Mr M A Mannan, *MP* strongly argued that implementation of the proposed budget would be difficult if the inefficiency of bureaucracy persists in future. He proposed that initiatives towards decentralisation should be undertaken in order to improve the situation. *Dr Md Akram Hossain Chowdhury*, *MP* and Member of Parliamentary Standing Committee on Ministry of Food and Disaster Management agreed with him and shared concerns about the bureaucratic red-tapism and inefficiency in Bangladesh. He identified systematic corruption to be the main factor for non-implementation of the budget. *Dr Chowdhury* suggested that the budget be split to upazila level. *Mr Hasanul Haq Inu*, *MP* stated the need for closer cooperation and coordination between the Prime Minister's Office and the Cabinet Members to improve the state of implementation and efficacy of budget.

COMMENTS FROM THE SPECIAL GUEST

Mr Amir Khosru Mahmud Chowdhury thanked CPD and its Executive Director for the valuable budget analysis that was presented at the dialogue. In his address as the Special Guest, *Mr Chowdhury*, Member, Advisory Council of the Chairperson, BNP and Former Minister of Commerce discussed issues that he found to be lacking in the proposed budget for FY2011-12. He agreed with other discussants who expressed concerns regarding the prospect of implementation of the budget. He noted that the amount of agricultural subsidy has come down, and at the same time, the prices of various fertilisers have gone up. To him, this was in contradiction to the government's explicit policy of putting emphasis on the growth of the agriculture sector. He added that price of the essential components of agriculture had increased in the recent past, electricity and diesel in particular, further undermining the growth of the agriculture sector.

Mr Chowdhury noted that the imposition of 1.5 per cent tax on exports was also contradictory to the aim of Bangladesh's declared export-led growth strategy. He pointed out that the export market was a very competitive one, and in the backdrop of increasing import prices and the possible global meltdown, such measures will not be helpful.

The guest speaker stated that a sound investment environment was essential for growth and employment generation. But the investment was suffering from inadequate infrastructure and the liquidity crisis in the economy. He expressed his discomfort as regards increased interest rates and noted that the Central Bank's plan to control inflation by contracting money supply will not help the economy. He was of the opinion that the export sector will be adversely affected by this move as contractionary monetary policy and export growth cannot occur simultaneously.

Showing concern about the fragility of the capital market, *Mr Amir Khosru Mahmud Chowdhury* commented that there was no visible reforms initiative from the government to streamline the capital market. On the other hand, while he agreed that investment leads to growth, *Mr Chowdhury* was more concerned about the components that bring about positive change in the economy – purchasing power and savings in particular. He felt that Bangladesh had great potential with her low wages and low overhead costs. To him, the government should consider strengthening of investment in potential sectors, rather than sectors which had already created momentum for themselves and had already become matured in the process.

Mr Chowdhury observed that dependence on the private sector for providing utility services would only increase the benchmark costing for the industry, and ultimately lead to higher inflation. He was very critical of the delay in implementation and non-transparency with regard to new power plant projects undertaken by the government in collaboration with the private sector.

Regarding the issue of food security and procurement of foodgrains, *Mr Chowdhury* noted that producers were not getting the right price for their products; it was only a certain group that was exploiting the price fixation and ripping benefit from such manipulation. Consequently, increased import of foodgrains from the international market could lead to higher prices. *Mr Chowdhury* questioned the rationale for some of the subsidies, and was of the opinion that these subsidies could lead to a situation where the general people will have to bear a heavy burden in near future.

Mr Chowdhury felt that financing of the budget deficit was causing liquidity crisis for the private sector. He thought that the private sector could ensure high employment generation, lower wastage and greater efficiency, and hence should be given priority in terms of financing. *Mr Chowdhury* also expressed concern regarding Bangladeshi Taka (BDT) losing its value against the United States Dollar (USD) when most of the currencies in the world were appreciating against the USD.

RESPONSE FROM THE CHIEF GUEST

Greeting all the participants of the dialogue, the Chief Guest, *Dr Muhiuddin Khan Alamgir*, *MP* and Chairman, Parliamentary Standing Committee on Public Accounts and Former State Minister for Planning initiated his speech by inviting everyone to work together to resolve the weaknesses in the proposed budget that were identified in the dialogue. *Dr Alamgir* congratulated the Finance Minister and Hon'ble Prime Minister, and their colleagues for remaining vigilant against the world crisis and also for the proposed budget for FY2011-12. He added that the budget was aimed at the expansion of purchasing power of the common people and was geared towards strengthening of the development expenditure. He recommended that the government should enact an Audit Act to bring transparency of the budget, an act which was already there in India.

Emphasising on implementation of the budget, *Dr Alamgir* observed that every expenditure in the economy should comply with the Constitution and the autocratic practices with regard to expenditure decisions will need to be abolished. He called for bringing significant changes in the functioning of public institutions. He stressed that the budget itself needs to be more self-explanatory and the related ministries will need to be more transparent. Referring to the comment made by Dr Osmani, *Dr Alamgir* said that the government should only borrow when it could make proper utilisation of the funds. If non-utilisation results in only interest payments, then it would be very tough for the government to justify the loan, let alone attain the development targets.

Dr Muhiuddin Khan Alamgir felt that there was a need to support industries by integrating tax, revenues and expenditure sides. He recommended immediate establishment of an independent Revenue Commission which would be able to work closely with the government and undertake expenditure decisions. *Dr Alamgir* reviewed a number of proposals in the FY2011-12 Budget. He was critical of the tax imposed on certain necessary goods as this would hamper growth if seen from a development perspective. Regarding the power sector, he was of the opinion that initiatives must be taken to address the issue of coal extraction. He noted that progress on electricity generation had been remarkable during the tenure of the current government. *Dr Alamgir* concluded by saying that a corruption-free culture ought to be promoted if Bangladesh is to prosper in the coming days.

CLOSING REMARKS BY THE CHAIR

The Chair thanked the participants for sharing their insights, information and views on the budget of FY2011-12. He expressed his gratitude to the Chief Guest, the Special Guest, other distinguished guests and the panel of experts. *Mr M Syeduzzaman* observed that the outgoing FY2010-11 was a relatively better financial year which was characterised by increase in public revenue, a balanced growth in exports and imports, finalisation of the Padma Bridge Project proposal, progress in the energy sector, and a satisfactory GDP growth. Noting that the FY2011-12 Budget is the largest ever, he emphasised on the need for close monitoring of the budget throughout the year for the sake of proper implementation.

Mr Syeduzzaman agreed with the Bangladesh Bureau of Statistics (BBS) poverty estimates that showed a significant reduction of population below the national poverty line from 40 per cent to 31 per cent. He observed that poverty could be reduced further if ADP implementation could be realised more effectively. He noted that the volume of the budget and the ADP share in the budget had been increasing from year-to-year as per the SFYP and the *Vision 2021*. However, he was concerned that ADP implementation has continued to remain a formidable challenge in Bangladesh. He identified slowdown in the disbursement of foreign aid as a critical area of concern. *Mr Syeduzzaman* acknowledged the potential risk regarding the BOP situation; he was also worried about the exchange rate senario in the coming years.

The Former Finance Minister expressed his opinion that the short-term assumptions of the proposed budget such as food security and macroeconomic balance would have to be realised on the ground by raising revenue collection and through increased public savings. He added that revenue generation would depend on the planned reforms of the Revenue Board.

Commenting on the need for policy coordination, he mentioned that there should be close coordination between the fiscal policy and the monetary policy. *Mr Syeduzzaman* was of the opinion that monetary policy does play a significant role in terms of managing inflation, even when the inflation was driven by exogenous shocks and factors.

The Chair expressed his discomfort about the lack of FDI inflow to the economy. In his view, with an acceptable sovereign rating and a good investment climate, along with good investment incentives, lack of FDI inflow could be explained primarily by the very poor state of infrastructure in Bangladesh.

Mr Syeduzzaman agreed with other distinguished experts and reiterated that implementation of the budget depends not only on the Finance Minister, but also on other related ministries, their respective agencies, heads of different departments and autonomous bodies. He emphasised on the need for a coordinated effort towards a better implementation of budget in FY2011-12.

The Chair concluded the dialogue by appreciating the contribution of all participants and expressed his hope that they will continue to extend support to CPD activities in future.

List of Participants

Professor Abu Ahmed
Department of Economics
University of Dhaka and
Former Chairman, Bangladesh Shilpa Bank

Dr Kazi Saleh Ahmed
Former Vice Chancellor
Jahangirnagar University and
President, FREPD

Dr Nasiruddin Ahmed
Secretary
Internal Resources Division (IRD)
Ministry of Finance and
Chairman, NBR

Mr Ziauddin Ahmed
Deputy Director, BBS

Mr Md Shamsul Alam
Director
Industry and Labour Wing, BBS

Dr Muhiuddin Khan Alamgir, MP
Chairman, Parliamentary Standing Committee on
Public Accounts and Former State Minister for Planning

Ambassador Dr Toufiq Ali
Chief Executive
Bangladesh International Arbitration Centre (BIAC) and
Former Permanent Representative of Bangladesh to the WTO

Mr M Fazlul Azim, MP
Chairman, Azim Group

Mr M A Baset
2nd Vice President, BKMEA and
Director, Southern Knitwear Ltd.

Dr Anwara Begum
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Bangladesh Supreme Court and
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Ms Priti Chakraborty
Chairman, Xenergia Foundation and
Chairman, J & J Essential Products Ltd.

Mr Suhel Ahmed Choudhury
Former Secretary and
Former Chairman, Janata Bank

Dr Toufic Ahmad Choudhury
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Mr Anwar-Ul-Alam Chowdhury
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Major General (Retd) Amjad Khan Chowdhury
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Mr Amir Khosru Mahmud Chowdhury
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Former Minister for Commerce and
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Dr Md Akram Hossain Chowdhury, MP
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Mr M S Shekil Chowdhury
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Ambassador Salma Khan
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Chairman, Pubali Bank Ltd. and
Chairman, Brindabon Tea Estate

Mr M A Mannan, MP
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Former President, BGMEA and
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