Chapter 2

A Set of Proposals for the National Budget FY2013-14

This set of proposals was released to the media by the Centre for Policy Dialogue (CPD) on 20 April 2013.

2.1 INTRODUCTION: THE CONTEXT

The proposals prepared by the Centre for Policy Dialogue (CPD) in the context of Budget FY2013-14 seek to come up with a set of recommendations, both in terms of the needed overall fiscal-budgetary stance, as well as proposals that concern sectoral and issue-specific areas. In putting forward these suggestions, CPD has taken cognisance of the evolving macroeconomic scenario in the current fiscal year as it draws towards the finishing line, reviewed the implementation status of the fiscal-budgetary targets set out in FY2012-13 Budget, and has tried to anticipate the likely scenario that could emerge in FY2013-14 and which will inform the macroeconomic performance and governance in the next fiscal year.

The upcoming budget, expected to be announced in the first week of June 2013, comes in the backdrop of the fluctuating fortunes experienced by the Bangladesh economy in the course of the ongoing FY2012-13. The gross domestic product (GDP) growth rate for FY2012-13 which was fixed at one percentage point higher than that of FY2011-12, at 7.2 per cent, will perhaps only match the trend rate of six-plus per cent this year. Core concerns impacting investment levels continued to persist in FY2012-13 resulting in investment stagnation, accentuated further by uncertainties emanating from the ongoing violence and confrontational politics. The somewhat aggressive revenue assumptions have proved to be unrealistic in the face of repressed investment, declining imports and a restrained monetary policy that sought to rein-in the high credit growth rates of the recent past. Conditionalities under the Extended Credit Facility (ECF) programme of the International Monetary Fund (IMF) have set parameters that constrained government's flexibility in policymaking in a number of critical areas including fixation of fuel price, levels of subsidy and government borrowing. Slow implementation of major infrastructure projects, including in transport and energy sectors, undermined growth potentials of the economy. A number of incidences including the Padma Bridge financing debacle, and the Hall-Mark, Bismillah Group and Destiny scams have exposed serious weaknesses in economic management and governance. On the other hand, in the backdrop of robust remittance flows and negative import growth, balance of payments (BOP) position has continued to improve, with swelling foreign exchange reserves providing import security and stabilisation, and even some appreciation, of the exchange rate of the Bangladeshi Taka (BDT). Improved export performance in recent months, despite the slow recovery in the major European and the North American markets, has reinforced this trend. Inflation had started to ease helped by falling food prices, and also in view of declining non-food inflation.

By any reckoning, Bangladesh economy will enter a difficult terrain in FY2013-14 characterised by a number of defining features which are likely to accentuate the downside risks mentioned above. The ongoing political uncertainty, in the last year of the incumbent government, if deepens further, will have serious implications for the implementation of the fiscal-budgetary measures to be proposed in the FY2013-14 budget. The consequent depressed investment scenario could negatively impact on revenue generation and overall GDP growth. The departure from the Medium Term Budgetary Framework (MTBF) and the Sixth Five Year Plan (SFYP) growth targets is likely to continue in FY2013-14 in view of the emergent situation. Thus, it will perhaps be prudent to set the GDP target more in line with what is realistic in view of current and likely scenarios. Rather than going for populist measures this will warrant a stability-centric stance that does not necessitate expansive government borrowing, which could fuel inflation and result in fiscal deficit that is beyond reasonable limit. The IMF-ECF, entering in its second year, will entail significant new commitment on the part of the government along with the policies to be pursued in line with earlier commitments. Financing of fiscal deficit will need to take this into cognisance. Despite signs of upturn in the global economy, the pace of global recovery in the coming year is likely to continue to be slow, with concomitant impact on export and migration from Bangladesh.

The emerging challenges anticipated for FY2013-14 period will call for policy adjustments and prudent target setting with respect to resource mobilisation and expenditure commitments, fiscal deficit and its financing. The fiscal-budgetary proposals in FY2013-14 Budget ought to be informed by these anticipations.

In the backdrop of the aforesaid assessment, the CPD budget proposals for FY2013-14 focus on a number of key areas. These are:

(i) an assessment of macroeconomic developments in FY2012-13 and recommendations for the needed macroeconomic policy stance for FY2013-14;
(ii) a review of the status of key deliverables of FY2012-13;
(iii) proposals for fiscal-budgetary recommendations in a number of key areas including investment, energy sector, rural economy and external sector;
(iv) fiscal-budgetary implications of different options for financing the Padma Multipurpose Bridge Project (PMBP); and
(v) a number of implementation-related suggestions with a view to raising efficacy of realising FY2013-14 Budget proposals at a time of formidable challenges and great uncertainties.

2.2 MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2013-14

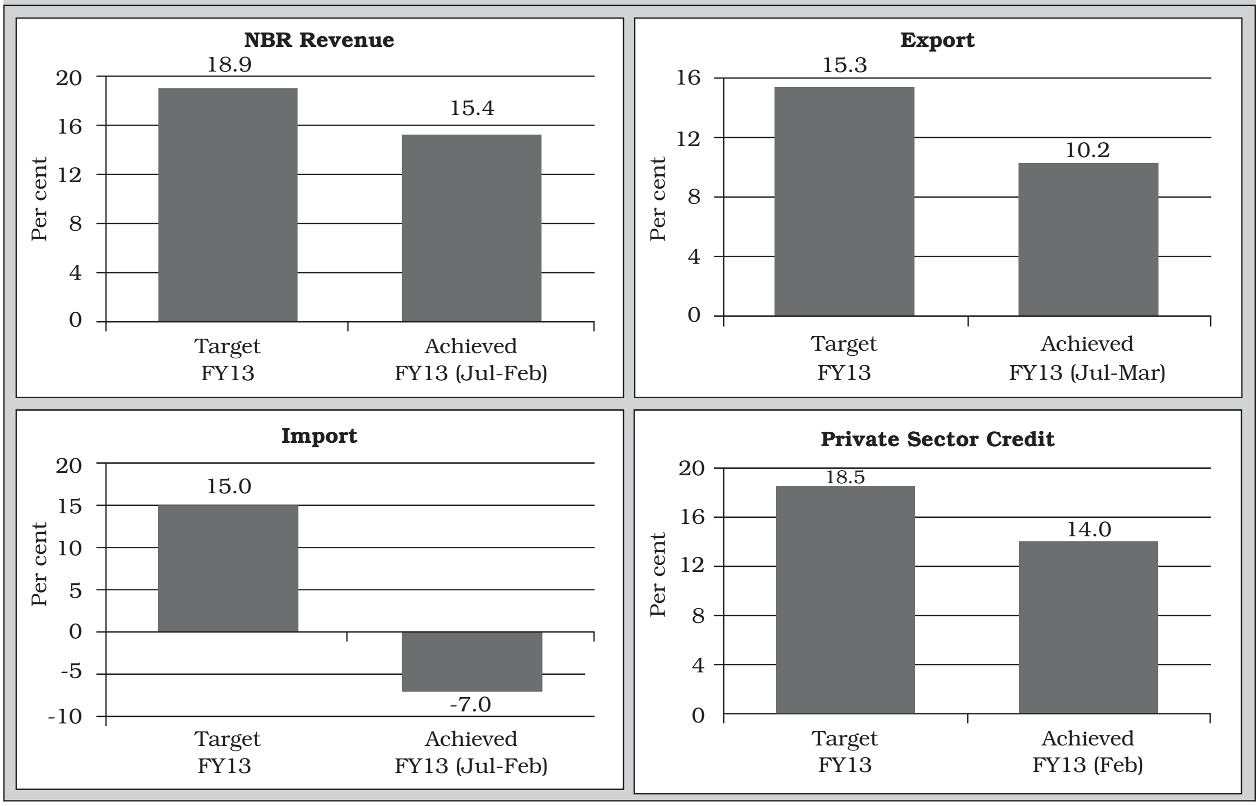
Implementation of the budget, on one hand, has a critical role to play towards the macroeconomic performance of the economy. On the other hand, as CPD suggested earlier, the performance of the economy will also determine, to a large extent, the implementation of the proposed budget (Bhattacharya *et al*. 2010). Hence, the budgetary framework and the fiscal measures proposed in the national budget for FY2013-14 will need to take cognisance of the prevailing macroeconomic scenario in FY2012-13 and the outlook for FY2013-14. While preparing the proposals for the national budget for FY2013-14, the present section will undertake an analysis of the major features of the economy in FY2012-13.

2.2.1 Bangladesh Economy is Off-Target – Both in the Short and Medium-Terms

Compared to FY2011-12 when the previous national budget was announced, macroeconomic situation became more stabilised as the economy moved towards the finishing line of FY2012-13. In January 2013 CPD observed that, this stability was underpinned by a number of risks which in effect could result in moderate economic growth, investment and employment outcome (CPD 2013). Indeed, the latest available data on major macroeconomic correlates reflect a number of disquieting trends. Revenue mobilisation by the National Board of Revenue (NBR), the most dependable performer among the macroeconomic indicators during this government's regime, has been found wanting and may witness a shortfall (of Tk. 3,000 crore). Over the first eight months, during July-February period, growth of NBR revenue was 15.4 per cent against the target of 18.9 per cent for FY2012-13 (Figure 2.1). Also, growth of export earnings during the first three quarters of FY2012-13 (10.2 per cent) was well below of its annual target (15.3 per cent). A year ago, during the second half of FY2011-12, a set of concerned policies were undertaken towards restraining growth of import payments. In FY2012-13, import payments continued to fall ((-) 7 per cent during the first eight months), and getting anywhere near the annual target of 15 per cent is now out of question. Likewise, the growth rates of domestic credit (13.4 per cent) and private sector credit (14 per cent) are unlikely to meet their annual targets (18.9 per cent and 18.5 per cent respectively), as the private sector lost its appetite for credit.

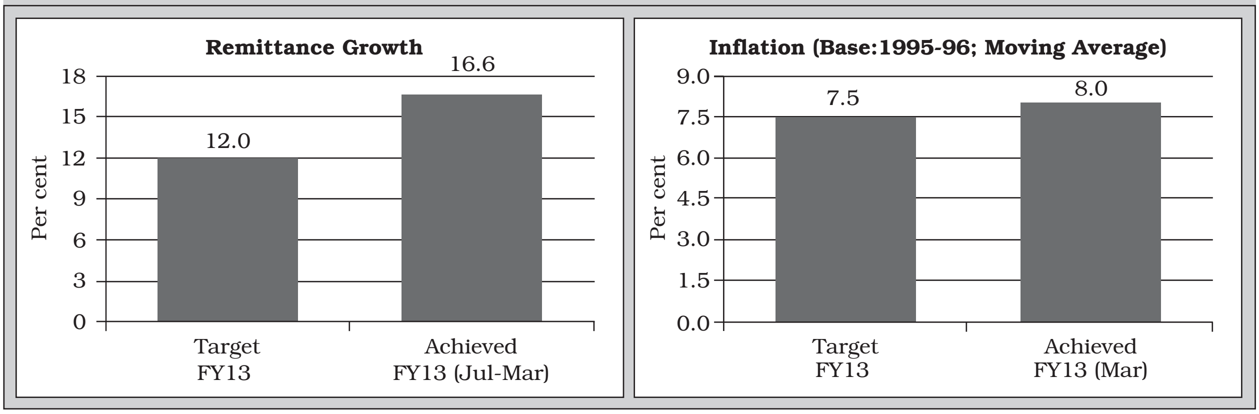
As opposed to the above scenario, there also prevail a number of positive signs in the macroeconomic landscape. Remittance inflow during the first nine months of FY2012-13 recorded 16.6 per cent growth against the annual target of 12 per cent (Figure 2.2). FY2012-13 also witnessed noteworthy improvement in the Annual Development Programme (ADP) implementation. During July-March period, 49 per cent of total ADP allocation was spent which was 45 per cent in FY2011-12. Expenditure on project aid has also seen substantial improvement – 42 per cent was spent during the July-March of FY2012-13 which was 33 per cent during the corresponding period of the preceding year. Consequently, the inflow of foreign aid

Figure 2.1
Growths: Target vs Actual



Source: Calculated from the data of Bangladesh Bank, Export Promotion Bureau (EPB), Ministry of Finance (MoF) and National Board of Revenue (NBR).

Figure 2.2
Remittance Growth and Inflation: Target vs Actual



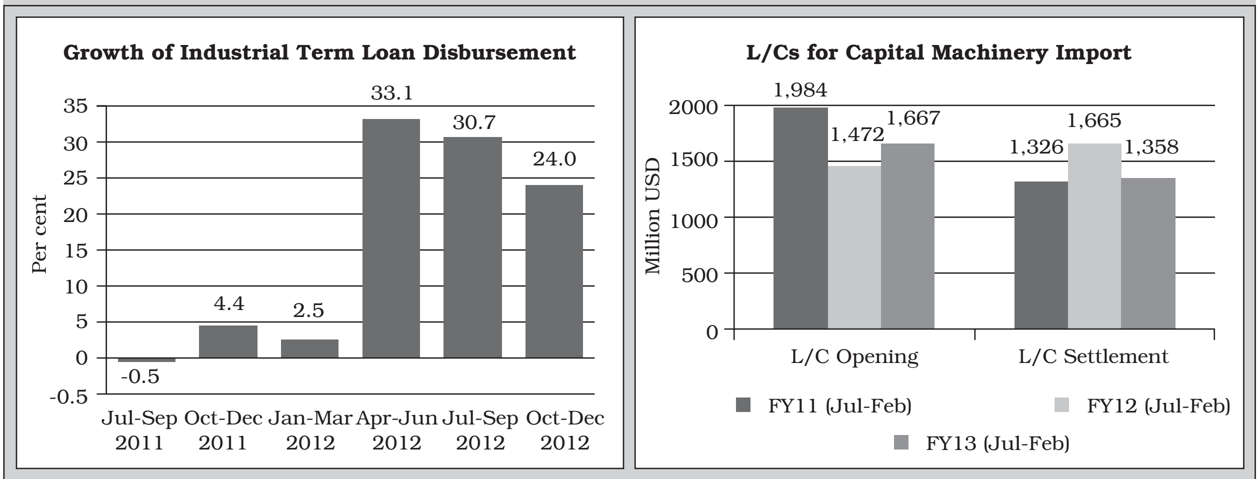
Source: Calculated from the data of Bangladesh Bank and Bangladesh Bureau of Statistics (BBS).

increased to USD 1.5 billion during the first eight months of FY2012-13 which was USD 1.2 billion during the same period of FY2011-12. The buoyant remittance inflow along with falling import payments and improved foreign aid inflow pushed the BOP situation into a safe terrain. During the July-February period both current account balance and overall balance witnessed a healthy surplus (USD 1.4 billion and USD 3.5 billion respectively). The surpluses in BOP helped the foreign exchange reserve to reach newer heights – about USD 14 billion at the end of March 2013. Concurrently, during the first nine months of FY2012-13 the BDT appreciated by 4.6 per cent against the United States Dollar (USD). This may have helped to stabilise the prices of imported commodities, but created disincentive to exporters. The inflationary pressure eased to some extent in FY2012-13, thanks to stable food production, slowdown in domestic demand, restrained monetary policy and stronger BDT against USD.

2.2.2 Outlook for Investment is Not Promising

Private investment has been a matter of concern for the last four years. In FY2011-12 private investment as a share of GDP declined to 19.1 per cent from 19.7 per cent in FY2008-09. The investment situation in FY2012-13 and outlook for FY2013-14 does not look promising. Although overall disbursement of industrial term loan increased by 26 per cent during the first half of FY2012-13, one observes a deceleration of the quarterly growth. Import of capital machinery in July-February of FY2012-13 was (-) 11.2 per cent lower compared to the corresponding period of the previous fiscal year. Indeed, this decline was faster than the overall decline in import payments ((-) 7 per cent). Value of letter of credit (L/C) opening for capital machinery import during the first eight months was higher than the preceding year (FY2011-12), but lower than FY2010-11 (Figure 2.3). Curiously, L/C settlement figures in FY2012-13 have been largely lower than FY2011-12.

Figure 2.3
Investment Related Indicators

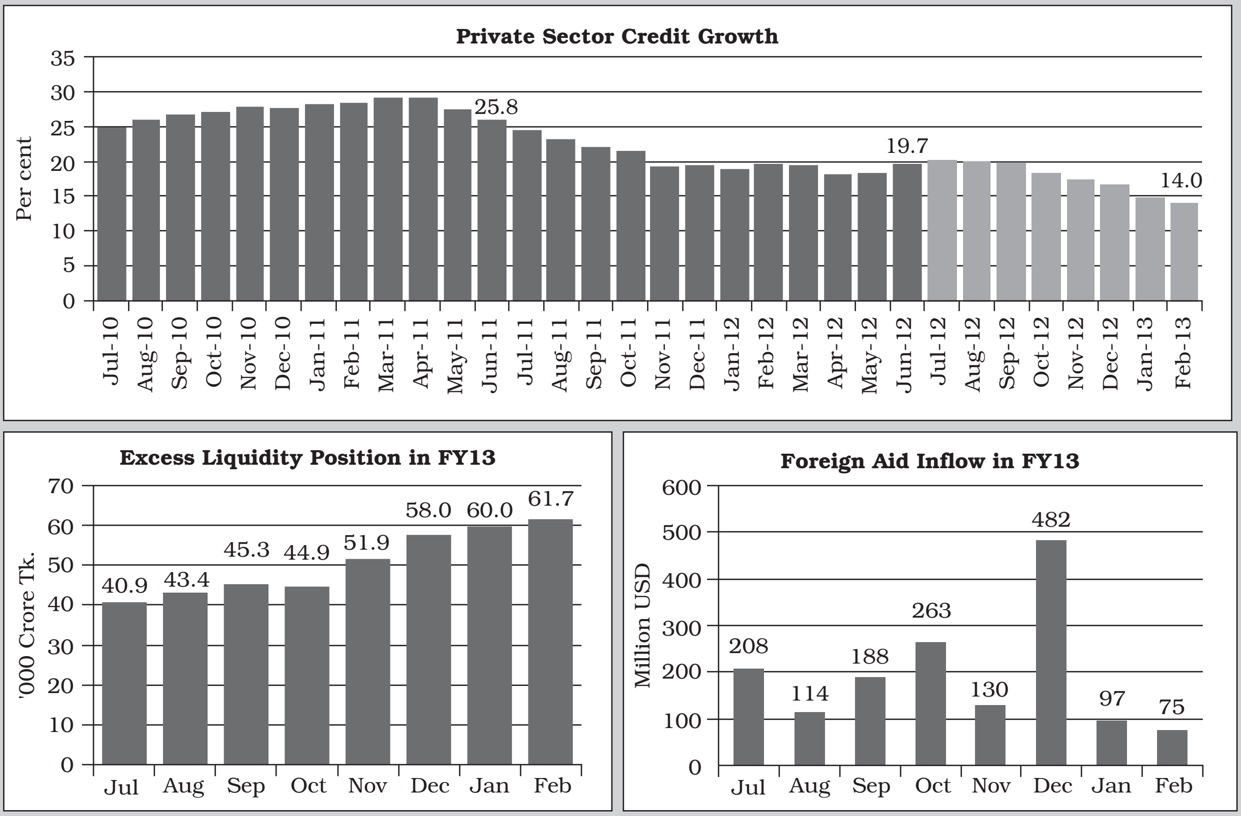


Source: Calculated from the Bangladesh Bank data.

Growth of the private sector credit continued to fall in recent months (Figure 2.4). The growth rate as of February 2013 is indeed the lowest monthly growth since September 2009. Concurrently, excess liquidity in the banking system is on the rise since October 2012, which pushed call money rate downwards in the recent months. Over the last eight months the excess liquidity increased by more than 50 per cent as it reached to Tk. 61,700 crore. As a matter of fact, 40 per cent of total liquid assets was excess liquidity. In March 2013 the call money rate was 7.5 per cent which was 10.6 per cent in July 2012. All these indicators signify the slowdown of private sector investment. The foreign direct investment (FDI) inflow (net) during July-February was USD 950 million (863 million in FY2011-12) which is on an average about USD 120 million in a month. However, in February net FDI inflow was only USD 75 million. Regrettably, foreign aid disbursement during the last two months has also declined. As a result, it may be apprehended that the pace of improvement in ADP implementation can face a setback in coming months.

Figure 2.4

Investment Outlook Related Indicators



Source: Calculated from the data of Bangladesh Bank and Economic Relations Division (ERD).

2.2.3 Current Political Instability will Aggravate the Situation Further[1]

In connection with a number of entrenched political conflicts, Bangladesh is currently experiencing political agitations in various forms which are transmitting serious shocks to the economy. Indeed, the political instability in Bangladesh, particularly in the run-up to the national parliamentary election is not uncommon. The latest CPD research[2] showed that continued political conflicts caused decline in domestic demand, lower investment, decelerated trade activities and escalated social costs. In addition to tangible economic costs, there are intangible losses including erosion of country's image. A major long-term impact arising from *hartals* is found to be the loss of capital stock. In connection to this, a Computable General Equilibrium (CGE) model exercise in the Bangladesh context shows that a 1 per cent decline in capital supply can reduce GDP by 0.9 per cent (Table 2.1). In fact, all major macroeconomic indicators would face adverse impacts. Having recognised a number of adjustment measures already deployed by both government and non-government agents, it is felt that the effectiveness of macroeconomic policy instruments towards protecting the economy will be weak as institutions remain paralysed due to political agitations. Hence, the budget implementation in FY2013-14 will critically hinge on the future political outcome.

[1]This section is benefited from the keynote paper presented at a CPD dialogue on the implications of ongoing political instability on Bangladesh economy, organised on 13 April 2013, in Dhaka.
[2]Bhattacharya *et al.* (2013).

Table 2.1

CGE Results

Macroeconomic Indicator	Outcome (% Change from Base Year)	In Nominal Terms
GDP	-0.9	-8,233 crore Taka (FY12) -1.0 billion USD (FY12)
Household Consumption	-0.8	-5,487 crore Taka (FY12) -694 million USD (FY12)
Exports	-2.4	-583 million USD (FY12)
Imports	-0.8	-284 million USD (FY12)
Government Revenue	-0.7	-796 crore Taka (FY12) -101 million USD (FY12)
Government Deficit	7.1	2,280 crore Taka (FY12) 288 million USD (FY12)
Investment	-0.1	-233 crore Taka (FY12) -29 million USD (FY12)
Employment	-0.9	-0.5 million (2010)

Source: Bhattacharya *et al.* (2013).

2.2.4 IMF-ECF Conditionalities: The Binding Constraint

In the backdrop of growing BOP pressure, the government sought the IMF-ECF support in March 2012 (USD 1 billion for three years) which is tied to a number of stringent conditionalities. In view of the above, the IMF released a new Bangladesh Country Report in March 2013 before releasing the second installment of the loan (USD 141 million). Among the 'quantitative performance criteria' two were not met by the government, namely tax revenue (floor) and social-related spending (floor). Most of the 'structural benchmarks' were also not met according to the IMF. The most notable one was "submit a new VAT (value added tax) law to the National Parliament consistent with tax modernisation plans and medium-term revenue targets" by June 2012. As is known, the new VAT law was submitted in July 2012 and had been passed in November 2012. The new VAT law is expected to be fully implemented from FY2015-16. Towards this end, the government needs to put together necessary infrastructure and adequate budgetary allocation.

The IMF seems to have agreed with the government stance to keep the petroleum subsidy within Tk. 10 per litre instead of "adopting an automatic adjustment mechanism for retail petroleum prices to ensure full pass-through of international prices." As per the IMF condition, the government was required to remove tax concessions and exemptions in the FY2012-13 Finance Bill equivalent to at least 0.5 per cent of GDP. According to IMF, an estimated tax concessions and exemptions equivalent to 0.3 per cent of GDP were removed. The IMF conditionalities also include monitoring of fertiliser subsidies and subsidies to state-owned enterprises (SoEs). Moreover six new conditions were added. The formulation of budget for FY2013-14 will need to be in line with all these conditionalities. However, one can argue that in the backdrop of present macroeconomic circumstances this loan is not necessary. Whatsoever, if the government would like to fulfill these conditionalities the policy space for them will remain limited in FY2013-14.

2.2.5 Economic Growth Outcome: Slowdown is Evident

The GDP growth target for FY2012-13 was set at 7.2 per cent following the medium-term target of SFYP (Table 2.2). The early projections from analysts explicitly agree that the GDP growth rate in FY2012-13 will not meet its target. The Finance Minister, however, is hopeful that it will be around 6.4 per cent

Table 2.2

GDP Growth: Target vs Projection

Reporter	Projected Growth (%)
Growth in FY2012	**6.3**
Target for FY2013	**7.2**
CPD, January 2013	<6.3
Bangladesh Bank, December 2012	6.1-6.4
World Bank, October 2012	<6.0
IMF, March 2013	5.8
ADB, April 2013	5.7
World Bank, April 2012	5.8

Source: Collected from various sources.
Note: ADB: Asian Development Bank.

though the latest independent projections suggest that it may not reach the 6 per cent threshold. More importantly, as the latest information are made available, the projection of the GDP growth rate for FY2012-13 has become more pessimistic. Nevertheless, the economic growth is expected to remain at a subdued level for both FY2012-13 and FY2013-14.

2.2.6 The Proposed Macroeconomic Stance for Budget FY2013-14

As was anticipated at the halfway through to FY2012-13, Bangladesh economy is settled for macroeconomic stability with moderated economic growth. Regrettably, even realisation of this 'second best' ambition critically hinges on the possibility of overcoming the enduring political uncertainties. In view of the discussed macroeconomic scenario, the budgetary framework for FY2013-14 requires to take a more pragmatic approach. Such a stance should be informed by a number of considerations.

First, the allocation for public expenditures needs to be consolidated as much as possible. Towards this, the Finance Minister will have to confront the political demand for a populist budgetary allocation in the run-up to the forthcoming national election. It will be unfortunate if the financing plan of the Padma Bridge project creates a detrimental impact on the resource availability for other development projects.

Second, the target for revenue mobilisation should also not be overambitious. If the economy continues to suffer, it will take toll on the revenue collection as well. Hence, efforts towards revenue mobilisation should get greater emphasis. No doubt that, the revenue collection in the form of telecom 3G license fee will be an important factor. In this connection, one may recall that, during the time of political transition in 2006 and 2007, Bangladesh economy faced significant illicit financial outflow (CPD 2013). In 2010, the amount of illicit financial outflow was estimated to be USD 2.4 billion which was only 0.7 billion in 2009. This outflow arose from transfer mispricing, trade mispricing and money laundering, and has a significant revenue implication. The recently established Transfer Pricing Cell under the NBR needs to be fully functional at the earliest. Bangladesh also requires a strong and well-equipped specialised institution to confront this issue in the near future where a number of public institutions (e.g. NBR, Bangladesh Bank and others) will need to act in a coordinated manner.

Third, containing fiscal deficit in FY2013-14 within a comfortable level will be necessary, but more importantly, it is the financing structure that demands close attention. Borrowing target from sales of National Savings Bond (NSD) certificate needs to be fixed at a more realistic level. Caution is also called for with regard to the issuance of sovereign bond. Given the importance of the issue, the incumbent government is better off to defer this initiative for the next government. In contrast, efforts towards greater utilisation of foreign aid should be the highest priority.

Fourth, as has been mentioned above, in the present circumstances it will be difficult to revitalise the private investment through pursuance of macroeconomic policy instruments. Nevertheless, the budget needs to consider providing greater access to credit and better infrastructure to prospective investors. Towards this end, priority should be given to the thrust sectors identified under the present industrial and export policies.

Fifth, ensuring adequate incentives (for both inputs and outputs) to farmers is essential from both economic and political perspectives. Close coordination and cooperation among various government agencies will be of critical importance in this context. This will also be helpful to stabilise the inflation.

Sixth, the successful implementation of the forthcoming budget will require a complementary monetary policy. It is now urgently required to stabilise the value of BDT and avoid its further appreciation. The present money supply situation is able to accommodate more accumulation of foreign exchange reserve. Indeed, the additional foreign exchange reserve may prove to be useful later if the Padma Bridge is decided to be constructed with the domestic resources only.

Seventh, in all likelihood the targets of the SFYP for macroeconomic correlates will become irrelevant in FY2013-14. For example, the targets for the GDP growth rate and gross investment as a share of GDP for FY2013-14 are 7.6 per cent and 31 per cent respectively. Under the present macroeconomic circumstances attaining these targets will not be possible. Surely, there is no economic sense to fix the macroeconomic targets at an overambitious level. In view of this, it is necessary to consolidate the macroeconomic targets for FY2013-14 accordingly and streamline the targets for the subsequent years.

2.3 DELIVERY OF THE BUDGET FY2012-13

2.3.1 Revenue Earnings

The revenue income structure in the budget for FY2012-13 was 80.3 per cent from NBR tax, 3.3 per cent from non-NBR tax and 16.4 per cent from non-tax revenue accumulating the target of Tk. 139,670 crore as total revenue earnings. NBR is playing the major role in realising the revenue earnings target set for FY2012-13. However, in the current fiscal year, NBR revenue growth may once again witness a shortfall, the first time since FY2008-09. This anxiety was already expressed by CPD in its review of the economy in January this year. During the first eight months of the current fiscal (July-February), the growth of NBR revenue was 15.4 per cent against the target of 18.8 per cent (Table 2.3). This will require a growth of

Table 2.3

NBR and Non-NBR Revenue Collection

(in Per cent)

Particular	Actual Growth FY12	Annual Growth Target FY13	Achieved Growth FY12 (Jul-Feb)	Achieved Growth FY13 (Jul-Feb)	Required Growth FY13 (Mar-Jun)
External Total	11.89	13.79	13.72	6.20	26.75
Import Duty	14.75	16.06	17.48	2.80	38.00
VAT Import	10.07	8.17	8.95	12.02	1.79
Supplementary Import	9.05	25.46	17.57	-0.76	78.92
Local Total	22.92	17.28	17.08	13.56	22.65
VAT Local	22.64	12.61	16.32	19.76	2.83
Supplementary Local	22.82	23.95	16.49	2.67	56.14
Total Direct Tax	22.65	26.23	26.65	30.79	21.84
Income Tax	22.79	24.95	27.17	30.85	19.34
Total	**18.96**	**18.85**	**18.13**	**15.36**	**23.53**

Source: National Board of Revenue (NBR).

about 23.5 per cent during the last four months (March-June) of the going fiscal. Supplementary import duty is one major concern for NBR revenue collection that not only failed to achieve growth target, but also registered a negative growth during the above mentioned period. Import was substantially low during the July-February period of FY2012-13 (-7 per cent growth of import payments) which has significantly affected the external revenue collection of the NBR. Among the components of NBR revenue collection, only the collection of direct tax is in the right track towards meeting the target. Non-NBR revenue collection is also lagging behind from its target set for FY2012-13. Despite the remarkable performance in achieving high targets in recent past, NBR may find it difficult to attain the targets set for FY2012-13 due to sluggish import as well as slowing down of economic activities.

2.3.2 Revenue Expenditures

Higher interest payments went beyond its budget allocation during FY2011-12 and continued during the first five months of FY2012-13 (July-November) with a growth rate of 41.1 per cent compared to the same period of previous fiscal (Table 2.4). During this period, augmented non-development revenue expenditure recorded 24 per cent growth compared to the matching period of the previous fiscal while the target growth for FY2012-13 was only 13 per cent. This implies that the growth of this component needs to be restricted to only 7.5 per cent during the rest of the months of FY2012-13. Total expenditure set in the budget for FY2012-13 was Tk. 191,731 crore in which Tk. 136,731 crore is allocated for non-development and other expenditures and the rest is for the ADP. The Finance Minister in his half yearly budget statement mentioned that the net expenditure up to December 2012 was 33.3 per cent of total allocation, and ADP expenditure is 23.3 per cent of its total allocation. Non-ADP expenditure during July-December 2012 registered a 0.6 per cent growth compared to the same period of FY2011-12. Based on the Finance Minister's speech, it is expected that the revenue expenditure will exceed the target set for FY2012-13.

Table 2.4

Non-Development Expenditure: FY2012-13 (July-November)

(in Per cent)

Component	**Actual Growth FY12**	**Growth Target FY13**	**Achieved Growth FY13 (Jul-Nov)**	**Required Growth FY13 (Dec-Jun)**
Pay and Allowances	4.8	9.9	11.0	9.0
Goods and Services	6.0	21.0	18.0	21.9
Interest Payments	28.9	15.7	41.1	3.7
Subsidies and Current Transfers	15.2	6.5	23.8	-1.9
Block Allocation	-38.0	815.6	-2.3	1172.5
Non-Development Revenue Expenditure	**13.9**	**12.8**	**23.2**	**7.5**
Acquisition of Assets and Works	7.4	16.9	56.1	8.0
Augmented Non-Development Revenue Expenditure	**13.6**	**13.0**	**24.0**	**7.5**

Source: Calculated from the Ministry of Finance (MoF) data.

2.3.3 Annual Development Programme (ADP)

Expenditure under the ADP has shown improvement during the first eight months (July-March) of FY2012-13 in contrast to the past few years. During the above mentioned period 49 per cent of total ADP allocation (Tk. 55,000 crore) has been utilised which is 3 percentage points higher than the comparable period of FY2012-13 (46 per cent). Better disbursement of project aid has helped to improve ADP expenditure in the current fiscal. During July-February of FY2012-13, 42 per cent of total project aid has been disbursed while this was only 33 per cent in the same period of FY2011-12. This has also helped to maintain a healthy BOP in the above mentioned period. The implementation status of the ADP of top ten ministries/divisions with large allocation (72 per cent of total ADP allocation) shows that about 56 per cent of allocation for those ten ministries/divisions has been spent during July-February of FY2012-13. Among these, implementation by M/O Health and Family Welfare, M/O Railway, and M/O Industries was, however, below par. Power Division, Roads Division and Local Government Division are the better performers in terms of ADP utilisation. The Power Division had allocation for concluding and carryover projects that may have helped it to utilise about 68 per cent of ADP allocation.

As past experiences suggest, it is too early to comment on the status of ADP utilisation which will be completed by the end of the current fiscal. In most cases, the utilisation of ADP allocation has failed to achieve the target. However, performance in FY2012-13 is expected to be better compared to FY2011-12 in terms of project aid disbursement. It may happen that the government would defer few projects at the end of the fiscal that may affect next fiscal's budget.

2.3.4 Budget Deficit

On the basis of data from the first six months of FY2012-13, it can be stated that budget deficit and its financing are in line with the traditional trend. The revenue collection may face shortfall in view of slow NBR revenue collection. However, if ADP allocation is not fully utilised, it may provide some cushion to the revenue collection shortfall. Domestic borrowing was a major concern throughout FY2011-12 as a result of poor project aid disbursement. This may not be a concern for the current fiscal since disbursement of project aid remained satisfactory up to December 2012. Concerns remain, however, as the net sale of NSD certificates is running below the expected level till date. Therefore, the government needs to pay more attention towards managing the deficit financing in the latter part of the fiscal.

2.4 CONTINUATION OF LOW INVESTMENT AND ITS IMPLICATION FOR GROWTH

Investment in the current fiscal year is experiencing a sluggish trend as was observed in the last year. A set of new issues and concerns along with a few of the last year are responsible for a weak investment scenario. Under such adverse situation, accelerating investment both in private and public sectors will be challenging for the government in the next fiscal.

2.4.1 State of Production in FY2012-13

Till November 2012, the Quantum Index of Production (QIP) of large and medium-scale manufacturing industries have maintained a double-digit growth, thanks to better performance of key industries such as food and beverage industry and jute, cotton and wearing apparel industry. But a number of domestic market-oriented industries could not attain that level of growth perhaps due to unfavourable business environment till that time (November 2012). This may have aggravated further in the following months due to political unrest. Low or negative growth rates of imports of industrial raw materials and intermediate products are reflections of weak demand of these products.

2.4.2 State of Domestic Credit in FY2012-13

Unlike last year's high growth of domestic credit particularly led by the public sector credit, the growth of domestic credit in the current fiscal year (July-January 2013) is below the targeted level. Slow growth of private sector credit (14.8 per cent), in the absence of public sector's 'crowd out' effect, indicates that there is a low level of demand for capital in the ongoing and new ventures. This is perhaps linked to weak business competitiveness emerged from the uncertainties caused by political unrest and economic adversities.

Private Sector Credit

A large part of private sector credit is disbursed to agriculture, off-farm, manufacturing and services-related activities including the small and medium enterprises (SMEs). Disbursement of working capital and term loan in the above mentioned sectors has registered a moderate level of growth during FY2012-13. In case of industrial term loan, high growth in disbursement of credit is related to significant rise in term loan in the large-scale enterprises. Term loan for small and medium industries could not maintain the high growth momentum observed during the last two years. On the other hand, the rate of repayment of industrial term loan has significantly dropped since FY2010-11 which caused a rise in overdue and even default loans. In this connection, about 30 per cent drop of SME credit in the state-owned commercial banks (SCBs) is partly because of their liquidity shortfall and high rate of default loans. Microcredit institutions, though maintained a double digit growth in credit disbursement this year, could not reach the higher level of previous years.

The structure of credit to the private sector appears to be changing over the years. The share of advances to major real sectors such as manufacturing, services and agriculture-related activities has been systemically decelerated while that of trade, construction, transport and other activities has increased. Advances to the agriculture sector have further concentrated on crop production followed by livestock and fisheries, but with reduced share of storage and marketing and others. Lower share of advances to the manufacturing sector has affected most of the related activities, except a few (including food and beverage and non-metallic products). Despite a small share of the services sector in overall advances, long-term financing particularly in hospital, information technology (IT), hotel and restaurant, and other services has maintained a stable trend. Credit for trade has concentrated on wholesale and partly retail and import financing.

Public Investment

Public investment in major ministries/divisions has registered a considerable rise during July-January FY2012-13. It is difficult to predict whether such pace of growth would sustain in the following months given the disruption of activities caused by the political unrest. Because of violence and political unrest, significant damages occurred in roads, power stations, railways and other services. Keeping these infrastructures intact has become one of the major challenges for the government.

Public sector projects, currently being implemented under the Ministries/Divisions of Power, Roads, Energy and Mineral Resources, and Industries have direct and immediate impact on facilitation and enhancement of private investment. However, the performance of a number of those projects during July-January FY2012-13 was mixed. Necessary allocations of fund for those projects as well as their timely implementation are critically important which should receive proper attention in the upcoming budget for FY2013-14.

2.4.3 FDI and Investment in the Capital Market

FDI inflow has showed an upturn in the current fiscal year (USD 950 million in July-February 2013 against USD 863 million in the corresponding period of FY2011-12) despite various uncertainties and challenges. If the current rate of growth continues in the remaining months of this year, FDI would cross the total inflow of last year (USD 1.1 billion). According to the Board of Investment (BoI), a number of constraints hinder more FDI flow in the country. These include poor infrastructure (lack of sufficient land, inadequate supply of gas and electricity), high taxes, port inefficiency and weak supply chain (Moazzem 2012). Given the scarcity of capital in the stock market, increasing portfolio investment could be a suitable source for raising funds. However, portfolio investment during July-February 2013 was 11 per cent lower compared to that in the same period of the previous year.

In the capital market, a total of seven companies have offloaded shares so far in the FY2012-13 to raise Tk. 340 crore for various kinds of manufacturing and services-related activities. This amount of investment in the primary market is almost half of what was at the same period of the previous year. However all initial public offerings (IPOs) in FY2012-13 received subscription request well over their initial offers.

2.4.4 Reasons for Slowdown of Investment

Investment slowdown in FY2012-13 is related to a number of economic and non-economic factors which include, among others, high rate for bank borrowing, moderately high rate of inflation, less private consumption due to deceleration in the growth of real income, appreciation of BDT against USD, and poor supply of energy and power in the industrial sector. Prolonged political unrest with destruction of capital goods, roads, rails, covered van and obstruction of movement of goods within and outside the country seriously damaged the supply chains which have detrimental impact on both domestic market and export market-oriented industries.

2.4.5 Proposals for the National Budget FY2013-14

Domestic Credit

- There is a scope for further rise in supply of domestic credit even beyond the MTBF target set forth for FY2013-14. Lower growth of credit due to weak demand will leave a huge amount of money unutilised in FY2012-13. As a result, the effective rate of growth for domestic sector credit for FY2013-14 would be as high as 25.5 per cent. Thus, the central bank should allow expansion of credit beyond the targeted level of growth of 17.2 per cent in FY2013-14 taking into account its inflationary impact and absorptive capacity of the economy.

- Disbursement of private sector credit to different economic activities should facilitate restructuring of the overall distribution of credit. More should be disbursed to agriculture sector particularly non-crop sectors, manufacturing particularly SMEs, and various kinds of services-related activities.

Public Sector

- In view of the slowdown in consumption demand and employment generation, investment in the public sector needs to be accelerated in the next fiscal year. Public investment, which has immediate impact on private investment and employment generation, should be facilitated. Thus the Asian Development Bank (ADB) projects currently under different phases of implementation under the Ministries/Divisions of Power, Roads, Energy and Mineral Resources, and Industries should be allocated funds as per their requirements.

- Implementation of a number of projects under the Ministry of Industries should be expedited given their importance for local and foreign investment. The government should allocate necessary funds for building special economic zones (SEZs) in selected areas, *garments palli* in Munshiganj, leather industrial park at Savar, IT park in Karwan Bazar and industrial park for light engineering sector.

- With a view to improve occupational health and safety in industries particularly in garment factories, revenue and ADP allocations for the Ministry of Labour should be significantly increased. This fund will be used for the development of the Directorate of Labour for factory inspection, and will be used for setting up regional inspection offices as per the Master Plan. Necessary allocation will be required for the improvement of monitoring operations of the factory inspectors which include improvement in logistic facilities and rise of their allowances.

Private Sector

- With a view to improve the competitiveness of small firms at domestic and international markets tax-free turnover limit should be increased from the current level of Tk. 24 lakh to Tk. 40 lakh. Considering the adverse business condition, truncated VAT system for SMEs should be continued in the next fiscal.

- The Public-Private Partnership (PPP) office has completed the Detailed Feasibility Study of seven out of 38 projects of which three are related to infrastructure development. To initiate the implementation of these projects, necessary allocation should be made available in the next budget particularly for *Dhaka-Ashulia Expressway* and *Two jetties at the Mongla Port*.

- Tax holiday facility should not be discontinued across the board without proper assessment of impact and implications, as these fiscal measures have 'strategic' importance for potential industries to enhance their competitiveness at domestic and international markets. In this connection, proposals placed by a number of industries for continuation of tax holiday should be taken into due consideration which include poultry, IT, light engineering, chemicals and pharmaceuticals, etc.

- In the previous budgets, in the guise of various investment-promoting measures, undisclosed income was allowed to be legalised. Considering the negligible success in mobilising additional resources in the past and the attendant moral hazard, the government should not provide any such special tax measure in any form in the budget of run-up to the national election.

- Potential domestic market-oriented industries which have strategic importance should get fiscal and budgetary support. Hence, duties (i.e. import duty, supplementary duty, advance income tax (AIT) and VAT) imposed on finished products and intermediate products in support of local industries should be continued in the next fiscal year. Similarly, exemption of VAT, currently provided to selected domestic market-oriented industries, should be extended after their expiration (e.g. motorcycle industry in June 2014).

- In order to retain export competitiveness under the weak global demand situation, the government should consider reviewing a number of support measures applicable for export-oriented industries. These include special allotment of gas connection to new projects and expansion of existing ones, subsidised credit (at a rate of less than 5 per cent) for building dormitories for workers, special allocation for workers' training, particularly for occupational health and safety issues, and extension of bond license for three years instead of two years. Similarly, 12 export-oriented industries which are currently enjoying cash incentives should continue receiving that facility in the next fiscal.

- In order to enhance industrial production, government should make special allotment of new gas and electricity connection for SMEs and gas-based industrial units.

- To promote long-term investment by institutional investors, government may announce preparation of a Code of Conduct for long-term investment.

- The ADB-funded project for capital market development should be implemented as per the project timeline. Activities include installation of advanced market monitoring software, setting up a separate tribunal, human resource development in the Securities and Exchange Commission (SEC), and finalising the Financial Reporting Act.

2.5 FINANCING OF PADMA BRIDGE PROJECT: IMPLICATIONS FOR ADP FY2013-14

With the demise of the prospect of restoration of the World Bank loan for the Padma Multipurpose Bridge Project (PMBP) on 29 June 2012, the government is largely left with two other costlier options to finance this single largest infrastructure project in Bangladesh: *first*, financing through commercial loans, and *second*, resorting to self-financing. However, one can also think of a mixed basket of finance including domestic resources and various types of financing from the external sources. Whatsoever, the government, till date, seems to have opted for self-financing by allocating substantial domestic funds in successive ADPs starting from FY2013-14.

The PMBP was brought into the purview of public finance through the revised ADP of FY2007-08. The total cost of the project was estimated to be Tk. 10,162 crore, with 68 per cent attributable to project aid. As the PMBP remained under negotiation with prospective external financiers, the allocations and expenditures in successive years were rather negligible. The allocations varied from as low as 0.16 per cent of the total ADP to 2.89 per cent in FY2010-11. In FY2011-12, the comparable allocation was only 1.5 per cent. These low figures are largely explained by the absence of operationalisation of the loan agreement with the development partners.

It may be observed from Table 2.5 that, although there has been allocation in the PMBP over the years, the expenditure pattern has been sluggish. By scrutinising the revised ADPs over the consecutive years, it can be observed that while 91 per cent of the allocated finance was utilised in FY2008-09, the proportion has come down in recent years – with 59 per cent of expenditure in FY2009-10, 30 per cent in FY2010-11 and 67 per cent in FY2011-12.

Having estimated the overall cost of PMBP at Tk. 10,162 crore in FY2007-08, this was revised upward in FY2011-12 to Tk. 20,507 crore, making the total cost almost double the original estimation. While foreign fund for the PMBP was yet to be released, an amount of Tk. 207 crore from foreign sources under ADP FY2011-12 was utilised. This foreign currency allocation, a loan provided by the World Bank, possibly underwrote the project preparatory cost.

The ADP for FY2013-14 is reportedly estimated to be Tk. 65,600 crore. With the cancellation of the World Bank loan and other related external financing, the Government of Bangladesh (GoB) has come to a

Table 2.5

Allocation and Expenditure on Padma Multipurpose Bridge Project: FY2008 RADP to FY2013 ADP

Year	ADP	Project Cost (Crore Tk.)			Allocation (Crore Tk.)			Expenditure (Crore Tk.)		
		Taka	Aid	Total	Taka	Aid	Total	Taka	Aid	Total
FY08	Revised ADP	3,281	6,881	10,162	36	0	36	0	0	0
FY09	Original ADP	3,281	6,881	10,162	65	0	65	287	0	287
	Revised ADP	3,281	6,881	10,162	317	0	317	287	0	287
FY10	Original ADP	3,281	6,881	10,162	700	0	700	200	0	200
	Revised ADP	3,281	6,881	10,162	338	0	338	200	0	200
FY11	Original ADP	3,281	6,881	10,162	300	908	1,208	316	0	316
	Revised ADP	3,281	6,881	10,162	318	720	1,038	316	0	316
FY12	Original ADP	4,258	16,250	20,507	480	1,707	2,187	202	207	409
	Revised ADP	4,258	16,250	20,507	162	453	615	202	207	409
FY13	Original ADP	4,258	16,250	20,507	572	232	804	9	34	43
	Revised ADP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Calculated from the Implementation Monitoring and Evaluation Division (IMED) data.

decision, with the intention of self-financing the project, to allocate Tk. 6,852 crore in the next ADP, i.e. 33.4 per cent of the PMBP cost. The comparable foreign component is a paltry sum of Tk. 60.8 crore (0.3 per cent of the project cost). It has also been reported that Tk. 7,800 crore, Tk. 5,000 crore and Tk. 300 crore, i.e. 38.04 per cent, 24.38 per cent and 1.46 per cent respectively of the project cost have been planned to be allocated over the next three years (FY2014-15, FY2015-16 and FY2016-17).

The PMBP will account for more than 10 per cent of the total outlay in the next year's ADP. Indeed, the project will absorb around 57 per cent of the total incremental allocations. In other words, the non-PMBP incremental allocation is only Tk. 4,600 crore.

Enhanced allocations of domestic resources in the ADP for FY2013-14 will have significant implications for the allocative priorities under the next three to four ADPs. As a large share of the additional ADP resources has to be allocated to the PMBP (more than 50 per cent annually), very little will be left for other priority sectors in the areas of physical and social infrastructure. Furthermore, one will need to assess a fuller macroeconomic implication encompassing exchange rate, inflation and other aspects of the economy as the government converts the domestic currency or takes loan from the foreign currency reserve.

This may create serious resource constraints for expanding capacities of essential public services in the face of growing demand. Under the circumstances, the government will be well advised to do the following two. *First*, the GoB should strengthen domestic resource mobilisation to finance the other underresourced essential public priorities. *Second*, GoB should explore possibilities for concessional or low-cost foreign financing to substitute the earmarked domestic resources and release those for other competing demands.

2.5.1 Foreign Financing

As mentioned earlier, funding from mixed sources could be a possible option at any point in the implementation of the PMBP. With diminished prospect of foreign aid, the government is considering the floatation of Sovereign Bonds for 5-10 years at the rate of 5.5 per cent to raise USD 1 billion. The proposal might seem quite challenging as the experience of neighbouring countries would demonstrate. The third international Sovereign Bond offered by Sri Lanka in 2011 had a yield rate of 6.25 per cent. Sri Lanka's rating is B+ by Standard & Poor's Rating Services and B1 by Moody's – both give a positive outlook and both are lower than the rating of Bangladesh. On the other hand, interest rates on Indian and Pakistani government bonds are 9 and 12 per cent respectively. It may be noted that India has higher rating and Pakistan has lower rating than Bangladesh.[3] Thus, it is reasonable to assume that this is not only the credit ratings which are taken into account by the international investors, but also other macroeconomic attributes. Having said this, even if the floatation of Sovereign Bonds is possible at 5.5 per cent, the reflections on the country would be fatally undermined in the case of undersubscription of the bonds, given the violent transition the country is going through at present.

However, two other commercial borrowing options are currently on the table. One is the Malaysian proposal, with regard to which a Memorandum of Understanding (MoU) was signed in 2012. An amount of USD 2.3 billion is proposed as credit in the Malaysian proposal. With the payment period being 26 years, the payable amount against this credit will be equivalent to USD 5.2 billion. The other is the Chinese proposal, which offered USD 1.95 billion worth of loan with 20 years payback period and no interest obligation. As credible details are not available about these loan offers, one is constrained to make any comment, although on the face of it the Chinese offer seems more preferable.

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[3]The rating of Bangladesh, according to the Standard and Poor's Rating Services, is BB-
The rating of India, according to the Standard and Poor's Rating Services, is BBB-
The rating of Pakistan, according to the Standard and Poor's Rating Services, is B-

However, to the government's great relief, it was able to open its forex account for the PMBP with the USD 200 million grant offered by India.

The government indicates that it will float the request for proposal for the construction of main structure of the PMBP by June 2013. This request will be sent to the earlier short-listed contractors – although it is not clear whether they are still interested or not to undertake the task. Whatsoever, it is apprehended that reputed firms may not feel interested until a credible financing package has been put together.

2.6 CURRENT STATE OF POWER AND ENERGY SECTOR OF BANGLADESH

Power and energy sector has been under pressure for long to meet the growing demand for electricity and gas to undertake economic activities. During the last four years, both public and private sectors have made significant investment, but have been unable to increase the access to energy to significant level. In this context, a number of concerns arise in this sector regarding the quality of investment, timely completion of different projects and efficiency of the management of concerned authorities.

2.6.1 State of Supply of Electricity in FY2012-13

The power sector has witnessed a substantial investment over the last four years which improved the state of electricity supply in the country (from 3,267 mega watts (MW) in 2009 to 6,080 MW in 2012), but that was much less than the targeted level.[4] Actual generation (6,261 MW) is way below the total installed capacity (8,988 MW) resulting in a gap of about 2,600 MW.[5] Currently, power is generating through three different sources, namely the Bangladesh Power Development Board (BPDB), independent power producers (IPPs) and quick rental power plants (QRPPs). About half of the total share is generated by BPDB power plants and the rest half is generated by IPPs and rental power plants. Since the cost of power generation and the selling price are different among various sources (highest for QRPPs and lowest for BPDB), the use of particular source of electricity has an implication for government expenditure. In this context, there has been a negligible change in the sourcing pattern in the current fiscal year although the government has earlier announced to reduce the share of QRPPs in the overall supply of electricity. Despite effort to diversify the fuel use pattern (from gas to non-gas fuel) little change has occurred over the years, except a few in case of use of heavy fuel oil (HFO), furnace oil and coal-based power plants.[6]

With the expansion of operation during the last four years, management in the power sector has become complex and maintaining its efficiency is a challenging task. One of the major concerns is the failure to ensure timely implementation of new power plants under IPPs which affect the overall supply of electricity. As a result, existing sources, particularly high-cost QRPPs have been used more for additional supply of electricity. As per the contract, various punitive actions (e.g. monetary punishment as per the contract) against the IPPs/QRPPs for their failure to timely implementation of projects were not properly enforced.[7] Poor implementation of a number of IPPs is found to be associated with lack of capital, inexperience in business and inadequate supply of gas. A large number of households and industrial and commercial units have been waiting for long to get the electricity connection. This has happened initially due to lack of electricity supply and later High Court's stay order against providing new connections which has been withdrawn recently.

[4]At present a total of 98 power plants are in operation with a generation capacity of 8,988 MW which was 20 per cent higher compared to the corresponding period of the previous year (16 April 2012).
[5]Recently, this gap was reduced because of higher rate of growth of electricity supply (about 40 per cent between 16 April 2012 and 16 April 2013).
[6]Power generation is overly dependent on gas (more than 75 per cent).
[7]Under such circumstance, reduction of the burden of QRPPs is getting difficult. In contrast, some QRPPs despite all their limitations (short-lived, high operational cost and old machineries) have approached the BPDB to convert their plants as IPPs.

2.6.2 State of Supply of Gas in FY2012-13

The gas sector of the country is in crisis because of rising gap between supply and demand of gas for different economic activities. During FY2012-13 (till December 2012) total supply of gas was 11,345 million cubic metres (mmcm) which was 10.8 per cent higher compared to that in the previous year.[8] At present, 45 per cent of gas is supplied by Petrobangla and the rest by the international oil companies (IOCs).[9] In fact, the overall gas supply is dependent on two major sources – Bangladesh Gas Fields Company Limited (BGFCL) (35 per cent) and Chevron of IOCs (49 per cent) – accounting for 84 per cent of the total supply which indicates high concentration in the sources of supply. As part of exploring gas in offshore blocks, recently held tenders for bidding in five blocks were not so successful – three blocks did not get any bidder. The initiative for setting up a liquefied natural gas (LNG) terminal for imported LNG (about 4 million tonnes) has not advanced much due to the failure in getting a qualified contractor. It is evident that alternate options are not so promising at present.

The distribution of gas in different economic activities is directed by the government. As a result, a significant part of gas is supplied to power plants (about 55 per cent of total supply) with a view to meet the priority demand in the power sector. The supply of gas to other economic activities has to be adjusted accordingly. For example, the supply of gas to fertiliser plants has significantly declined, and at present all four fertiliser units have been shut down in order to divert their gas supply to power plants.

2.6.3 Pricing of Energy

Tariffs of electricity, gas and petroleum products have been revised several times under the tenure of the present government – petroleum products by five times and electricity by seven times. Adjustment of tariffs has been undertaken in order to reduce the pressure of huge subsidy provided for generating diesel-based power generation which is as high as 51 per cent of total subsidy. On the other hand, rising tariffs have adverse impact on firm and household incomes. According to CPD (2013), an increase in petroleum price by 7.8 per cent is likely to reduce households' income by 0.3 to 0.6 per cent, households' consumption by 0.6 to 0.9 per cent, and firm's income by 0.7 per cent.[10] Hence, increasing supply of electricity at higher generation cost has to be traded-off with higher tariffs resulting in burden on households' income and consumption. Pricing of energy is also tied with the IMF-ECF conditionalities (see Section 2.2.4).

2.6.4 Budget Proposals

- It is expected that the government will immediately allocate necessary funds for repairing, refurbishment and other works to restart the power stations which were damaged due to political violence in last few months. If necessary the government should make necessary allocation of fund in the next fiscal to undertake those urgent works.

- The government should stick to its Master Plan by putting more emphasis on timely implementation of BPDB and IPP projects (22 projects will be completed in FY2013-14: 10 BPDB and 12 IPPs) with a view to reduce the share of power supply from QRPPs which will reduce financial burden as well.[11]

[8]The supply situation would deteriorate further when gas supply from Sangu offshore plant (share 0.11 per cent of total supply) would be stopped due to lack of sufficient extractable reserve. Supply from Sangu plant has dropped by 33.6 per cent within a week in April 2013 and is apprehended to be shut down shortly. This will adversely affect the supply of gas particularly in the Chittagong region.

[9]Growing dependence on IOCs has reduced the share of Petrobangla in the overall supply of gas (from 55 per cent in 2008 to 45 per cent in December 2012).

[10]However, rising fuel prices has contributed to government's savings (by 0.2 per cent to 0.3 per cent of GDP).

[11]The government has extended the contract period for seven QRPPs by a year.

Similarly, non-gas based power plants such as dual-fuel power plants and combined cycle power plants have to be implemented timely on a priority basis.

- The administration of the Ministry of Power, Energy and Mineral Resources and BPDB should be strengthened in order to ensure timely implementation of projects, collection of charges/fines, and putting pressure on IPPs/QRPPs for supply of electricity as per the contract.

- Considering the adverse consequences on income of households and firms due to rising petroleum prices as well as the stable condition in the global petroleum prices in recent months, the government should try to avoid upward revision of tariffs of petroleum products in the next fiscal.

- The government should put the highest effort to develop the gas sector according to the gas sector Master Plan. In this context, offshore blocks which are yet to get successful bidders or which are yet to advertise for public tender, should be immediately placed for bidding and expedite the process further. Petrobangla should put high importance on the implementation of fast-track gas field development projects with effective strategy and proper management.

- Like the Electricity Development and Maintenance Fund, the government may set up a separate fund titled Energy Development Fund for the development of the gas sector by using a portion of revenue earned from the sales of petroleum products. This fund can be utilised in enhancing refining capacity, facilitating transportation and supporting the emergency imports.

- As part of promoting alternate sources of energy, special incentives could be provided for setting up solar-based power plants at the household level.

- The government should reconsider its decision to temporarily suspend the operations of four fertiliser factories in order to divert the gas supply from those factories to the power plants, particularly in view of the fact that at least one factory (e.g. Ashuganj fertiliser factory) has been operating profitably.

2.7 SUPPORT TO RURAL ECONOMY

In order to improve the socio-economic and livelihood conditions of the rural poor, national budget makes financial allocations and proposes several mid-term budgetary and short-term stop-gap measures to minimise the gap between rural-urban economy. Sectoral and ministry-wise allocations are made in the form of support for social safety net programmes (SSNPs), input subsidy and price support programmes.

In FY2012-13, both SSNP and the agriculture sector received lower allocation. Allocation for SSNPs was Tk. 22,751 crore, which was 11.87 per cent of the total budget and 2.18 per cent of total GDP in FY2012-13. This allocation was lower than what was received in FY2011-12 (13.79 per cent of total budget and 2.51 per cent of GDP).[12] In addition, an amount of Tk. 14,457 crore was allocated in FY2012-13 for agriculture and allied sectors in the non-development and development budget, which was only 0.77 per cent higher than the Revised Budget of FY2011-12. The budget also allocated Tk. 6,000 crore as agricultural subsidy which was 7.7 per cent less than the allocation in the revised budget for FY2011-12. The implementation status of SSNPs during the current fiscal year could not be discussed here due to unavailability of data. However, official resource management and effective implementation of SSNPs are issues which need continuous attention of policymakers. In this regard re-nationalisation of SSNP rules and regulations would reduce the overlapping of programmes and waste of resources. There is also a need for a Social Protection Policy for ensuring support to a larger section of needy people.

[12] 13 new programmes have been added to the ongoing SSNPs for FY2012-13, while six previous SSNPs will be discontinued. 43 ongoing programmes will receive lower allocations compared to FY2011-12. For details, see CPD (2012).

While the progress of SSNPs in the FY2012-13 is yet to be known, information on the performance of the agriculture sector are unavailable. In FY2012-13, the Department of Agricultural Extension (DAE) has set Aus, Aman, Boro and wheat production targets at 2.37 million metric tonnes (MMT), 13.3 MMT, 19.03 MMT and 1.03 MMT respectively. Bangladesh Bureau of Statistics (BBS) has finalised the estimates of Aus production at 2.16 MMT which is 7 per cent lower compared to the production of last year. The government has also set a target to procure 1.6 MMT foodgrains during the current fiscal year. About 0.7 MMT rice was procured during the last Boro harvesting season in FY2012-13. Moreover, during the same period, 0.26 MMT of wheat was procured against the target of 0.3 MMT. In FY2012-13, the government has a plan to distribute 2.77 MMT foodgrains. As of March 2013, a total of 1.35 MMT has been distributed through the Public Food Distribution System (PFDS). During this period, 0.1 MMT was distributed, mainly through Test Relief (TR), Food for Work (FFW) and Open Market Sales (OMS).[13] At the same time, the public foodgrain stock stood at 1.15 MMT which is lower than the stock of the previous year (1.36 MMT in March 2012). In case of prices of foodgrain, it is observed that price is higher in March 2013 compared to the previous year. Proposals for the budget of FY2013-14 in the area of rural economy should be based on the above context.

2.7.1 Social Safety Net

- Consolidation of SSNPs is needed in terms of programme allocation and selection of target areas and groups. There should be coordination among concerned ministries for proper implementation of programmes. In this regard, resources should be allocated for a central online database to manage the overall integrity of ongoing, continued and new SSNPs.

- Geographic distribution of SSNP coverage areas is highly concentrated in the western regions of the country. Priority should be given to the more vulnerable areas and extreme poor, based on the report of the Household Income and Expenditure Survey (HIES) 2010. Special safety net allocation should also be made for the poor and marginalised *char* dwellers.

- In order to achieve a resource allocation for SSNPs to the tune of 3 per cent of GDP by 2015, as stipulated in the SFYP, higher allocations will be necessary in the next fiscal year. The required annual average growth in safety net allocations for the next two years (FY2013-14 and FY2014-15) will be around 32.47 per cent. Based on this estimate, a safety net budget of around Tk. 30,200 crore will be needed in the budget for FY2013-14.

2.7.2 Agriculture and Food Safety

- Input subsidy and price support programmes for farmers/growers should be continued in order to maintain the growth momentum of the agriculture sector. Given that such measures put pressure on government's fiscal expenses, the government should improve the allocation efficiency through close monitoring of the distribution mechanism.

- Improved marketing structure and practices are essential to ensure fair market prices at the consumer level and help farmers/growers in getting a minimum profit for their agricultural products. Hence, more funds should be allocated for the Department of Agricultural Marketing (DAM) to provide improved marketing services and ensure fair market practices. An Agriculture Price Commission should be set up which will monitor prices and set a floor price for agricultural commodities.

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[13] For details, http://www.nfpcsp.org/agridrupal/sites/default/files/fortoutlook120.pdf

- The GoB has planned to initiate crop insurance for farmers on a pilot basis in a number of upazilas to protect farmers from climatic shocks. This initiative should be broadened for other sub-sectors such as poultry, livestock and fisheries in FY2013-14.

- Construction of public and private cold storages for potato and potato seeds in the bumper producing areas should be given priority. Uninterrupted power supply should also be ensured in those areas. Moreover, fund should be allocated for providing training and technical assistance to farmers/growers on usage of alternative storage systems. Policy support should be given for the establishment of export-oriented potato-based industries, such as potato flex, chips, etc.

- More funds should be allocated for agricultural research towards improving flood and drought-tolerant varieties to increase the agricultural outputs, especially in the southern and northern districts.

- The National Agricultural Policy should be finalised with guidance on foreign investment in capital-intensive agro-based industries.

- In view of recent bird flu attack, exemption of 5 per cent income tax and extension of existing tax holiday facility for poultry and fisheries owners should be continued to achieve self-sufficiency of these sectors.

- Funds should be allocated for establishing Food Safety Authority/Commission to develop required food safety regulations and harmonise domestic practices with international standards.

2.8 GLOBAL ENVIRONMENT: IMPLICATIONS FOR BANGLADESH'S EXPORT

The world economy is still struggling to recover from the multiple crises despite the economic upturn visible in early 2013. The World Bank (2013) has estimated a lower growth rate for the global economy, at 2.4 per cent for 2013 and 3.1 per cent in 2014. The World Trade Organization (WTO) also downgraded trade forecast to 2.5 per cent from 3.7 per cent for 2012 and from 5.6 per cent to 4.5 per cent for 2013 (WTO 2012). Whilst the United States (US) economy is set to continue its recovery to grow at 2 per cent in 2013 and 3 per cent in 2014, the European Union (EU) zone is projected to post negative growth of 0.2 per cent in 2013. Since USA and EU remain two most important markets for Bangladesh, export demand for Bangladeshi goods is likely to be impacted by these projections with their consequent impact on import demands. Better growth projection for emerging countries for 2013, however, transmits good signal for Bangladesh.

After the initial slowdown, Bangladesh's export has picked up in recent months – export growth stood at 10.16 per cent during July-March; however, this was well below the 15.3 per cent growth target envisaged for FY2012-13. Whilst apparels exports have been showing robust growth, except leather and footwear, all other major items have seen negative growth in the first nine months of FY2012-13. In the US market export growth has been 5.3 per cent over the first nine months, whilst in the EU the growth was 7.9 per cent. The slow economic recovery in the developed countries is likely to have negative implications for Bangladesh's exports performance. It is interesting to note that Bangladesh's export growth in other markets (i.e. barring the USA and the EU) was a robust 18.57 per cent over the corresponding period of FY2012-13 mainly through South-South trade. In view of the growth projection for 2013 and 2014 in the USA and the EU, Bangladesh's major export markets, and the emerging opportunities of South-South trade, appropriate fiscal-budgetary measures will be needed in the budget for FY2013-14 to maintain robust export performance in the next fiscal year.

2.8.1 Proposed Budgetary Measures

- The three year Export Policy (July 2012 – June 2015) approved by the government has expanded thrust sectors to 10. The budget should have additional allocations in support of the new thrust sectors (e.g. tourism, furniture and plastic products, etc.).

- The three year Export Policy plans to set up a national databank containing detailed information on import, export, tariffs, etc. Adequate allocations should be made in the budget for setting up this data bank.

- Bangladesh's preferential market access under the Generalized System of Preferences (GSP) scheme has come under question in USA, also in EU and Canada, because of non-compliance with labour rights, lack of conducive work environment and weaknesses in ensuring workers' safety at work place. In view of this, there is a need to allocate adequate resources to oversight institutions, particularly the Labour Directorate, towards endowing it with the required human resources and raising its operational capacity. The incentive structure for the export-oriented enterprises may also be tuned to the compliance enforcement status of the particular enterprise.

- The 5 per cent cash incentive for the backward linkage industries in the textile sector should continue in FY2013-14.

- The government should take an initiative to set up a Technological Upgradation Fund for modernising the export industry. Such a fund, set up in India some years back, has been playing an important role in helping firms modernise, move up the value chain and raise productivity.

- SME apparel exporters are now given special incentives if they export to non-traditional markets. As per the earlier plan, this was supposed to continue in FY2013-14 at 2 per cent of free-on-board (f.o.b.) value. Allocations should be kept towards this in the budget.

- The government has taken the policy to create Export Development Fund to expand the export basket of Bangladesh. The fund should be endowed with adequate allocation in the upcoming budget.

- There is a need to realise the increasing opportunities of South-South trade for Bangladesh. In recent years the share of South-South trade in Bangladesh's total trade has seen some rise, but more comprehensive efforts are needed. It is proposed that a South-South Market Development Fund should be set up which will be dedicated to undertaking comprehensive plans to promote South-South trade; the fund may jointly be managed with private sector exporters. This fund can also be deployed to realise the potential opportunities emanating from the recent duty-free quota-free (DF-QF) market offer by India. This could also be merged with the proposed Export Development Fund.

- There is an urgent need to set up Bangladesh Standards and Testing Institution (BSTI) offices and laboratories at land ports, especially at Benapole, Hilli and Banglabandha Ports. Allocation of necessary funds for infrastructure, laboratory equipments and manpower are required towards these trade facilitation measures. This will also help implementation of the *Mutual Recognition Agreements* with India (and perhaps with Myanmar as well).

- Establishment of the Active Pharmaceutical Ingredient (API) Park has been inordinately delayed. Budget should make necessary allocation of funds towards implementation of this needed initiative.

- Given the growing importance of the information and communication technology (ICT) sector as an export-oriented sector and its identification as a Most Prioritized Sector in the Export Policy 2012-

2015, the sector needs to be accorded special attention under the Equity Entrepreneurship Fund (EEF). In this connection, completion of the Hi-Tech Park at Kaliakair, well behind schedule, should be given priority.

- Cash incentives, ranging from 2 to 20 per cent, are provided to selected potential sectors including textile, frozen fish, agricultural products, ship-building and light engineering. Some emerging sectors such as ICT-related export sectors may also be included in this scheme given its potential.

- In pursuance of the new Export Policy, a fund should be allocated to rejuvenate the traditional industries such as handloom industries. Since the new Export Policy has clustered these sectors as Special Developmental Sector, adequate budgetary allocation is needed for their support. It may be noted that, the Indian government has recently initiated the *Scheme of Fund for Regeneration of Traditional Industries* (SFURTI) under which 100 traditional industry clusters (of *khadi*, village industry and coir) would be taken up for comprehensive development over five years.

- The government, with a view to reducing the costs associated with overseas migration of workers, is currently in the process of signing government-to-government (G2G) contracts with a number of countries including Malaysia and Bahrain. To deal with this work appropriately, the Bureau of Manpower, Employment and Training (BMET) will need to be significantly strengthened. Adequate provision should be made towards this in the budget.

2.9 IMPLEMENTATION CHALLENGES OF THE UPCOMING BUDGET

The upcoming budget for FY2013-14 will be particularly constrained by the implementation challenges. Some of these challenges are structural in nature and may aggravate further over time. The erosion of the institutional capacity of the development administration is a case in point. At the same time, some of the challenges reflect contextual realities of the current time. For example, given that the duration of the budget is largely overlapping with electoral transition, a successor government would implement the fiscal programme designed by its predecessor.

In view of the above, one may group various implementation challenges of the budget for FY2013-14 under the following three broad heads.

a. Fiscal challenges
b. External challenges
c. Governance challenges

All these three risks will be underpinned by the unfolding political hostilities afflicting the country.

2.9.1 Fiscal Challenges

The fiscal challenges include risks relating to both revenue and expenditure sides.

a) *Resource Risk*. If a gap emerges between the projected revenue envelope and the actual expenditure, it may constitute a resource risk for the country. Such a risk would become real, if revenue intake decelerates and foreign aid disbursement slows down. This year the revenue collection has already been below target, while the foreign inflow improved reasonably (see Section 2.2). However, the resource risk will not be significant if the budgetary targets are not overambitious.

b) *Expenditure Risk*. There may be risks on the expenditure side if the revenue and ADP expenditures are too much frontloaded. This may happen, if the outgoing government resorts to profligacy during the early part of the next fiscal year in the wake of national elections. Such a trend will also entail deterioration of expenditure effectiveness.

2.9.2 External Challenges

A significant part of Bangladesh economy is integrated with the global economy. Thus, implementation success of the national budget also depends on the conduct of the external factors, such as foreign aid, FDI, exports, commodity prices and remittances.

Export remains conditional to global recovery, particularly that of the Eurozone. The recent slowdown in imports has resulted in low intake of import duties. FDI had also been slowing down in the recent months. While keeping up the improved official development assistance (ODA) will be important, continued robust remittance flow will also be critical.

2.9.3 Governance Challenges

While the impact of weak economic governance on budget implementation is an enduring issue, current tensions in the political arena could further aggravate the economic and development management. Indeed, in Bangladesh, governance challenges accentuate as the country approaches the national election. It has been historically observed that when the national elections approach, development administration enters into a state of paralysis as officials opt for fence sitting.

Furthermore, ongoing violent political agitations are adversely affecting the economic environment including the investment trend. CPD, in one of its recent research papers, has spelt out the negative implications of the ongoing political agitation. If such hostilities continue for a longer duration, if not intensify even further, they are seriously going to jeopardise the successful implementation of the upcoming budget.

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