ANNEX 1

Dialogue Report on
Analysis of the National Budget for FY2013-14

This report was earlier published as CPD Dialogue Report 109. The report is prepared by *Mr Muhammad Zahir Hassan Nabil*, Dialogue Associate of the Centre for Policy Dialogue (CPD).

THE DIALOGUE

The Centre for Policy Dialogue (CPD) organised the dialogue on *Analysis of the National Budget for FY2013-14* with a view to presenting its assessment of the fiscal-budgetary proposals and creating an opportunity for giving voice to the stakeholders to share their reflections on the proposed National Budget for FY2013-14. The dialogue was held as part of CPD's flagship programme titled Independent Review of Bangladesh's Development (IRBD).

As is known, the Budget was announced on 6 June 2013. The CPD IRBD Team prepared an analysis of the budget proposals by highlighting nine issues which the Team thought would be critical to fiscal-budgetary management in FY2013-14 in the backdrop of post-budget discussion. The dialogue was held at the Lakeshore Hotel, Dhaka on 15 June 2013.

Professor Rehman Sobhan, Chairman of the CPD moderated the discussion as the Chair, while on behalf of the Team, *Dr Fahmida Khatun*, Research Director, CPD made the keynote presentation titled *Reflections on Nine Issues from the Post-Budget Debate* at the dialogue.

Two distinguished panellists, *Mr Kazi Akram Uddin Ahmed*, President of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and *Dr Salehuddin Ahmed*, former Governor of Bangladesh Bank offered their comments on the CPD presentation, which was followed by the floor discussion. Following the presentation and open floor discussion, two other distinguished panellists, *Dr Osman Farruk*, former Education Minister of Bangladesh, also Member of the Advisory Council of the Chairperson, Bangladesh Nationalist Party (BNP) and *Mr A H M Mustafa Kamal, MP*, Chairman of the Parliamentary Standing Committee on Ministry of Finance shared their views on some key points raised by the keynote speaker and the participants.

A cross section of stakeholders including Members of Parliament (MPs), senior government officials, policymakers and economists, representatives from the civil society, business and trade arena, academia, political parties and development agencies attended the dialogue and provided their valuable comments on the proposed budget (a complete list of participants is attached at the end of this Annex).

WELCOME SPEECH BY THE CPD EXECUTIVE DIRECTOR

On behalf of the CPD, *Professor Mustafizur Rahman* welcomed the guests at the dialogue, recalling CPD's tradition to annually present its reviews on the national budget to the civil society. He hoped that a thorough discussion on various aspects of the budgetary proposals would take place at the session; he further hoped that the messages from the dialogue would be carried forward to the wider audience via media and be taken note of by the policymakers. He reiterated that the CPD dialogue's purpose was to get citizens' views adequately reflected in the discussion when the proposed budget would be placed at the National Parliament for its final approval. Having said these, *Professor Rahman* handed over the proceedings to the Chair.

INTRODUCTORY REMARKS BY THE CHAIR

Welcoming the distinguished panellists and the guests, *Professor Rehman Sobhan* briefly dwelt on how CPD had been preparing an analysis on the national budget every year for the last eighteen years, each one followed by a dedicated dialogue, attended by a broad constituency of stakeholders and experts. He said that the CPD budget analyses and dialogues have contributed to raising the level of significant changes to the analytical discourse in Bangladesh on the state of the economy and fiscal-budgetary issues. Earlier, the reviews of the state of the economy were dominated by reports prepared by international organisations, particularly the World Bank Annual Reports. At CPD's initiative, talented professionals of the country were assembled to undertake an independent review of the economy with a high degree of professionalism. The Chair noted that over time the CPD was able to acquire enough in-house capacity to produce the IRBDs on its own.

Before briefly highlighting the profiles of the four distinguished panellists at the dialogue, *Professor Sobhan* expressed deep gratitude to all the Finance Ministers from 1995 onwards – late *Mr Saifur Rahman*, late *Mr S M Kibria* and *Mr A M A Muhith* – who had taken part in the CPD budget dialogue programmes organised at various points in time in the past.

Professor Sobhan restated that the dialogue's objective was to catalyse a collective of the society to engage in professional discussions on some key concrete issues pertaining to the daily life of the people of Bangladesh. He expected that parliamentarians would become cognisant of the ideas stemming from the discussion and would draw appropriate conclusions. He hoped that insights from the analyses and the discussion at the dialogue will be reflected in the parliamentary debates on the budget in which they will participate.

Emphasising the need to continue the tradition of post-budget dialogues in future, *Professor Sobhan* observed that "parliamentarians are the elected representatives of the voters, who are the masters of the parliamentarians they elect and they ought to listen to the voice of the citizens." He particularly underscored that in a functioning democratic society, the policymakers and public servants are held accountable to the citizens, both in the parliament and in other forums. The civil society's role would be to facilitate the accountability process through constructive dialogues. This will contribute to the democratic process and provide a public service to the country, noted the Professor.

The Chair then invited *Dr Fahmida Khatun* to present the keynote.

THE KEYNOTE PRESENTATION

Dr Fahmida Khatun, Research Director, CPD joined the Chair and the Executive Director in welcoming the distinguished audience and cordially thanked the CPD IRBD Team for their collaborative efforts in preparing the analyses. As regards the keynote, she mentioned for the benefit of the audience that nine important issues were identified for a focused discussion on the Budget for FY2013-14.

Reflections on the Nine Issues from the Post-Budget Debate

Dr Khatun started her presentation by emphasising the context in which this budget was prepared. Posited as research questions, the nine issues she addressed were: implication of faltering private investment on economic growth; credibility of revenue mobilisation target; implication of ambitious foreign financing of fiscal deficit target on bank borrowing; allocative priorities in the budget including the Annual Development Programme (ADP); implications of fiscal measures towards establishing social equity and enhancing domestic industrialisation; debates surrounding the subsidy issue; marginalisation of social sectors in terms of allocative priority; role of (pilot) district budget in enhancing quality of local government financing; and the challenges of budget implementation in the context of the prevailing political situation.

Backdrop

Dr Khatun remarked that it would be the incumbent government's last opportunity to make progress towards fulfilling their pledges in the run-up to the forthcoming national election. She also noted that the Budget for FY2013-14 will be implemented by three regimes. She stated that the budget was prepared in the backdrop of a number of encouraging, and also challenging developments. The encouraging trends included enhanced public investment, moderated inflation, significant surplus in the balance of payments (BOP) and stable inflow of remittance. On the other hand, the challenging trends include slippage in the gross domestic product (GDP) growth rate, falling private investment, significant shortfall in revenue mobilisation, reliance on bank borrowing for financing fiscal deficit and lower domestic demand.

Dr Khatun observed that the overall economy had moved towards a lower-level equilibrium, though the stability had been somewhat maintained, the objective of enhancing economic growth had been compromised. In this context, the Budget for FY2013-14 should target fiscal consolidation backed by high growth of revenue. It was important to arrest the downturn in private investment, control the inflation further, and revitalise the economic growth momentum.

Issue One: Is Fall in Private Investment Holding Back Economic Growth?

Dr Khatun highlighted the falling trend in private investment and import growth. She also highlighted the moderated inflation rate in the face of decelerated aggregate demand. Given this backdrop, she questioned whether the government's overall GDP growth projection was pragmatic. She observed that despite the positive trend in public investment, the total investment (private and public) in FY2012-13 had a shortfall of 2.7 percentage points as share of the GDP compared to the target. It was due to significantly lower private investment against the target of 22.7 per cent in FY2012-13. As of March 2013 data, the shortfall in investment was also reflected in the decelerated growth of private credit which stood at 12.7 per cent in contrast to 18.5 per cent projected for FY2012-13. Target for FY2013-14 has been set at 16 per cent, which was well above the current trends in credit flow.

In this backdrop, she noted that the target for GDP growth in FY2013-14 has been set at 7.2 per cent. *Dr Khatun* recalled that the targeted GDP growth, according to the Sixth Five Year Plan (SFYP), was 7.6 per cent. In order to cover the gap between the current and the SFYP targets, the GDP growth would have to be 9.6 per cent in FY2013-14. She also pointed to the government's proposed medium term outlook which presented a very optimistic scenario for GDP growth in line with the SFYP – according to these projections GDP is expected to grow by 8.0 per cent in 2015, and by 9.1 per cent in 2018. *Dr Khatun* remarked that given the prevailing investment scenario, the basis for such optimistic medium term outlook was not clear. Observing the implications of lower target for FY2013-14, she concluded by saying that it would impede Bangladesh's target of becoming a lower-middle income country by 2021 making the process lengthy.

Issue Two: How Credible are the Revenue Targets?

While underpinning the main features of the proposed fiscal framework, *Dr Khatun* observed that revenue would have to grow faster than the projected public expenditure growth of 17.5 per cent. According to the FY2013-14 Budget, growth of revenue target was 19.9 per cent. The envisaged development expenditure growth at 25.1 per cent was more than non-development revenue expenditure at 10.1 per cent, which, she mentioned, was a good sign. She also felt that the programmed ADP expenditure could be 26 per cent higher than actual implementation of FY2012-13.

The budget deficit was projected to be 4.6 per cent of GDP, lower than the target for the Revised Budget of FY2012-13. This deficit was proposed to be financed by higher foreign financing. The budget, thus, anticipated the total volume of the required foreign aid flow to be USD 3.8 billion. This would result in decreasing the government's net borrowing by 8.8 per cent and increasing borrowing from the non-banking sector by 2.5 times. *Dr Khatun* termed the overall fiscal framework as "full of overambitious targets", particularly in the backdrop of the revenue mobilisation effort during FY2012-13.

Dr Khatun laid out the revenue mobilisation scenario which revealed that the revenue collection will need to increase by about Tk. 24,800 crore to attain the budgetary target. This requires a growth of 21.2 per cent. This enhanced collection would rely mostly on the National Board of Revenue (NBR). The NBR was supposed to provide 83.7 per cent of the incremental revenue. In addition to this, 33.3 per cent of the incremental revenue was expected from value added tax (VAT), while 45.7 per cent would come from income tax. *Dr Khatun* pointed that the revenue targets showed in the Revised Budget for FY2012-13 have remained unchanged. According to CPD analysis, this target was 'unattainable'. If achieved, the attained growth would be the highest in the recorded history of Bangladesh, said *Dr Khatun*. She also pointed out that despite the 10 per cent import growth projection in the Medium Term Macroeconomic Framework (MTMF), in FY2013-14 growth in the import duty had been set at a lower target in view of only 0.9 per cent collection growth in 2013. The non-NBR revenue growth also remained at a subdued level.

Regarding the defining factors for public finance framework, *Dr Khatun* said that assuming a realistic NBR growth at 15 per cent in FY2012-13, the required growth for FY2013-14 would have to be increased up to 24.9 per cent, which basically would be higher than the trend growth rate. However, given the scenarios of the previous years, it appeared that a higher growth was attained in two unusual years in the last few decades – 27.4 per cent during the caretaker government's tenure in 2008, and 28 per cent in 2011, when the international prices were very high.

According to CPD projection, overall revenue collection for FY2013-14 may fall by an amount between Tk. 10,000 crore and Tk. 13,000 crore. Regarding the FY2013-14 revenue outlook, she noted that the projection for revenue mobilisation was the 'weakest link' in the budgetary framework.

Issue Three: Is the Overstated Foreign Financing of Fiscal Deficit Obscuring Higher Bank Borrowing?

Dr Khatun shed light on the possible difficulties in achieving the high foreign financing target in FY2013-14. The share of foreign financing in FY2013-14 was projected to be 38 per cent of the total deficit budget. But the flow of foreign aid during the July-April 2013 was only about USD 2 billion as against the requirement of USD 3.2 billion of foreign aid in FY2012-13. Considering this trend, the target of USD 3.8 billion as foreign aid for FY2013-14 would be rather difficult to achieve, she felt.

As regards domestic financing in FY2013-14, *Dr Khatun* cited that in the Revised Budget for FY2012-13, the share of domestic financing was 65.4 per cent of total financing. Although the Revised Budget for FY2012-13 showed the share of bank borrowing to be more than 57 per cent, and it is expected to decline to 47.2 per cent in FY2013-14. *Dr Khatun* termed this as "a departure from the reality."

Issue Four: How Appropriate are the Revealed Allocative Priorities in Overall Budget and ADP?

Dr Khatun presented the sector-wise allocation in the Budget for FY2013-14, showing that most of the sectors received reduced allocation in terms of share in the total budget. Public services sector however stood out, receiving the highest allocative priority with additional Tk. 19,297 crore over the Revised Budget of FY2012-13. She particularly mentioned about higher allocation in the transport and communication sector, and felt that it was quite justified. However, the increase in interest payments was worrisome.

Dr Khatun observed that there was no detailed disaggregated figure showing how the additional amount allocated for the public services would be spent. Exposing the issue further, she said that out of the allocation for this sector, Tk. 15,000 crore had been kept for investment in shares and equities, of which Tk. 5,000 crore was possibly kept for recapitalisation of the state-owned banks, and rest for the capital market.

Drawing attention to the revenue expenditure scenario, *Dr Khatun* pointed out that the allocation for interest payments, particularly for domestic resources was pretty high. She also explained why the accountability and transparency of block allocation had come into question. The block allocation for FY2013-14 was Tk. 1,887 crore, but the actual utilisation of the block allocation in FY2012-13 was only Tk. 423 crore against an allocation of Tk. 1,594 crore. Since expenditure of this significant amount kept under block allocation would be at absolute discretion of the respective minister, questions would arise as regards the transparency of spending public money, she remarked.

In analysing the ADP, *Dr Khatun* observed that the proposed expanded size of the ADP budget stood at 5.5 per cent of GDP or 25.8 per cent higher than the Revised ADP (RADP) for FY2012-13. According to CPD estimates, it would be more than 39 per cent higher than the actual expenditure of FY2012-13. She also observed that in the FY2013-14 Budget, ADP had more than 1,000 projects where 50 new projects comprised only 1.3 per cent of total allocation. ADP for FY2013-14 also included 662 unapproved investment projects.

Dr Khatun noted that for the first time in the FY2013-14 Budget, self-financed development budget of more than Tk. 8,000 crore for the autonomous bodies and corporations was shown in the ADP. She pointed out that the top five sectors – Transport, Power, Education and Religious Affairs, Rural Development and Institutions, and Physical Planning, Water Supply and Housing – were set to receive more than 68 per cent of FY2013-14 ADP allocation. Due to the allocation for the Padma Multipurpose Bridge Project (PMBP), the Transport sector once again received the highest allocation of 23.3 per cent of the total ADP. PMBP alone received 83.4 per cent of the incremental allocation given to this sector.

Almost eight times higher than the allocation provided in FY2012-13, the allocated Tk. 6,852 crore for the PMBP was more than 33 per cent of the project's total cost. Apart from that, the USD 200 million given by the Indian Government, equivalent to Tk. 1,600 crore, had been kept as project aid allocation for PMBP in FY2013-14. *Dr Khatun* pointed out that the PMBP was expected to absorb about 55.6 per cent of the total incremental allocations in the ADP, which could deprive all other sectors, particularly the priority social sectors such as Health, Education and Agriculture. *Dr Khatun* further noted that in case of unavailability of foreign financing, the government would have to make use of its foreign exchange reserves for the PMBP. If that be the case, she apprehended that the foreign exchange reserves would definitely suffer erosion.

Dr Khatun also felt that symbolic allocation for new projects in the ADP was not an efficient way of resource allocation. Under the ADP, 25 investment projects received Tk. 1 lakh each and 55 projects received Tk. 1 crore each only, which was quite disappointing, she added.

In view of the economic and political reality anticipated for 2014, *Dr Khatun* felt that the target growth rate of total revenue mobilisation in FY2013-14 would be a much challenging task since it would have to reach 22.8 per cent from the original 19.9 per cent. Besides, the final ADP expenditure would be about 90 per cent of RADP with the trend remaining unchanged, resulting in lower total expenditure. *Dr Khatun* noted that adjustment for these two figures would become rather difficult to attain in FY2013-14. She added that a number of symbolic allocations such as the PMBP and public-private partnership (PPP) projects may not be realised to the extent envisaged in the respective targets. In light of the above mentioned scenario, *Dr Khatun* expressed apprehension, "Again we are sliding back to lose the financial targets leading to weak fiscal management." But how far this situation could be controlled and managed would depend on the implementation plan, she added.

Issue Five: Are Fiscal Measures Supportive of Social Equity and Domestic Industrialisation?

In case of personal income tax in the FY2013-14 Budget, increasing the threshold for tax-free income for personal income groups, the aged, senior citizens and women would help reduce tax liability of low-income groups, and also help broaden the tax net, observed *Dr Khatun*. She added that these moves, to some extent, followed a progressive taxation measure. Corporate tax had, however, remained unchanged except for a tax increase on cigarette companies, which is a good move considering its possible positive impact on public health and revenue mobilisation. As the tax for publicly traded mobile phone company had increased from 35 per cent to 40 per cent, *Dr Khatun* noted that one particular firm was perhaps the target, and it will be adversely affected.

The FY2013-14 Budget also allowed the provision of legalising undisclosed and black money, and investing in the real estate sector. *Dr Khatun* observed that the earlier provisions of allowing undisclosed money to be legalised had not been fruitful. She cited that since 1975, there were 17 occasions where the provision had been given. There was a lack of reliable data from the NBR on the revenue earning on this score; however, various non-official sources and media reporting revealed that from 1975 to 2013, only about Tk. 14,000 crore was declared and Tk. 1,535 crore had been paid to the NBR as tax. During Awami League's current tenure until 2013 only Tk. 38 crore was received by the NBR.

In case of other fiscal measures, there were various efforts in the budget to stimulate private investments and reduce cost of investment and working capital in order to facilitate industrialisation. Custom and regulatory duties had also been reduced for many products. *Dr Khatun* observed that these measures would enhance effective rate of protection for import-substitution industries, and discourage import of such commodities. In addition to this, supplementary duty had been imposed on finished products and a few other items similar to intermediate products, while the existing tax holiday facilities had been extended from June 2013 to June 2015, which was a positive move, opined *Dr Khatun*.

Regarding the capital market, *Dr Khatun* noted that there had been a withdrawal of 3 per cent tax over the extra premium on the face value of listed companies' shares. And the threshold limit for tax-exempted dividend income increased from Tk. 5,000 to Tk. 10,000, while the existing provision of exemption of gain tax would continue. Also, there were proposals to withdraw 0.05 per cent of tax at source in case of transfer of bonds and 15 per cent tax rebate on investment in private mutual funds. *Dr Khatun* argued that these facilities would not have any significant impact in stabilising the capital market or to regain investors' trust. She recalled that the much-talked about Tk. 900 crore, which was supposed to be announced for refinancing scheme, was not mentioned in the budget document.

Dr Khatun noted that some positive moves were made in the budget towards promotion of local small and medium enterprises (SMEs), small and cottage industries, light engineering, etc.

In case of export promotion, there were various fiscal measures for a number of sectors including leather, jute, ship-building, textile, readymade garments (RMG) and pharmaceuticals. She thought that according to CPD's estimation based on assessing the previous data, the proposed fiscal measures at the import stage might increase import-related revenues by 4.2 per cent.

Issue Six: How Credible is the Subsidy Estimate and What are Its Implications?

Dr Khatun compared the subsidy allocations in Revised Budget FY2012-13 and Budget FY2013-14 where the Revised Budget FY2012-13 allocation had increased by almost 30 per cent, mainly due to the subsidies for Bangladesh Petroleum Corporation (BPC) and the agriculture sector. Total subsidy for Revised Budget of FY2012-13 was 3.6 per cent of the GDP. She also noted that there was no clear indication of the total subsidy demand in the FY2013-14 Budget. However, various parts or sections of the budget indicated that it would be around Tk. 28,695 crore, which was equivalent to 2.4 per cent of GDP, a reduction by 23.3 per cent from FY2012-13 subsidy allocation. *Dr Khatun* felt that this was clearly reflected in loans and advances allocation, which was reduced by 25.3 per cent in the budget.

The sector-wise subsidy allocation in the FY2013-14 Budget showed that the allocation for agriculture sector subsidy was Tk. 9,000 crore in comparison with Tk. 12,000 crore in the Revised Budget of FY2012-13. According to CPD estimates Tk. 8,300 crore would be required in the agriculture sector for fertiliser alone. Subsidy for the BPC would be about Tk. 8,000 crore, which would be 47.8 per cent lower than the previous year. On the other hand, subsidy for the Power Development Board (PDB) was expected to be more than Tk. 5,000 crore, which was 6.4 per cent higher.

Citing these, *Dr Khatun* observed that another set of price adjustment would be required, and raised the question whether the incumbent government would be able to undertake this.

Issue Seven: Are Social Sectors being Marginalised in the Recent Budgets?

Dr Khatun recounted that for the last few years, education, health and social safety net programmes (SSNPs) had been receiving lower allocation, which led to the question whether social sectors were being marginalised. In FY2013-14, the SSNPs receiving lesser attention were allocated 2.1 per cent of the GDP while in FY2012-13 it was 2.2 per cent. Total beneficiaries of SSNPs had also decreased by 4 per cent, while 33 of the continuing programmes received lower allocation than in FY2012-13.

She added that the trend of lower allocation was also observed in case of food security programme in FY2013-14 than FY2012-13, in terms of total social safety net as a percentage of the total budget and total GDP. This trend was also evident in case of open market sales (OMS), Vulnerable Group Development (VGD) and Food for Works (FFW) programmes. This might be because of lower need for SSNP measures due to stable market price of rice, noted *Dr Khatun*.

Dr Khatun also pointed to lower allocations in Employment Generation Programme (EGP). Allocation for the EGP for the poor, an important SSNP component, was less than 1 per cent of the total budget and only 0.14 per cent of the total GDP in FY2013-14. In FY2013-14, total EGP coverage had also decreased by 33.64 per cent from the previous years. Eleven programmes, including the *Employment Generation for Ultra Poor in Northern Region*, received no allocation in FY2013-14.

Regarding health and education, *Dr Khatun* observed that the education sector received higher allocation in FY2013-14 compared to FY2012-13. However, allocation for the health sector had declined as percentage of the total budget while only three new projects were included for the Health, Nutrition, Population and Family Planning sector.

Regarding gender budget, *Dr Khatun* remarked that it was a good initiative of the government to provide a separate budget for the women for the last couple of years and getting 40 ministries (with 15 new) to prepare their gender budgeting documents for FY2013-14. However, allocation for the Ministry for Women and Children Affairs had been reduced from 0.7 per cent to 0.65 per cent. Although the budget speech mentioned that 27.7 per cent of the total budget was considered as gender empowering budget, there was no clear cut explanation as to how this gender empowerment budget was estimated, noted *Dr Khatun*.

Issue Eight: Does the Pilot District Budget Signal Any Qualitative Change Initiated to Finance Local Government?

Dr Khatun noted that allocation for the Local Government Department (LGD) as percentage of the total budget had been reduced to 5.8 per cent in FY2013-14, whereas it remained above 6 per cent over the last five years. Similarly, share of LGD in ADP allocation was reduced from 21.5 per cent to 17 per cent in FY2013-14.

To achieve good governance, the government had a plan to transfer 11 lakh officials to the district level administration. *Dr Khatun* remarked that the reasons given behind this much talked-about transfers were difficult to understand because if the goal was to improve the quality of public services, only transfer of officials will not result in improvement in efficiency of the bureaucracy.

Regarding the district budget in FY2013-14, *Dr Khatun* indicated that the pilot district budget for Tangail was "a good initiative by the government." She added that the government must be able to craft the district budget as per the needs of each district so that the successful experiment could be replicated in all other districts. Besides, the government must ensure the transparency and accountability of the district budgets.

Issue Nine: Is Emerging Political Situation the Main Obstacle to Budget Implementation?

Dr Khatun voiced her concerns about budget implementation in view of the current and the emerging political situation in the country. She said that the FY2013-14 Budget would be implemented during three successive governments, and a key deciding factor would be whether the budget would be front-loaded or back-loaded, i.e. whether most of the expenditures would be made during the first six months of the fiscal or towards the end. And how much effort the outgoing government would put in implementing the budget in its residual tenure, was also an issue, she cautioned.

Furthermore, *Dr Khatun* apprehended that the prevailing political uncertainties would possibly increase, given that the election year could seriously undermine the possibility of taking advantage of various proposals of the FY2013-14 Budget which were aimed at stimulating the investment scenario and the economy.

She also noted that Bangladesh had not been able to attain more than 7.0 per cent GDP growth in past couple of years. With a 7.2 per cent GDP growth target for FY2013-14, it would require increasing of the investment-GDP ratio as well as lowering of the capital-output ratio. She felt that both would be highly challenging as these would call for important departures from the business as usual scenario. This would require significant breakthrough in terms of resource generation, resource allocation, utilisation of resources and efficacy of development administration. *Dr Khatun* raised the question as to whether the government would have an appetite for all these in an election year.

Concluding Remarks

Dr Khatun summed up her presentation with two remarks. First, the challenges of budget implementation, as it would have to go through an election year, and the emerging political scenario which was apprehended to become unstable. Second, the global economic recovery was yet to gain momentum. She advised the government to be more cautious and careful in implementing the budget, and suggested that the fiscal framework might need to be revisited to undertake a mid-term correction in view of the real situation.

REMARKS FROM TWO PANELLISTS

Mr Kazi Akram Uddin Ahmed

Mr Kazi Akram Uddin Ahmed, President of the FBCCI thanked CPD for arranging the dialogue.

Mr Ahmed expressed his concern that many FBCCI recommendations were not given due attention in the budget. He particularly mentioned about the proposed imposition of supplementary duties on some imported raw materials, which he felt would be a major blow for the relevant domestic industries. Raising the 'package VAT' to Tk. 12,000 from Tk. 9,000 for some 30 thousand small shopkeepers who were under the umbrella of the FBCCI would be another major blow, he added. On the positive side, he appreciated the proposal for reduction of taxes on most raw materials in the budget.

Mr Ahmed remarked that the government's aim to sketch out a capital-friendly budget comprising an envisaged 7.2 per cent GDP growth would result in widespread social progress, educational development and business expansion. Despite criticisms that the budget had been 'overambitious', he held the view that one has to be ambitious to reach a higher level of goal. He felt that due to the ambitious budgets during all democratic governments since the 1990s, the country made headway towards development by achieving significant growth in national budget every year, reaching up to 25 per cent last year.

Recounting the eagerness of some foreign investors he had met at the Kunming Fair in China, *Mr Ahmed* quoted them saying that Bangladesh would need to have political stability as a pre-condition for accelerated development as well as for successful implementation of the budget. Recalling how harmful the spell of *hartal* (general strikes) had been throughout the last decade, he said that such political weapons would discourage foreign investment in the country. In this connection, he mentioned about the foreign delegates who come into contact with the FBCCI on a regular basis, are always interested in cheap labour as well as cheap land that are available in Bangladesh. Referring to discussants at the Bangladesh, China, India and Myanmar (BCIM) Forum, he informed the dialogue that China and India were ready to help Bangladesh with investment if a congenial environment prevails in the country. In view of these opportunities, *Mr Ahmed* anticipated that a successful implementation of the FY2013-14 Budget should not be very difficult.

Speaking on the provision of whitening the black and undisclosed money, *Mr Ahmed* alleged that along with some business people, some government officials, too, possess black money. Expecting an end to this, he felt that it would be best if the sources of such sum were nipped in the bud so that the question of making such provision does not arise.

Mr Ahmed observed that tax must be paid and the government must make maximum effort to collect tax in order to bridge the gap between Tk. 55,000 crore deficits and Tk. 65,000 crore worth ADP. He expressed hope that the deficit could be reduced if the government could bring at least 12-14 lakh people within the tax net from among the 1.5 crore people who emerged above the poverty line over the last five years. He also made the observation that the government will be able to resort to bank borrowing to reduce the fiscal gap since the private banks had an excess liquidity worth Tk. 69,000 crore.

As regards the PMBP, *Mr Ahmed* recommended spending Tk. 6,000 crore for the Bridge in a gradual manner. He also suggested spending the required amount for PMBP from the Tk. 18,000 crore allocation given to the Transport sector. He anticipated that GDP growth would accelerate by more than one per cent when the Padma Bridge project would materialise. The Bridge would bring the country under a wider transport and connectivity network. *Mr Ahmed* noted how perishable goods were conveniently transported from the North Bengal after the Jamuna Bridge was built, which changed the face of the region. For national interest and economic growth, he suggested that required allocations be made in the budget for building the Bridge.

Regarding the issue of subsidy, *Mr Ahmed* commented that the agriculture sector had now reached a state where it required lower amount of subsidies. As electricity was the main infrastructural shortfall, he favoured subsidising the expenditure for quick rentals which had saved the country from alternate-hour load-shedding as was the case in Pakistan. This has helped higher growth and led to more export worldwide. The development achieved, thus, was greater than the cost arising from quick rentals, he added.

Before concluding, *Mr Ahmed* informed that the Finance Minister had assured the FBCCI of another meeting, with the presence of the NBR Chairman. He hoped that the FY2013-14 Budget would be made more business-friendly through this discussion.

Dr Salehuddin Ahmed

Dr Salehuddin Ahmed, former Governor of Bangladesh Bank began with the comment that having a big budget for a country like Bangladesh was of no harm, provided that the incumbent governments pass the acid test of implementing it. About people's confidence over the budget, he remarked that being ambitious of very high growth is of no use if such growth does not benefit the poor or generate employment. In this connection, he also mentioned about the past big budgets which had very poor implementation and lacked specificity of actions.

Dr Ahmed reminded the audience about Bangladesh's continuous good performance as regards macro fundamentals such as high reserve, stable foreign exchange, moderated inflation and a reasonable 6.2-6.3 GDP growth. Despite having good fundamentals, taking concrete steps towards achieving the stipulated targets, consolidating the plus-points, and thus taking the economy forward were major challenges, he observed.

Identifying problematic areas such as the downturn in private sector investment, broad money growth at only 14 per cent, financial and capital markets, and the banking sector, *Dr Ahmed* said that transparency, efficiency and accountability of the regulatory bodies and bureaucracy were in question. These cannot be dramatically changed within the coming six or nine months. He considered financial sector reformation and stock market revitalisation as other major challenges. He alleged that the budgetary proposal of recapitalising the loss-bearing state-owned commercial banks with Tk. 5,000 crore would not be fruitful due to the inefficiencies in the entire system and interference and corruption of the board of directors and management. At the same time, the money is being eaten up due to the alliance of corrupt bankers and so-called borrowers in the private banking sector, he felt. Referring to incidences of Greece and Cyprus salvaging their banks, he said that the economy may have to face difficulties if attempts are made to revitalise the capital market by paying more to the commercial banks.

Agreeing with CPD's evaluation that the accounting system of the financial sector was inappropriate, he alleged that external audit reports filed to the Anti-Corruption Commission (ACC) or Bangladesh Bank by chartered accountants were not up to the mark. He recommended that the country's financial institutions and also the capital market authorities should follow international financial standards in this age of globalisation. He felt that this was long overdue.

Regarding the expenditure side of the budget, the most important thing was to ensure the quality of budgetary expenditure instead of having a financial progress report stating ADP achievements, said *Dr Ahmed*, adding that the Implementation Monitoring and Evaluation Division (IMED) alone cannot monitor the quality of implementation as it only records whether the allocated sum had been spent within the stipulated time.

On revenue collection, *Dr Ahmed* advised that the existing tax collection system can maximise tax collection by compelling all Taxpayer Identification Number (TIN) holders to pay tax and by ascertaining the use of electronic cash registers (ECRs) for all businesses so that the maximum amount of VAT is deposited to the NBR.

While discussing budget deficit, *Dr Ahmed* observed that when the government resorts to bank borrowing to address deficit, Bangladesh Bank cannot refuse. The only problem is that this puts the private investment in jeopardy because the government usually borrows at a cut-off rate of around 11-12 per cent which pushes the cost of lending upward. Loaded with bond security, the banks also increase the interest rates; in case of any private scams this has adverse implications on interest rate. *Dr Ahmed* cautioned that high bank borrowing by the government could also increase the inflationary pressure because the government would not be spending the borrowed money for real production of goods and services. Considering the debt service payments of the government budget, he considered foreign borrowing to be more cost effective than borrowing from domestic resources.

Dr Ahmed voiced his concerns along with the CPD that due emphasis on agricultural research was missing in Bangladesh for a prolonged period, and reminded the audience that agricultural scientists from Bangladesh Agricultural Research Institute (BARI), Bangladesh Rice Research Institute (BRRI) and Bangladesh Agricultural Research Council (BARC) had been migrating abroad. Their contribution to the green technology and the seed-fertiliser technology in countries like Australia had brightened Bangladesh's image, but Bangladesh has been deprived of their service. Referring to China's experience of spending billions on biotechnology and genetic research, *Dr Ahmed* felt that it was time to promote agricultural research in Bangladesh. He also noted that meagre allocation to BRRI and BARI could hardly support their requirement to pay salaries, depriving them of any laboratory research or field testing.

Regarding employment, *Dr Ahmed* said that besides lowered expenditure towards employment generation for our huge, young and active labour force, specific actions were missing to reap the demographic dividends of the country.

Being concerned about the coordination of fiscal and monetary policies, *Dr Ahmed* pointed to the ineptness of the monetary policy coordination council and criticised the Bangladesh Bank's attempt to control inflation by applying contractionary monetary policy. He also observed that the Bangladesh Bank cannot tame inflation by reducing money supply unless the monetary and fiscal policies address the supply-side constraints that include imperfections in the market, toll taking, extortion and poor market network.

Taking a holistic perspective, *Dr Ahmed* observed that the FY2013-14 Budget was more concerned with the stabilisation rather than economic growth, and was trapped within the Washington Consensus policy recommendations such as stabilisation, liberalisation, privatisation, etc. He felt that important aspects pertaining to majority of Bangladeshi people such as economic development, especially sustainable and equitable economic growth were missing in the budget. He also lamented that regardless of governments, the budget has become some sort of arithmetic exercise of allocating money.

He summed up agreeing to Dr Fahmida Khatun's observation that the budget will possibly require a mid-term correction if some of the projects do not do well.

FLOOR DISCUSSION

Perspective on Budget Implementation: Realistic or Unrealistic?

Professor Dr Barkat E Khuda of Department of Economics at University of Dhaka termed the budget 'unrealistic', given a number of ground realities such as political instability, infrastructural deficits, dipping private investment and stagnated investment-GDP ratio. He mentioned that GDP project at 7.0 per cent would be fine if there is a private investment growth over 30 per cent, and if credible redistribution and equitable growth were ensured. He felt that the steps towards achieving the government's targets in the budget were not clearly and adequately defined.

Echoing the Professor, *Ms Syeda Ashifa Ashrafi Papia, MP*, BNP opined that achieving the anticipated growth in budget would be impossible, referring to a World Bank projection which mentioned that GDP growth will not go over 5.8 per cent.

In contrast to these observations, *Dr Wajedul Islam Khan*, General Secretary of Bangladesh Trade Union Kendra felt that although the budget appeared to be ambitious, progress cannot be achieved without ambition. He asserted that the budget was appropriately formulated, and hoped that with everyone's cooperation from the respective places implementation will be sped up. However, he cautioned that this could be challenging in view of the emerging difficult political situation.

Drawing on the Awami League government's achievements regarding budget implementation, *Ms Apu Ukil, MP* affirmed that after the current government assumed power, successful implementation of budgets from 2008 onwards catalysed the country's achievements. She recalled that although many from the opposition and the civil society were saying that the earlier budgets were huge and thus impossible to implement, she felt the Awami League government had materialised 92 per cent of all budgets after 2008.

Relating to implications of political instability on budget implementation, *Mr Enam Ahmed Chowdhury*, Former Chairman of Privatization Commission and Member of the Advisory Committee of the Chairperson of BNP commented that although budget implementation depended on political stability to a large extent, the present government had not come forward to end the prevailing political impasse by coming into terms with the opposition regarding the question of holding national election under a non-partisan government.

Mr Chowdhury felt that evidently, most of the political parties would not be willing to participate in an election held under the present government. It could give rise to instabilities, confrontational politics and bloodshed, and consequently the situation envisaged for implementing the budget might get undermined. He drew government's attention to the importance of political stability and peace if it really wished for the people's welfare and to achieve the stipulated targets.

Pointing at the Planning Commission's role in budget implementation, *Mr A K M Mayeedul Islam, MP*, also Member of Parliamentary Standing Committee on Ministry of Finance was of the opinion that notwithstanding the Prime Minister's promises to strengthen the Commission thrice at the parliament, it became totally non-functioning by turning into, what he thought, "a dumping ground." He stated that such ineffectiveness would affect budget implementation, and that discussions on the budget would be of no avail without having the Commission functioning.

Major Challenges Concerning Revenue Collection and Mobilisation

Many at the dialogue felt that the revenue mobilisation target was too ambitious, supporting the views presented in the CPD analyses of the budget. *Mr Enam Ahmed Chowdhury* maintained that revenue mobilisation was the weakest link in the budgetary framework and it was evident that the revenue collection target would not be fulfilled.

On a similar note, *Ms Papia, MP* termed the budget's revenue earning proposal "a double whammy", because firstly, such target would overburden the commissioners beyond their capacity; and secondly, this was not realistic.

Mr Mir Nasir Hossain, former President of FBCCI also felt that the targets regarding revenue collection were rather ambitious, considering the shortfall of this fiscal, which, he said, might go up to 22 to 25 per cent. The size of the budget did not matter much, he said, noting that implementation and financing were the main challenges.

Addressing budget revision, *Dr Quazi Mesbahuddin Ahmed*, former Managing Director of the Palli Karma-Sahayak Foundation (PKSF) expressed discomfort as regard the issue that in the Revised Budget of FY2012-13, the Finance Minister did not change the revenue collection figures. He noted that underachievement from the current year's estimation would result in lower benchmark and increase the burden of revenue collection for next year. He urged the Finance Minister to rely less on discretionary measures for mobilising resources.

A complete opposite view was proposed by *Dr Ahmed Al-Kabir*, Chairman of Rupali Bank Limited. He said that the government had successfully reached their revenue targets in the last four years. Despite Tk. 4,000 crore gap in the first ten month's revenue collection, *Dr Kabir* hoped that the government would collect close to their target of Tk. 112,000 crore. He commented that target for FY2013-14 were somewhat challenging, yet realistic.

Adding a different perspective on this issue, *Mr Manzur Ahmed*, Advisor, FBCCI stated that despite the increase in revenue expenditure budget in last few years, the level of efficiency of the tax administration did not improve in any perceptible manner. He alleged that some vested groups from inside the administration were discouraging the Alternative Dispute Resolution (ADR) process to function. He observed that if the ADR system could be energised as per the FBCCI proposal, an amount around Tk. 10,000 crore could be mobilised as revenue.

Mr Amanullah Khan, Chairman of the United News of Bangladesh (UNB) observed that slashing tax rate, which is higher than some neighbouring countries, would encourage more people and organisations to pay taxes, resulting in higher amount of revenues for the government. Tax coverage and the number of taxpayers would also rise if procedures were made more simplified and transparent, he added. He also apprehended that the raising duty rates on import of newsprints would hit hard on the newspaper industry and the print media in general, and might force a number of struggling newspapers to close down. He added that it would also impede free flow of information, a basic human right, particularly in the context of our rising literacy rate.

Anomalies in the Banking Sector: Scams, Non-Performing Loans, High Interest

Mr Mir Nasir Hossain referred to Bangladesh Bank's contractionary monetary policy which aimed to have 18.5 per cent credit flow towards the private sector which in reality, he said, had gone down to 12.7 per cent. He raised a question on why the interest rate was not coming down when the private sector banks had an excess liquidity of Tk. 69,000 crore. He apprehended that it could be due to prevailing indiscipline in the financial sector, and in consequence of the Hall-Mark scam. In this context, he drew attention to the public sector non-performing loan (NPL) portfolio issue. He felt that NPL may have gone up to 30 per cent due to the incidences of Bismillah Group and the Hall-Mark scams. Adding that it had also affected the private sector banks, *Mr Hossain* urged that discipline must be restored in the banking sector to stimulate investment.

Addressing Mr Hossain's comments, *Mr Mohammed Nurul Amin*, Chairman of the Association of Bankers, Bangladesh Ltd. explained that there were two-three types of NPLs that were increasing because of the looming uncertainties in view of the transition of government. He also informed the audience that the lending rate was not coming down because the advance/decline ratio was well below 75 at all banks.

From the perspective of governance and politics, *Ms Papia, MP* pointed out that a nation's budget implementation depends on good governance, political intention and integrity, honest and capable leadership; on the other hand, political interference coupled with corruption would undermine the implementation. She held the view that the government had not properly tackled the recent events in the banking sector including the Hall-Mark scam. Although two persons were jailed, those who had exerted pressure to lend money were able to get away. She emphasised that punishment to the responsible must be meted out by formulating the required laws concerning all plundering, graft and pilfering because without preventing graft, she apprehended, the budget would be eaten away by vested quarters.

Disagreeing with Ms Papia, *Dr Ahmed Al Kabir* of Rupali Bank Limited defended that the banking system should be appreciated for identifying anomalies such as the Bismillah Group scam. He said that accountability in the banking sector had improved and this needed recognition instead of making statements to the effect that the government had been unkind to the state-owned banks.

Dr Kabir informed that the banking automation during the last 3-4 years had moved very fast. This included automation of risk management system along with establishing data centres and data recovery centres, banking application software usage, enterprise data warehouse, enterprise resource planning, etc. Referring to the current challenges, he said that many of these were inherited from the past.

Financing Budget Deficit: Bank Borrowing and Interest Payments Affecting Economic Growth

Professor Dr Barkat E Khuda of Dhaka University felt that the budget deficit at 4.6 per cent of the GDP was within reasonable limit, but using bank borrowing to finance the deficit budget would have adverse impact on the overall economy. He said that the increased target for bank borrowing over Tk. 28,000 crore in FY2013-14 would result in higher amount of interest payments.

The Professor cited that during the first half of FY2012-13, growth of interest payments had been around 34 per cent against its target of only 16 per cent. He felt that this fund could have been used for productive purposes instead. In terms of its opportunity cost, the payments for interest had affected the private sector growth due to reduced access to bank loans, thereby adversely affecting economic growth, including employment creation in the country.

On this issue, *Mr Nurul Amin* of Association of Bankers informed that profit of private commercial banks had shown negative growth during the last two quarters, despite the fact that private banks are the most important driving force of the economy. He noted that some primary dealer banks tend to take the major burden of government borrowing and that there were other mismatch in the functioning of foreign-owned banks, government banks and private banks. He apprehended that that the government was allocating some funds for capitalising or supporting state-owned banks, which should have been applicable also for private banks because NPLs were on the rise.

Expressing concern over bank borrowing, *Ms Papia, MP* commented that all government and non-government banks would be in trouble because of the government borrowing of about Tk. 26,000 crore, of which Tk. 14,355 crore would be long-term loan and Tk. 11,638 crore short-term loan. She said that loan requirements of industries and entrepreneurs would consequently be difficult to meet. She urged the government to reduce dependency on banks and make an extra effort to achieve the revenue target set in the FY2013-14 Budget.

Echoing similar concerns, *Mr Enam Ahmed Chowdhury* expressed doubt over achieving the revenue target, and said that it would be impossible to attract people to invest in non-bank borrowing instrument, which in turn would increase reliance on bank borrowing to finance the deficit.

Dr Mesbahuddin Ahmed of PKSF encouraged the idea of using National Savings Bond (NSD) for the government instead of bank borrowing because many among the poor and middle class people live on their monthly income from NSD. He added that borrowing from the private sector NSD would mop off purchasing power and reduce the push on inflationary pressure. He also informed the audience that despite provisions, sales of NSD were low compared to bank borrowing.

Debates over Legalising Black Money

Mr Hafiz Ahmed Majumder, MP, also Chairman of Pubali Bank Ltd. was of the view that it would be an offence for the government to apply any legislative authority to whiten black money because it always remains black, and the person earning it remains accountable to law. He added that black money coming through bribery, robbery or income tax evasion should be punishable under law, and that the government should inquire about the sources of undisclosed money deposited with the banks.

However, *Mr Majumder, MP* suggested that considering the reality in Bangladesh, an investment-friendly climate must be created irrespective of the source of the money. Expressing disagreement with CPD's stance on black money, he argued that this process should not be hindered for the sake of morality because black money, once invested, comes under the tax net, and thus raises revenue collection, and also helps generate employment.

Correspondingly, *Dr Mesbahuddin Ahmed* advised in favour of diverting investments of undisclosed money from the real estate sector towards the more productive sectors. Only then it would be beneficial to the people, who would, otherwise, be hard-hit by serious injection of huge amount of black money in the unproductive sector.

Taking cue from Dr Ahmed, *Mr Ali Zaman*, President of SME Owners Association of Bangladesh stated that when the real estate sector thrives, generally the manufacturing sector deteriorates. He opined that if the real estate sector booms, it would adversely impact the land market, and if so, the SME sector would be severely affected.

Speaking further on the issue, *Mr Amanullah Khan* of UNB opined that despite whitening undisclosed money being morally unjustifiable, the rate of tax should be somewhat reduced to attract more people to declare their undisclosed money. Undisclosed money can also be driven towards productive and industrial sectors in order to hasten the process of industrialisation, he argued.

Refinancing Capital Market would not Regain Public Trust

Mr Suhel Ahmed Choudhury, former Commerce Secretary recalled that the last three budgets along with the FY2013-14 Budget did not do anything significant to revive the capital market which collapsed in 2010.

Disagreeing with him, *Mr Enam Ahmed Chowdhury* said that the FY2013-14 Budget had included a number of fiscal measures to revive the capital market. But those were rather weak, ineffective and would have limited impact in term of regaining the confidence of potential investors in the capital market. *Mr Chowdhury* also noted that the budget did not mention anything about the refinancing scheme of Tk. 900 crore which was indicated earlier.

Low Subsidy and Allocations to Hurt Agriculture, Health and Social Safety Net Programmes

Professor Khuda of Dhaka University inquired whether the reduced allocation and lower subsidy for the agriculture sector would affect the government's objective of maintaining food autarky and would constrain allocation for agricultural research. Mentioning the reduced allocation in the health sector, he said that there was considerable room for enhanced allocation in this sector, particularly in respect to addressing issues such as malnutrition among women and children. He also inquired whether considerably low budgetary allocation for the SSNPs would adversely affect the government's goal towards poverty reduction and employment creation as laid down in the budget.

Adding to these queries, *Mr Enam Ahmed Chowdhury* brought to attention that the subsidy allocations for state-owned enterprises (SoEs) were lower than the limit provided by the IMF-ECF (International Monetary Fund's (IMF) Extended Credit Facility (ECF)) programme. *Ms Papia, MP* also opined that the agriculture sector had been pushed into decline due to reducing the subsidy allocation by Tk. 500 crore, coupled with price hike of production inputs, wage rise of workers and natural calamity.

Ms Apu Ukil, MP refuted the idea that lowered subsidy would affect the agriculture sector adversely, because Bangladesh had achieved food autarky over the last two years. Regarding agricultural research, she defended the Agriculture Minister and said that she had set aside funds for agricultural scientists who were developing salinity-resistant crops in cultivable lands around saline-water, and also, allocation for jute genome sequencing research. She felt that this would help revitalise the jute industry and will provide support for the advancement of the sector. She considered this to be an unprecedented incentive in the budget.

Dr S M Khalilur Rahman, Member Director (CC) at BARC of Ministry of Agriculture, however, felt that the Finance Minister's budget speech concerning subsidy as an investment for agricultural production was contradictory because the subsidy amount had been reduced by about Tk. 3,000 crore. Quoting CPD's estimation, he mentioned that Tk. 8,300 crore alone would be needed for fertiliser. He said that there were other subsidy requirements including for electricity, irrigation and cash incentives for farmers. If the total subsidy is Tk. 9,000 crore, the math does not match. Highlighting developments in Boro, Aman and Aus rice and maize production, *Dr Rahman* noted that adequate funds were needed for research, adoption and extension of technology employed for the production as well as for human resource and capacity development.

Revenue Targets May Overburden Taxpayers

Mr Mir Nasir Hossain expressed his concern that the government could press the tax collectors and taxpayers by arbitrarily fixing tax rates to increase their target. He felt that there was very little protection for the aggrieved taxpayers in the system, and this should be dealt with adequately.

Echoing Mr Hossain, *Ms Papia, MP* opined that coupled with the burden of huge budget and high revenue target, the government was likely to be tempted to impose the burden of taxation on the public. She said such steps are generally followed by significant price hike, which place the common people in a disadvantageous situation.

In this connection, *Dr Mesbahuddin Ahmed* said that the budget did not explain the details about the gains and losses due to imposition and withdrawal of certain taxes respectively. This, however, was mentioned in all past budgets.

Noting a similar concern, *Mr Manzur Ahmed* of FBCCI observed that the multinational companies (MNCs) were evading tax extensively. This may lead to a crisis that needs to be looked into, he added. Citing examples from European countries, he urged that tax be imposed on electronic media as he felt that this could generate significant amount of revenue for the exchequer.

Declining Private Investment, Imports, Overseas Employment Hurting Job Creation

Professor Dr Barkat E Khuda felt that job creation had emerged as a major challenge due to low private sector credit growth (at around 12 per cent in April this year, the lowest in the decade) along with low investment and declining trends in overseas employment of remittance earners in recent months. He added that declining imports resulted in fewer jobs in the service sector including financial intermediation.

Professor Khuda noted that the private investment-GDP ratio stood at 19 per cent in FY2012-13, the lowest in six years and domestic savings dropped to its record-low in the past decade. Regarding job creation, he also pointed out that about 2 million enter into the national labour market every year and about 0.6 million of those get overseas job, which indicated that a large share of the rest 1.4-1.5 million job-seekers basically end up in low productivity-low wage informal sector within the country.

District Budget Encouraged, Yet Preparation Inadequate

Mr Amanullah Khan of the UNB felt that the district budget, introduced as a pilot, signalled a qualitative change by bringing the promotion of local government institutions a step closer. This is enshrined in the Article 9 of the Constitution. He hoped that this step in the right direction would initiate a process of devolution and decentralisation in Bangladesh.

Dwelling on the same issue, *Dr Mesbahuddin Ahmed* felt that preparation of district budget plans was difficult. He said that it would not be pragmatic to prepare district budgets just by discussing with the people with a view to estimating their demands. This was because district budget would have to be prepared in line with the national budget.

Local Government's Authority Questioned

Mr Enam Ahmed Chowdhury expressed his displeasure over transferring 11 lakh government officials to different districts to strengthen local government without laying out specific requirements for these positions. In this context, question remained over the responsibilities given to the local government. He felt that local governance had totally failed and the government's pledges regarding transferring power and authority to the local governments was "nothing but a hoax."

Dealing with the same issue, *Mr Mayeedul Islam, MP* observed that the district boards had no elected chairmen; instead, all were administrative officers who were not vested with any power under the current law. He said that an administrator would be powerless and only a 'showman' without the full administrative body as well as authority. He urged for a sustainable empowerment system for the local government.

Arguments on ADP Allocation and Implementation and the Padma Bridge

Dr Mohammad Fazlul Bari, Member, Planning Commission was of the opinion that the ADP allocation for FY2013-14 was commensurate with the GDP growth target; the Transport sector had been duly given the highest priority. Apart from allocations, a fast-track project monitoring committee had also been formed to oversee the implementation of large-scale projects included in the ADP, such as the metro rail, rapid transit project (bus) and the PMBP, he added.

Dr Bari felt that prioritising road maintenance over construction of new roads was a good approach pursued in the budget. He also appreciated the importance that had been given to the railway sector through rehabilitating and repairing of railroads and construction of some new tracks that were undertaken in Barisal, Faridpur and Pabna regions.

Mr Enam Ahmed Chowdhury drew attention to the fact that incremental allocation for the Padma Bridge had taken 83.4 per cent of the ADP. He cautioned that because of allocating over Tk. 6,000 crore for the Padma Bridge, development sectors would pay a heavy toll, while health, education and agriculture sectors would also suffer. He expressed discontentment that the government had included Padma Bridge in the ADP just to fulfil the election pledges, which he termed as "a grave mistake."

Mr Manzur Ahmed felt that the ADP implementation was a 'black hole' in the budget due to the lack of transparency in implementation of projects, with some very few exceptions. He was very unhappy that no government had done anything to improve this situation.

Referring to the 55 investment projects that received Tk. 1 crore allocations each, *Mr Enam Ahmed Chowdhury* termed the symbolic allocations "an exercise of futility." He also raised questions as regards block allocation for the 662 unapproved investment projects in the ADP, amounting to around Tk. 3,437 crore.

Dr Mesbahuddin Ahmed was unsure about the sudden surge in project aid utilisation in the ADP in FY2012-13. Relating to the recent experiences, he felt this high rate was rather unusual and urged for more clarification regarding such disbursement.

In response, *Dr Fazlul Bari* mentioned that the efficiency of the project implementation agencies has enhanced over time. He, however, mentioned that despite improvements in the delivery capacity, ADP implementation does not reach hundred per cent because the number of projects is always more than what the government is actually capable of handling. A five-year project in some cases gets dragged on for ten years due to shortfall in required allocation.

Public-Private Partnership for All Sectors Unviable, Implementation Poor, Discouraged

Putting a query as to the status of PPP allocations made in last four budgets, *Mr Enam Ahmed Chowdhury* remarked that there was no development in this regard; particularly the legal framework regarding PPP implementation had not been formulated. He added that the Privatization Commission could have played a part to encourage PPP for certain sectors, but complained that this was not the case.

Expressing reservations regarding PPP, *Dr Mesbahuddin Ahmed* said that the experience around the world shows that PPP had been more of a free ride on the public sector. It is found to be effective only in the physical infrastructure sector where it was successful, including in the US and European countries, but not in other sectors.

Gas Connection for Industries – Advised for Investment and GDP Growth

Mr Mir Nasir Hossain noted that private sector investment had gone down to 19 per cent of GDP against 20 per cent of last fiscal while the SFYP investment projection for FY2013-14 stood at 27.6 per cent. He felt that the government should pay more attention to other factors conducive to investment, such as supply of gas and electricity to the industrial sector and the physical infrastructure.

Government should also provide the needed fiscal incentives to protect local industries and to boost private sector investments. He recalled that the industries were not being given gas connections for the last 4-5 years, despite promises from policymakers and energy advisers of the government regarding prioritisation of industries in relation to domestic gas connection. He opined that the government, however, opened new gas connection for domestic usage to gain favour in the election. This was not a good policy choice.

Mr Hossain suggested that the government should focus on developing industries if it wanted a GDP growth rate at around 7.2 per cent, for which they would need an investment of more than 30 per cent of GDP. He also referred to a World Bank report that noted that the investment should have been over 31.5 per cent of GDP whereas it remained at around 26.8 per cent this year. He appreciated the government for providing fiscal incentives to boost investment, but said that fiscal measures are not the only tools for investment. He urged the government through the Chairman of the Parliamentary Committee of the Finance Ministry to provide gas connections for the industrial sector on a priority basis. Other factors conducive to investment, such as availability of electricity and physical infrastructure were also very important, he added.

Budget Lacked Development Projects for North Bengal

Mr Mayeedul Islam, MP alleged that regional allocation was not made in the budget the way it should have been. He observed that the budget did not include any development project for the North Bengal region. He felt that disparity between the East and the West of the country was similar to that of the case between East and West wings of erstwhile East-West Pakistan; and that it would have worsened further without the Jamuna Bridge.

Furthermore, *Mr Islam* complained that the North Bengal receives a mere 10 per cent electricity supply; and impact of development can be felt only in the cities in this region.

Terming the budget “a violation of the constitution,” he questioned why there were no developments in the North Bengal despite the fact that it was repeatedly mentioned in the national parliament. He urged the CPD to undertake a study concerning this issue and then forward the recommendations to the government for the benefit of the people of North Bengal.

Opportunities Demanded for Youth, New Entrepreneurs, Safety for Investors

Mr Tabith Mohammed Awal, Deputy Chief Executive Officer at Multimode Group held the view that opportunities for the young generation were side-lined in the budget, although majority of the population are youth. As a representative of the young generation, he was of the view that Bangladeshi young entrepreneurs wanted to create jobs, but the required budgetary provisions were missing. He also noted that it was difficult for a new entrepreneur to get capital from the market and banks. *Mr Awal* urged all the concerned individuals engaged in budget preparation for providing incentives to young, prospective entrepreneurs and innovators, and give them the opportunity to take the country forward. In this context, he also noted that private commercial banks were also not providing support to the young entrepreneurs.

Mr Awal also expressed his discontent by saying that in absence of the necessary provisions, many of the young and prospective entrepreneurs were being motivated to rely on political support by either participating in government tenders or in opposition party rallies, which had become a source of income for them. He also called for government investments in productive sectors to create more work opportunities. He emphasised the need for investment in research, education and science, technology, because universities offering BBA/MBA degrees are not centres for academic development of a nation.

In response to Mr Awal’s request for supporting the new entrepreneurs, *Mr Nurul Amin* of Association of Bankers, Bangladesh Ltd. explained that banks do not encourage collateral-free loans for the young entrepreneurs in apprehension that the loans could turn into NPLs. He also said that the recent scams in private and state-owned banks had affected the credit demand of the private sector. He thought that it was the government that should promote and support new entrepreneurs.

Relating to another youth employment issue across the country, *Mr Mayeedul Islam, MP* said that the National Service did not provide adequate support for youth employment because the programme had been initiated only in Kurigram, Gopalganj and Barguna, possibly because the latter two were the constituencies of the Premier and the Finance Secretary respectively.

Professor Dr Barkat E Khuda referred to Dr Salahuddin Ahmed’s comment about lack of specific actions as regards employment generation programme for the large number of youth and active labour force. He emphasised the need for reaping the demographic dividends of Bangladesh. He mentioned that countries in East Asia took advantage of demographic dividends by making heavy investment in education and health to turn the youth into a skilled workforce. Otherwise, they would become a demographic burden resulting in unemployment, social unrest, crime, etc.

Workers' Welfare Requires State Intervention, Budgetary Incentive and Safety Net

Dr Wajedul Islam Khan of Bangladesh Trade Union Kendra stated that the private sector had been adequately emphasised in the budget; the budget should pay equal attention to both private and state-owned enterprises to create competitiveness. He reasoned that privatisation following 1975 induced businesses to go for profit maximisation by taking advantage of cheap labour. He gave the example that it takes Tk. 2-4 lakh to send a worker abroad through private organisations, whereas with the help of Ministry of Expatriates' Welfare and Overseas Employment a proposal to send workers to Malaysia at a cost of only Tk. 30-40 thousand has been initiated.

He felt the budget appeared to have given incentives to entrepreneurs and the business sector but there were no such incentives for the workers and to improve their living condition. He drew attention to the rising price of daily essentials in a free market economy. He observed that the workers were in need of a pay raise because they were getting paid the same wage for several years. He demanded provisions for wage increment in proportion to commodity price hike as was the case in India. He suggested creation of safety net in this regard; he also demanded provisions for full rationing, low-cost housing and free medical care for workers. He mentioned that budgetary allocation for health sector had been curtailed whereas the costs of medications and healthcare have multiplied over the same years. In this regard, he suggested extended community healthcare services in remote areas to ensure free healthcare services through PPPs.

Budgetary Allocation Demanded for Expatriate's Welfare and Foreign Missions

Mr M S Shekil Chowdhury, Chairperson of the Centre for Non-Resident Bangladeshis observed that there was a serious lack of budgetary provision towards maximising the utilisation of expatriates' knowledge and resources. He stated that the Finance Minister's announcement to launch five cultural centres abroad for building a positive image of Bangladesh, as a pre-requisite for creating goodwill in overseas market, has remained unfulfilled. He said that overseas markets for Bangladeshi products and workers would shrink if the government failed to pay attention to the fact that in 2012 about 8.6 million migrant Bangladeshis had sent USD 14 billion in remittance, equivalent to 11 per cent of the GDP, six times of the foreign aid and almost 13 times of foreign direct investment (FDI).

He also suggested that the foreign missions of Bangladesh should receive adequate budgetary allocation to strengthen their capacities, so that they can be of more assistance to the migrant workers facing difficulties. He particularly mentioned about strengthening the missions in the Middle East for speedy delivery of machine readable passports, without which around 2.6 million Bangladeshis in Saudi Arab and 2 million in the United Arab Emirates (UAE) would face trouble having entry and work permit after 2014. Requesting the Finance Minister's attention, he cautioned that remittance would be hampered without a comprehensive policy for market expansion and if the Labour Wings were not further strengthened.

Clarification Demanded for Refinancing of SMEs

Mr Ali Zaman of SME Owners Association of Bangladesh recalled that in the budget speech where Finance Minister had stated that 33,000 SME enterprises had been given refinancing loan. He informed of the existing specific conditions for refinancing which stipulates that the loan would be given to production sector and its interest rate would have to be within single digit. He requested the Bangladesh Bank to publish a list of recipients on its website with information as to whether any refinancing loan had actually been given.

Referring to the second Bangladesh Bank circular as regards the Banking Regulation & Policy Department (BRPD), *Mr Zaman* observed that the circular discouraged the SME sector by listing it under risky areas, alongside consumer credit and credit card. He also expressed displeasure about the 20 to 24 per cent bank interest on loans for SMEs. This was not a rational measure at all to promote the SME sector, he said.

RESPONSES FROM TWO PANELLISTS

Dr M Osman Farruk

Dr M Osman Farruk, former Education Minister and Member of the Advisory Council of the Chairperson of BNP thanked the CPD for its regular and impartial analysis. In his initial response to the FY2013-14 Budget, he found the Finance Minister's budget speech surprising as the Minister had said that the complementary budget's success lied in having no difference between the original and the revised budget. *Dr Farruk* said that the budget should not be just an accounting document of a country's development outcome, rather its development blueprint is supposed to be informed by its budget.

Strongly disagreeing with the Finance Minister's claim of the cabinet's contribution towards the process of budget preparation, *Dr Farruk* said that a printed copy of the budget document was disseminated in the cabinet meeting a few hours before the presentation of budget. He added that the parliament also spends very little time on the budget, and therefore, there is very little opportunity for the cabinet and the MPs' views to get reflected in the budget. This would only change with a change of attitude in the government and leadership, he added.

Drawing upon the speculation that South Asia would control 20 per cent of the world's GDP by 2050, *Dr Farruk* suggested that Bangladesh should put in perspective ways to boost development, reduce poverty and minimise regional disparity, and especially take initiatives to partake advantage of the global development wave towards Asian countries. He noted that at least 4-5 crore people are still below the poverty line despite the past development. Also the country suffers from an economic stalemate because the GDP growth has remained between 5.9 and 6.0 per cent for about 20 years.

Regarding investment, *Dr Farruk* said that the investment-GDP ratio since 1990s had increased from 19 per cent to almost 27 per cent. A 7.0 or 8.0 per cent GDP growth projection would not matter if the investment-GDP ratio remains lower than the savings-GDP ratio, which is indicative of a lack of investment-conducive environment in the country. He apprehended that the government's projections in the SFYP to attain 8.0 per cent GDP growth by 2015 would not materialise in view of the current stalemate. Despite insufficient investment and infrastructure, a sustained 8.0 per cent GDP growth was 'a must' for Bangladesh to graduate to a middle income country, he remarked.

Dr Farruk pointed out a number of issues for which the country has moved away from achieving the macroeconomic targets made over the last four years. Along with a 20-year record-high inflation in FY2011-12, investment did not improve by much amidst heightened political unrest. Regarding regional disparity, the earning ratio among people of various regions was also stagnant or had deteriorated as per the Gini Co-efficient, and the macroeconomic scenario had not improved as anticipated. He emphasised on taking full advantage of the country's potentials to make the necessary progress as regards all these aspects.

Speaking on remittance, *Dr Farruk* noted that Bangladesh had made significant progress in this sector, but he felt that the government's contribution in this was not significant. Workers are migrating amidst hardship, they were on their own, and were sending money to support their families. He referred to surveys showing that poverty incidence was reduced to 15 per cent in areas having migrant workers, against a 30 per cent countrywide average. He acknowledged the government's contribution towards the RMG sector, in areas such as policy framework, back-to-back letter of credit (L/C) and bonded warehouse. However, the FY2013-14 Budget did not address ways to increase labour productivity, he added.

Dr Farruk considered the ADP in the budget as a list of a few discrete projects devoid of interconnectivity, because he believed that the projects were included as per respective ministry's pressure instead of putting projects and sectors within a logical framework. *Dr Farruk* felt the budget lacked any measures to recover from the decelerating growth rates experienced over the last four years.

Given the PMBP's problematic backdrop and that it would account for a large portion of the ADP, *Dr Farruk* remarked that the government did not have any moral justification for binding the upcoming governments with the Bridge project. He felt that the current government would not be able to do much in six months; rather the next government should be given an opportunity to do away with the discrepancies and then renegotiate with the donors and get the required foreign aid against affordable conditionalities to build the Bridge. He considered this as a matter of national interest that should be materialised irrespective of party politics.

Regarding sectoral allocation, *Dr Farruk* said that reducing allocation in education, agriculture, health and social safety net and making increments in government services from 6.8 per cent to 14-15 per cent this year could not be an example of a welfare state. As a result, the social safety net and sectors related to human resources would suffer, as was also mentioned by many participants at the dialogue. *Dr Farruk* also criticised that Bangladesh, as a developing country at post-industrial stage, was not adequately investing towards human resource development.

As regards the provision of whitening black money, *Dr Farruk* distinguished between undisclosed lawful income and ill-gotten black money, saying that legal yet undisclosed income could be allowed to be taxed; however, allowing black money for earning profit was immoral. He felt that investing black money into housing sector was totally unacceptable as it would result in more profit and purchasing of more luxury items only. Rather, it should be invested in human resource development such as construction of school buildings, roads, etc. He reiterated that the revenue collection from black money would not be worth wasting the NBR's time on this. He emphasised taking a moral highpoint regarding black money.

He noted that subsidy and interest payments account for a significant share in the budget, which was disturbing. FDI coming down below 1.0 per cent was yet another concern that *Dr Farruk* flagged in his remarks.

In his concluding remarks, *Dr Farruk* called for reviewing some basic principles alongside statistics. He felt that issues related to economic development must be kept outside of party politics. Through discussion, a mutual consensus among the political parties must be developed prior to the formulation of budget, he said, urging the need for an avenue where people from various perspectives, background, ideas and political thoughts would be consulted in pursuit of the cause of economic development.

Mr A H M Mustafa Kamal, MP

Mr A H M Mustafa Kamal, MP, also Chairman of the Parliamentary Standing Committee on Ministry of Finance thanked the participants for their helpful and constructive suggestions which, he hoped, will enrich the process of revising the budget. He pointed out that more than 80 per cent of Bangladesh's export goes to the developed countries of North America and Europe. Hence, economic situation in the developed countries have significant influence on performance of the Bangladesh economy. In this connection, he recalled that the Awami League assumed power in January 2009, at a time when the worldwide capital market lost 55 per cent of its value due to the global recession. In the backdrop of such a prolonged worldwide recession, *Mr Kamal, MP* felt the government's macroeconomic performance over the last four years to be a brilliant achievement, with an average GDP growth of 6.2 per cent and positive performance of almost all macroeconomic components. However, he also mentioned about some failures in areas such as collapse of the capital market and failure to prevent the Hall-Mark scam or the Bismillah Group scam.

Mr Kamal reiterated that economic performance should be evaluated in terms of the GDP growth record which was over 6.0 per cent for the last couple of years. About revenue collection, he recalled that the incumbent government started with Tk. 49,000 crore and reached Tk. 112,000 crore last year. Of the total revenue collection, earning 33 per cent from direct tax was another achievement, he mentioned. Reducing the gap between individual and corporate tax receipts, increasing the number of individual taxpayers from 8 lakh to 11.59 lakh were other achievements made possible through reform initiatives of the government, noted *Mr Kamal.* In this connection, he also mentioned other achievements such as total tax revenue as percentage of GDP increasing from 10 per cent to 13.5 per cent, export trade growth from USD 14 billion to USD 27 billion with a growth rate of about 15 per cent. He added that despite political instability and other setbacks, achieving 11-12 per cent growth in export trade was a brilliant success.

Mr Kamal felt that the government should be appreciated for increasing the remittance inflow from USD 8 billion to USD 14-15 billion, as well as for the reform measures taken to improve remittance receiving service, which have taken Western Union, MoneyGram, mobile banking and numerous bank branches to remote areas of the country. However, he considered that the current remittance earned by nine million Bangladeshi workers was rather low against the worldwide remittance flow of USD 400 billion earned by 225 million migrant workers.

Shedding light on some of the other achievements of the incumbent government, *Mr Kamal* presented a number of examples: reduction of point-to-point inflation from 9.9 to 7.9 per cent with about 7.5 per cent being the annual average; maintaining the debt-GDP ratio at 45 per cent, which was much lower than the internationally given benchmark; reducing the percentage of people below the poverty line from 38 to 27; maintaining outstanding balance of the external debt at USD 22.5 billion; achieving over 9 per cent trade sector growth and over 8 per cent real estate growth; stabilising the exchange rate. He particularly thanked senior researchers from the CPD for their advice given at a number of parliamentary meetings convened to discuss issues of macroeconomic management.

Mr Kamal believed that the economy was progressing towards sustainable growth. He felt that the way this government had taken steps, without increasing the debt and by moderating inflation and expanding the range of social safety nets, leaves no reason to worry. In this context, he recalled Mr Tabith Awal's comments at the dialogue and expressed satisfaction by saying that the progress achieved by the government in different areas could be safely handed over to the young generation for continuation. He thought that young generation needs to come forward to exploit the available resources and opportunities and take the country forward. Acknowledging the opposition party's right to stage protests, as it happens in all democratic systems, he highlighted that the recent spell of violent *hartals* was a threat to new investors. Private sector investments require political stability, he stressed. *Mr Kamal* felt that together with the business community, the government and the opposition would have to agree on some grounds, which are important for the development of the country.

Explaining why the overall import had plummeted, *Mr Kamal* observed that this was partly due to lower imports of capital machineries for power plants. For the first three years of the government's tenure major imports were made, and later it had reduced because there was less need for the machineries to be imported. Fall in imports of consumer goods for everyday use was another reason, he noted. He ruled out the apprehension that lower imports would affect the economy.

Concerning taxation, *Mr Kamal* argued that lowering tax rate would increase revenue intake. He admitted that the prevailing corporate tax at 42.5 per cent and individual tax at 25 per cent were higher than tax rates in countries such as Singapore, Hong Kong, Malaysia and Japan. *Mr Kamal* also expressed optimism about the prospects of the country's shipping, electronic and furniture sectors, and felt that these sectors had the potentials of becoming next generation of the RMG sector if proper policies are followed.

Before rounding off his remarks, *Mr Kamal* requested the CPD to identify Bangladesh's potentials and ways of making progress based on that and called upon the CPD to include these into their regular macroeconomic analyses.

CONCLUDING REMARKS BY THE CHAIR

Professor Rehman Sobhan summed up the dialogue programme by expressing his thanks to the panellists, discussants and all distinguished participants. He also expressed his appreciation to the media for covering the event and conveying the discussion to the greater audience. He concluded with the hope that the issues raised in the debate and the discussants' reflections over various issues in the proposed budget would be taken cognisance of by the government in the process of revising the FY2013-14 Budget.

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