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State of the Bangladesh Economy and Budget Responses 2004

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The Centre for Policy Dialogue (CPD)*, established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision-making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together Ministers, opposition frontbenchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.*

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of the CPD include ***The Independent Review of Bangladesh's Development (IRBD), Trade Policy Analysis and Multilateral Trading System (TPA), Governance and Policy Reforms, Regional Cooperation and Integration, Investment Promotion and Enterprise Development, Agriculture and Rural Development, Ecosystems, Environmental Studies and Social Sectors and Youth Development Programme.*** *The CPD also conducts periodic public perception surveys on policy issues and issues of developmental concerns.*

As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of a dialogue organised by CPD under its IRBD programme on the theme of ***State of the Bangladesh Economy and Budget Responses 2004****. The Dialogue was held at* **CIRDAP Auditorium, Dhaka** *on* ***June 15, 2004****.*

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Dialogue on

STATE OF THE BANGLADESH ECONOMY AND BUDGET RESPONSES 2004

The Dialogue

The Centre for Policy Dialogue (CPD) organised a dialogue on ***State of the Bangladesh Economy and Budget Responses 2004*** on June 15, 2004 at the CIRDAP Auditorium, Dhaka. The initiative was taken with a view to sharing its comments, observations and analysis on budget FY 2005 presented by the Finance Minister on June 10, 2004. CPD Chairman *Professor Rehman Sobhan* moderated the dialogue while *Dr Debapriya Bhattacharya*, Executive Director, CPD presented the keynote paper. The dialogue was attended by former ministers, MPs, politicians, senior government officials, economists, academicians and representatives of the development agencies.

Introductory Remarks by the Chairman

Professor Rehman Sobhan, Chairman of the Centre for Policy Dialogue (CPD), welcoming the guests, pointed out that the dialogue was a sequel to earlier dialogues organised by the CPD at the time of *Bangladesh Development Forum Meeting* held in Dhaka and to review the state of Bangladesh economy. Professor Sobhan noted the presence of a distinguished group of high level policy makers, government officials, business leaders, representatives from grass roots organisations, academics and experts. He hoped that the dialogue would generate useful insights as regards the State of Bangladesh Economy and interventions to address the attendant challenges. He informed the audience that the Finance Minister would not be able to join the dialogue, as he would be presenting the supplementary budget in the parliament. The main opposition party Awami League was also attending the budget session so that a number of MPs from the opposition parties were not being able to attend the dialogue. He hoped that the dialogue participants would be able to conduct an in-depth discussion on the key issues on the table and that the discussions would generate useful inputs for the Finance Minister and members of the parliament.

Keynote Presentation by Dr Debapriya Bhattacharya, Executive Director of CPD

In his initial remark *Dr Bhattacharya* stated that the ongoing dialogue was the fourth in the series organised by the CPD as part of monitoring the state of the economy during the last one and half months. He noted that the process has started with the CPD dialogue on development forum meeting, followed by a press briefing on state of the economy before the budget was placed in the Parliament. Moreover, another press conference was organised on budget responses immediately after the announcement of 2004-05 budget. "Now, with this public dialogue, CPD is finally rounding up its monitoring of the state of the economy under its Independent Review of Bangladesh Development (IRBD) programme," he added. He also informed the audience that for the first time CPD has organised live web-cast of its budget reaction which was presented at a press briefing on June 11 and of the current dialogue also.

Backdrop

Dr Bhattacharya initiated his deliberations by highlighting the positive developments of the economy in the fiscal year 2003-04. He noted that GDP growth has achieved the target of 5.5%, which was also projected in the Interim-Poverty Reduction Strategy Paper (I-PRSP) framework. Fiscal deficit was also lower than what was planned, although it can be argued that this achievement was due to lower level of development spending. Moreover, the Executive Director of CPD also pointed out that there was a peak up in both foreign and domestic investments, and some fresh movements in the capital market were discernible beginning from last October. *Bhattacharya* observed surge in imports, particularly after the previous year's slump, which he thought was a reflection of growing domestic demand. There was also a steady recovery in export earnings, increase in the flow of remittance and improvements in the foreign exchange reserve. He pointed out that the exchange rate had not experienced any shock.

Dr Bhattacharya considered all these as positive backdrops for the new budget. On negative sides, the economist stated the shortfall of revenue collection, particularly in the non-tax and non-NBR sector, under-utilization of the ADP allocation and the very low off-take of foreign aid. Moreover, there was stagnation in savings-investment scenario, particularly domestic savings rate was stagnating and public investment was the lowest in the last 14 years, about 6.12% of GDP. *Bhattacharya* added that income disparity was increasing and the tax incidence contributed to the deterioration of income distribution. He observed that privatisation process remained almost paralysed while political acrimony and agitation intensified during third and fourth quarters of the 2003-04 fiscal.

Analysing these positive and negative factors, the economist pinpointed some macroeconomic challenges for the fiscal year 2004-05, which the Finance Minister and his team would have to overcome. *Bhattacharya* insisted that the GDP growth is required to be pushed up beyond 6% from the current level 5.5%. Moreover, he felt that mere growth in GDP would not automatically translate into poverty alleviation; consequently, more effort should be put for an equitable distribution of the incremental income created by the GDP growth. He also emphasised on lifting private investment share beyond 20% of GDP from the current 17.5%, also raising domestic savings rate to at least 20% of GDP from 18.3%, keeping inflation under control which is about 6% and maintaining exchange rate stability particularly in the upcoming MFA phase-out period. He also stressed the importance for overcoming the 'last lap syndrome' which is a situation when towards the end of a political regime, in the run up to the elections there is a fatigue, and the enthusiasm for reforms tends to suffer erosion.

Dr Bhattacharya identified greater off-take of foreign aid and improving foreign aid disbursement as a major concern. He particularly mentioned project aid since an amount of $7 billion had already been lying in the pipeline. Without addressing these issues, there would be a vacuum in ADP financing, and ADP utilisation would remain stagnant. Therefore, the issue of full delivery of development programmes was very important, he added. Moreover, despite the increase of the subsidy, the effective delivery of the agricultural subsidy with better targets and better quality remained a concern. He also pointed out that expanding the income tax base effectively, instead of widening local VAT collection, was another crucial issue which needed to be addressed. People who are capable of paying taxes should be identified and brought under the tax network, without unnecessary harassment. The economist also mentioned that non-NBR and non-tax rates needed to be adjusted, since charges were often under-rated while the quality of services remained poor in such areas as postal delivery and rail services. Stressing on rationalisation of para-tariff, he noted that there was 15% VAT, 4% surcharge, 3% advance income tax and different rates of supplementary duties, and all these are eventually giving rise to taxes on tax (cascading tax). *Bhattacharya* pointed out that addressing the price of petroleum products was another major concern as global petroleum price has increased and quasi-fiscal deficit of the government was also increasing due to high taxes/duties imposed on imports. He suggested that the government should not increase the petroleum price; rather it should reduce tax incidences. He observed that the government had already done that in the budget.

Other issues which remains a concern include providing a new pay scale to government employees and establishing a permanent pay commission, expansion of social safety-net programmes, establishment of separate savings scheme for pensioners, small savers and other disadvantageous groups, and greater flow of IPOs in the capital market.

Bhattacharya also stressed on monitoring the impact of global inflation on the price of rice as well as domestic food stock. Ensuring food security was important particularly in view of large-scale Chinese procurement in the global market. The emerging energy crisis should also be looked into as shortfall now averages 600 MW per day in the country. He also expressed his concern for the post-MFA shocks, which would result in, not only large retrenchment, but also pre-empting large devaluation, i.e. large shock in exchange rate due to a possible export setback.

The CPD Executive Director noted these as the backgrounds in which the budget was prepared.

Salient Features of the Budget

Presenting the salient features of the FY05 budget, *Dr Bhattacharya* noted that the budget was logically cogent, and has explicit macro parameters. It was also of relatively manageable size. The budget was not crowded with donor endorsements, which was in other budgets where Finance Ministers had some kind of a habit of referring to endorsement of international financial institutions in order to establish their credibility.

Budget FY05 recognises the role of non-economic factors such as corruption, law and order situation etc. which he identified as an important recognition. The budget also avoided usual blame-game with respect to the opposition. *Dr Bhattacharya* pointed out that there was some movement towards integration of development and non-development components since a separate document provides development and non-development expenditures under a common grant. He added that the budget summary was more transparent in terms of resource availability and there uses, but the tariff changes were most skilfully made obscure in the Finance Bill. The Finance Minister did not mention all the changes in taxes in the annex of the budget speech, which was regarded as common practice in previous years.

The CPD Executive Director then elaborated the macroeconomic scenario comparing it with the I-PRSP framework. He noted that in domestic savings the shortfall was almost 1%, in national savings it was a 0.19% increase over the target while in gross investment, the shortfall was 1.82%. By disaggregating private and public investments, he showed that the shortfall was of 1.23% and 0.58% respectively. He also added that despite the achievement of GDP growth rate in FY04, all the macro parameters except national savings have missed their respective targets. In this backdrop, *Bhattacharya* questioned whether a new tension was being created in the macro economic framework because growth was taking place but investment was not, and also domestic savings was almost stagnant. He also questioned how much of it would be covered up in FY05 and how far the I-PRSP mid-term macro economic framework would be protected? He was of the view that the way it started in FY04, macroeconomic framework has taken a beating and people have to wait and see what happens in FY05.

The economist also pinpointed that the inflation rate was higher than what was planned, the total revenue earning was lower by 0.2%, particularly in case of tax, total expenditure was lower than 0.7% of GDP, and it was equally less in case of ADP and current expenditure, at 0.4% in each case. The overall budget deficit was 0.5% less than the target mainly due to lack of implementation of policies which resulted in low expenditure. Net domestic borrowing was also lower than planned. The projections, which have been made in the current budget more or less, follow the I-PRSP target. However, the revenue target in the budget is smaller than what is envisaged in the I-PRSP, and the same thing holds in the case of total expenditure and budget deficit. Pointing to this, Bhattacharya mentioned that although people might think the budget was big with large expenditures, comparison with I-PRSP framework implied that it was not large because I-PRSP projected a bigger public expenditure package.

ADP

In his keynote presentation *Dr Bhattacharya* mentioned that the annual development programme (ADP) for FY04 was originally estimated to be Tk 20,300 crore, which was later downsized to Tk 19,000 crore. Sharing CPD's estimate he projected that ADP utilisation would not go beyond Tk 17,000 crore. Unveiling the top performers of the ADP up to March, 2004, he noted that religious affairs ministry ranked first with utilisation of 70% of allocation, followed by home ministry (69%), local government ministry (65%), health and family welfare ministry (57%) and road and transport ministry (55%).

Moreover, those which lagged in terms of ADP utilisation were liberation war ministry, which utilised only 5% of the allocation, followed by information ministry (10%), planning division (13%), post and telecom (14%) and finance ministry (20%).

The ADP priority, as noted by *Bhattacharya*, has not changed substantively in FY05 when compared with FY04. Local government and power division ranked first and second in both the fiscal years. However, road and transport came down in fourth position while education shifted to third and health continued to occupy the fifth position.

Furthermore, in terms of ADP allocation in FY05, general public services were the biggest gainer which grew at a rate of 15.3% over the revised allocation in FY04. These services stand for all the administrative expenditures including that for the offices of the President and the Prime Minister. He also noted that substantive allocation for recreation, culture and religious affairs have seen a growth of 40%, followed by education (34%), social security and welfare (33%), agriculture (22%), health (12.5%) and transport and communication (10.5%).

The economist felt that it hardly matters how much a sector's allocation is; what matters is the implementation of the allocated resources. In this context he noted that the implementation performance vary significantly across the sectors. In terms of revenue expenditure, *Dr Bhattacharya* mentioned that the biggest increase was in bloc allocation. Although there is a debate as regards allocation of fund in this category, this particular provisioning was made in view of dearness allowances for government officials and employees. He also said that CPD's prediction on higher revenue expenditure for interest payments has proven to be true, which was disappointing. He also pointed out that though the government has reduced borrowing from banks, interest for domestic borrowing has increased by 11%, while it is 16% for foreign debt servicing due to large disbursement for foreign funds, which remained largely unutilised.

The CPD Executive Director projected that the overall revenue expenditure would increase by 14%. He, however, appreciated the announcement of a new pay scale. At the same time, he stressed on thinking seriously about a wage commission because the workers also have the right to receive better payment. Mentioning that there is a large increase in the number of *micro-credit* based self-employment programmes within the revenue expenditure, he stated that it is a matter of debate whether the government should carry out such large programme and whether the ministries are efficient enough to run such large programmes.

He noted that the new allocation was Tk 1379 crore of which Tk 660 crore would be distributed by government agencies and departments, although there are micro-credit programmes implemented by PKSF and NGO foundation. He was surprised to see that Tk 660 crore has been allocated for various ministries despite the fact that they have already been allocated Tk 5,200 crores?

The economist also spoke about the allocation of about Tk 750 crore for supporting entrepreneurship development, of which Tk 100 crore is earmarked for agro-based industries, Tk 200 crore for equity entrepreneurship fund, Tk 250 crore for SME refinancing and Tk 200 crore for lending through SCBs for generating employment.

Revenue

Regarding the revenue resource components, *Dr Debapriya Bhattacharya* mentioned that the share of the non-NBR component has been falling and it would be very difficult to achieve the aggregate revenue target without an increase in non-NBR earnings. He pointed out that income from non-judicial stamp, the most important non-NBR source recorded a negative growth in FY04, and therefore questioned whether people have stopped transferring property.

He pointed out that share of non-tax revenue was also declining and has fallen below 20% of total revenue in FY04. He added that T&T, dividend & profit, administrative fees and income from interest were the most important items, and combined incomes from these sources are projected to grow by 7.9% in FY05, against the 15% target set in FY04. The economist urged that tariff rates of these services needed to be reviewed and adjusted keeping social concerns in mind, and if this was not addressed in this budget, then it might happen subsequently after the budget, and that would be less transparent.

Dr Bhattacharya stated that one of the most interesting part of this year's budget was tariff reform; tariff rates on specific products were not an issue, but there were fundamental changes in import tariff and supplementary duty. There was a four-tier system— 30%, 22.5%, 15% and 7.5% and two years ago the Finance Minister promised to make it a three-tier system10%, 20% and 30%. However, he had now changed this to 7.5%, 15% and 25% and reason behind such last moment change was unknown. The CPD Executive Director also felt that such changes were not done in an appropriate time; moreover, they also lack adequate analysis and consultation. Such unilateral liberalisation may undermine Bangladesh's strength in bilateral and multilateral negotiations. He cited that Bangladesh did not sign BIMST-EC as it was not allowed any compensation measure. He was of the view that such tariff reduction was not required under WTO provision and if any IFI asked to do so it was a violation of policy coherence among the IFIs.

He, however, termed the para-tariff rationalisation as an excellent move as it was set at the three-tier system (30%, 25% and 15%) and the impact of this would be a subject of empirical verification. At the same time, Dr Bhattacharya stressed on rationalisation of the advance income tax (AIT) and infrastructure development surcharge (IDSC), and added that the legitimate question was how the collection from IDSC would be distributed among the various infrastructure development programmes of the government. He doubted that a significant amount does not go to the development areas and stressed that the distribution should be transparent.

The changes in income tax and the increase in the exemption limit for the purpose of taxation was supported by *Dr Bhattacharya* as he felt that it took into account the increase in the cost of living. Explaining the implication of revised income tax rate for individuals, he said that people earning Tk 1 lakh now have to pay 25% more as income tax. This is because, the minimum amount fixed currently is Tk 1500 and previously it was Tk 1200. However, those who earn Tk 9 lakh or more would enjoy 16% rebate as they now have to pay Tk 1, 07,000 while earlier they had to pay Tk 1, 27,000. Bhattacharya believed that under this system those who earn less would benefit less while those who earn more would enjoy more benefits relatively, and this he felt was not rational. He suggested that either the tax-free limit should be raised or the ceiling of Tk 9, 00,000 be revised downward. He pointed out that the minimum taxable monthly income would be Tk 8,333, which is in right order; however, extra thought should be given so that the people with low income could benefit.

On the VAT net expansion, the CPD Executive Director said that the inclusion of manufacturing sub sectors was a welcome move as those were mostly intended to protect local industries. However, he asked whether the pressure cooker manufacturers would be able to sustain the competition after imposition of VAT. He added that VAT on raw silk at the stage of importise appeared as a protection to local industry, but before that, the government should fix its mind whether it would encourage local sericulture industry. *Dr Bhattacharya* appreciated the expansion of VAT net bringing different services into it, but questioned what would be done to bring professionals such as doctors, lawyers and chartered accountants into the network. He noted that the government had in the past tried to bring these professionals under VAT net but retracted later. This time the government did not even dare to repeat the step and probably would not be able to do it till the next election. He insisted that it would be fair to bring all these professions under VAT coverage evenly.

Explaining the tax measures, *Dr Bhattacharya* pointed out that tax on transaction of real estate increased from 5% to 10%, however, only two years back the Finance Minister reduced the rate to develop a secondary market in the sector. Now, the rate has been increased on the plea that government have not been able to mobilise enough fees inspite of the tax break. The economist felt that the government should be more patient since such frequent changes were not encouraging. He also mentioned that tax on profits from bond/securities, which was reduced to 20%, would hopefully stimulate secondary bond market.

The keynote presenter also noted that that the tax authority had a basic problem with the administrative measures in terms of transparency. One key issue was administration and enforcement of tax measures, he added. In this regard he pointed out that although there was a demand for universal self-assessment system, the current self-assessment empowered the tax authorities to audit any tax return based on their choice, which may lead to corruption, harassment and embarrassment of the taxpayers. He said that the tax return should be randomly chosen through computerised system and desirably under the office of the tax ombudsman. Similarly, tax ombudsman should moderate VAT arrest power of assistant commissioner.

According to *Dr Bhattacharya*, withdrawal of AIT, from all types of petroleum, as well as reduction of the existing Supplementary duty on kerosene would reduce the tax burden on crude oil, kerosene and all other fuel. This would not increase as the price of these items are politically sensitive. He, however, thought that the gas price was going to rise.

Bhattacharya termed the increase in supplementary duty on vehicles a 'pleasant surprise' as it was necessary to bring some equity within the budget structure.

On budgetary measures for export promotion, he stated that the exemptions accorded to textile machinery, leather and other export-oriented industries from customs duties and VAT is positive. However, he felt that the possible impact of re-fixation of import duty on paper at 25% was ambiguous.

In the case of domestic protection, the economist suggested that the potential areas are grey cement, poultry, furniture, tiles and agro-based industries. However, the elimination of VAT on import of poultry egg, chicken meat and potato, and reduction of supplementary duty on food industry, soft drinks, Portland cement, ceramic products, bicycle, LP gas and toy were negative moves, he opined. He also stated that that elimination of VAT/IDSC at the import stage and VAT at the manufacturing stage on wheat, rice, flour, all rice, lentil, live animal, all types of meat, fish, oil seed, crude oil, refined palm oil, soybean oil, vegetables and salt are positive initiatives in terms of consumer welfare. Moreover, Dr Bhattacharya reminded the participants of the dialogue that two years ago the Finance Minister argued in favour of consumption of locally grown fruits and increased duty on imported fruits. However, this year he reduced the supplementary duty to 25% from 40%. Elimination of VAT at import stage from life saving drugs, transport, newspapers was regarded as a positive step by the presenter, but from powdered milk (retail and bulk), chocolate, coil, tobacco and aircraft or helicopter would have some negative implications.

In case of import of sugar, *Dr Bhattacharya* stated that last year supplementary duty was increased substantively, however, this year it has been brought down from 40% to 15% while VAT has been eliminated at the import stage. He noted that the budget did not distinguish between raw sugar and processed sugar. Moreover, raw sugar is now being processed and exported to the EU, and therefore should enjoy a more liberal regime. He also said that in view of consumer welfare, supplementary duty or VAT exemption or relaxation on health equipment, mobile telephone, fishery, crop, vegetable, fertiliser, pesticide and agricultural equipment is positive. However, steps taken regarding wheat are negative. On domestic protection, the presenter added that actions taken for light engineering, handloom and textile, printing industry, cosmetics and toiletries, dairy and poultry are all positive, but the imposition of SD at manufacturing stage of plastic industry would have a negative impact.

Bhattacharya also expressed his surprise regarding the increase of SD on expensive cigarettes and decrease of SD on low cost cigarettes, and asked whether it meant that the government was less concerned about poor people's health.

Sector-wise Allocation

The total allocation for agriculture, as pointed out by the economist, has almost doubled. He considered this to be a significant change. Moreover, the reduction of interest rate to 5% is also a substantial support. He added that raising cash incentives for export of agriculture products, fruits and vegetable from 25% to 30% and farm subsidy from Tk 300 crore to Tk 600 crore was a good step. However, he expresses concern about the utilisation and targeting of increased resources, and added that in the last fiscal, up to January 2004, only 31.4% of subsidy allocated was utilised. Moreover, for the current fiscal, no mechanism was announced as to how Tk 600 crore of subsidies would be utilised.

The ED of CPD pointed out that on fisheries, total allocation has been increased by 25% while allocation rural development also experienced a 5% increase.

Industry

Referring to the bringing down of the highest slab of import tariffs, the presenter agreed that the government did not impose new tariff and new taxes but extended coverage of VAT and income tax. He said that the reduction of income tax for jute and textile industries was the right decision and also withdrawal of collection of VAT from insurance, shipping bill and C&F agent's commission for RMG sector were positive steps. The economist was of the view that industrial park, refinancing for SME's, restructuring banks and reducing capital gain tax from 15% to 10% for foreign direct investment (FDI) are all positive steps.

Social Sector

Dr Debapriya Bhattacharya underscored that education had received the highest allocation of Tk 7,680 crore, which was a 13.7% increase. However, he expressed his concern regarding the utilisation of the resources allocated and the quality of education offered in educational institutions. On health sector, allocation increased by 11.5% which was less than education while direct defence expenditure increased by 2.36%. Bhattacharya added that the previous government introduced many of the safety net programmes, and this government was not only continuing these, but had also introduced some new programmes. He mentioned that allocation for old-age allowance, allowance for widowed, deserted and destitute women and honorarium for insolvent freedom fighters increased by 31% while the number of beneficiaries increased by 20%. The presenter also pointed out that funds for mitigating risk due to natural disaster, funds for rehabilitation of the acid burnt women and physically handicapped and housing of the homeless increased by 70%. On VGD, VGF, test relief, GR, FFW, the increase was 14.5% over the FY04, however, compared to FY02 it was less by 18.7%. Bhattacharya observed that the major problem of the safety-net programme was that it still missed out geographical coverage, which was a key instrument of targeting.

On MFA phase-out, he mentioned that allocated fund was Tk 20 crore in the budget for retraining and creating employment opportunities for employees-labourers of garments industries, but this amount was not enough for the possible retrenchment; moreover, there was no allocation for small entrepreneurs in the garments sector. He opined that not only workers but also small garments would be affected.

Final Observation

Drawing his presentation to a close, *Dr Bhattacharya* stated that the budget would be tested in terms of its implementation, and allocation had very little importance if implementation was inefficient. He termed a low income country like Bangladesh, as a country of paradox. On the one hand, Bangladesh is an under-invested country, where investment is not picking up and it cannot fulfil the target it sets herself. On the other hand, large sum of money remains under-utilised. ‘We have almost Tk 10,000 crore in the bank as excess liquidity, we have $7 billion foreign aid in the pipeline, we cannot spend Tk 5,000-6,000 crore of ADP, we cannot even utilise public savings where 200% over subscription takes place in the capital market when sometimes IPO is floated’ *Dr Bhattacharya* said. He was of the view that resources were not the problem in the country. He questioned whether it is an absorption failure, or a that the country cannot absorb the fund, or another there is no demand for the money. He further asked that whether it was a failure of the delivery mechanism, or it was an outreach failure in terms of not being able to take money to the people, or it was the governance failure. As a result of which resources were not managed in the right way in the right time. *Dr Bhattacharya* expressed his hope that the implementation of the budget for fiscal year 2004-05 would provide some answers to these burning questions.

Open Discussion

Challenges of implementation

Former Finance Minister *M Syeduzzaman* pointed out that some praise worthy and eye-catching measures which the present Finance Minister M Saifur Rahman have under taken in the current budget were similar to measures which he himself had undertaken in his first budget of FY1981 as a Finance Minister. Such measures included increased support to agriculture, rural development and infrastructure sectors as well as increased support to the social sector, social safety net and other measures for reducing poverty. *M Syeduzzaman* stated that the Finance Minister's action proved that the basic challenges, that the economy of Bangladesh faces remains similar to what they were 20-24 years ago. He felt that the challenges which the current Finance Minister faces include such tasks as maintaining a sustainable macroeconomic balance, improvement in quality of public sector management and service delivery, expediting the pace of improvement in implementing projects and utilising foreign aid, increasing investment in the social sector and improvement in physical and non-physical infrastructures for supporting the private sector growth. He said that these problems remained unchanged over the last two decades. *Syeduzzaman* mentioned that he himself, in his initial reaction to the media, termed it a 'bold budget' , however, after reviewing the budget documents rigorously, he realised that the appropriate word for this budget should be 'daring'. The ex-finance minister substantiated his comment by saying that the high target of the budget was not justified if we learn from our experience as regards past performance.

Referring to CPD's projection on actual implementation of the annual development programme (ADP) this year at a range between Tk 16,000 crore and 17,000 crore, *Syeduzzaman* stated that the ADP growth stood at about 40% in the next fiscal year. He pointed out that no new measures had been announced for improving ADP implementation, except a new procurement policy, a new format for project document and a new procedure for project approval. "These have not yet been finalised, (though) currently under consideration," he added.

In the entire non-development budget, the Former Finance Minister could not identify a single item where expenditure cut had been proposed.

He claimed that it was often told that we could do without foreign aid. However, he pointed out that the budget showed that 44.5% of the ADP was financed by foreign aid and particularly for all development expenditures, almost 47% of the fund, would come from foreign aid. Therefore, it is clear that the development budget is heavily dependent on foreign aid, especially for social sectors, education and health.

The ex-finance minister expressed his conviction that unless the quality of implementation and the administrative efficiency was improved, targets for the FY05, targets of the PRSP, mid-term targets for reduction of poverty, increasing revenue, using foreign aid and implementation of ADP, improvement in quality of services of the social sector would remain elusive. He identified these as the major challenges of the budget.

M Syeduzzaman stressed on the importance of monitoring large number of measures, as proposed in the budget, for agricultural and rural development sectors, social sector, poverty alleviation and for generating employment.

President of International Chamber of Commerce, Bangladesh (ICC,B) *Mahbubur Rahman* stated that he found the budget to be a very positive one. However, he believed that a single budget could not address the entire spectrum of the needs of the country. Describing the budget's targets as challenging and ambitious, he stressed that the country had to achieve those and the challenge was the implementation of the ADP and the utilisation of the allocated resources.

Awamai League leader Professor *Ali Ashraf* expressed his doubt about the implementation of the budget proposals, referring to the present government's performance for the last two and half years. He questioned the government's capacity to implement the budget and said that only 42% of the outgoing ADP had so far been implemented. "How can it be possible, is there any magic to implement the rest of the ADP in only 15 days?" he questioned. Prof *Ali Ashraf* said that with the present set-up of the National Board of Revenue (NBR), the revenue target would not be achieved. The opposition leader felt that nothing would happen, 'until and unless' there was good governance which the budget did not mention about. He noted that the law and order situation was not up to the mark, corruption was rampant and the country would be prepared once more for being the champion in corruption. In this context, he stated that the budget would end up without any fruitful result and it would not be able to bring in any positive result for the citizens.

Former ambassador *MM Rezaul Karim* said that the most important and critical observation made about the budget was that 'it is over-ambitious and also that it cannot be implemented as the government has no capacity to do that'. Admitting the reality, he simultaneously questioned how one could achieve progress without setting any target. He said that the nation should look at the future, not at the past every time. The Former Ambassador also expressed optimism that at least parts of the target, if not entirely, could be implemented, provided that there were sincerity, determination, skills and efforts for translating this budget into reality. Ambassador *Karim* said that in order to do this, it was essential to get necessary co-operation from all sectors, not from businessmen alone, but also from politicians, economists and the civil society as a whole.

Awami League leader *Dr Abdur Razzaque, MP*, stated that the budget was ambitious, unrealistic, and not implementable. He added that the current regime had already implemented three budgets but failed to implement any of those completely. He referred to the last fiscal's budget that almost 80% of the revised ADP of Tk 19,300 crore was not achieved. In the outgoing fiscal, only 45% was implemented till April, he noted. In its revenue collection, the Awami League leader pointed out that the government achieved a meagre 13% growth last year against a target of 19%.

Abdur Razzaque stated that the budget was highly dependent on donors' funds although some $700 million idle money was there with the national exchequer. "And we cannot utilise the funds," he lamented. He further expressed doubt on the utilisation of money, given the present state of law and order situation and the inefficient bureaucratic system.

The World Bank's Country Director *Christine I Wallich* pointed out that being a low-income country, Bangladesh required substantial investments, for providing public goods, development of infrastructure and public investment to support growth and poverty alleviation. At the same time, she observed, there was an apparent inability to carryout the expenditure programme whether it was on the revenue budget or development budget. There were undisbursed donor funds and the budget witnessed under-spending every year, as it would be in this year too, she added. *Wallich* said that the budget could not be implemented due to the inability to spend effectively. She further added that on the one hand there was a huge requirement for public investment for public expenditure, and on the other hand, there was a system which believed in non-spending. The World Bank official noted that spending decisions were not correct all the time as spending on road construction turned into spending on contracts and spending on women education became spending on teacher's salaries.

Christine Wallich stated that the issue of decentralisation and public administration needed to be addressed because a budget could not be delivered properly under the current state of high centralisation and the present quality and capacity of the administrative machinery. The ability to implement was the most important issue and it would require some degree of decentralisation with better accountability and emphasis on administrative machinery, civil service reform and pay reform as well, she added. She was of the view that the budget was only good if it could be implemented, and that challenge was in its implementation.

Country Director of the Asian Development Bank (ADB) *Toru Shibuichi* noted that Bangladesh had a limited implementation capacity due to many factors. He mentioned that some people blamed the imposition of some difficult conditions by the World Bank and the ADB as one of the factors. However, he added, there were institutional, systemic and human resource problems in implementing the development plan. In this connection, he mentioned that some agencies took more than two years to decide on purchasing $10 million equipment and donors could not accept such delays. He also added that out of ADB's $2.5 billion aid commitment, the country was only able to use $800 million. He requested the government for using concessional lending, which was also not utilised.

Toru Shibuichi appreciated the fact that *M Saifur Rahman* was the Minister for both Planning and Finance ministries and felt that this would make him responsible for approval, monitoring and implementation of development projects. He added that the Minister had already asked development partners for the simplification of approval process for streamlining development project documents.

Capital Market Development

Former Commerce Minister *Amir Khosru Mahmud Chowdhury,,MP*, stated that reforms, which were required in the capital market had already more or less taken place. He also added that it was high time that some institutional changes were made as regards the Securities and Exchange Commission (SEC). *Khosru* also stressed the need for certain structural changes to the country's stock exchanges. They should go for de-mutualisation so that brokerage control can be waived. He emphasised on creating depth in the market as it currently does not have enough diversity for attracting investment. The former minister pointed out that every time when there was an IPO (initial public offering), it was over subscribed since there was no dearth of fund. However, the number of shares available did not match the high demand and this caused too much money to chase too few shares. The BNP leader insisted that government shares, as pledged earlier, should be offloaded to the market to create more depth in the market. He said that the country's capital market had almost all the necessary structure as stock exchanges were automated with real-time online trading, a central depository company for scrip-less share trading, and one of the stock exchange was already available for internet trading. *Khosru* mentioned that he personally took many efforts, to bring about positive changes in stock exchange trading.

SEC Chairman *Dr Mirza Azizul Islam* mentioned that whatever benefits had been given in the last budget remained unchanged in the new budget, indicating the continuity of the positive impacts of those measures. He was of the opinion that the impact of changes to the interest rate structure on the capital market would probably be felt over a long period, and therefore Bangladesh Bank and the SEC should jointly work in activating the secondary market of the bonds.

Dr Islam further said that any capital market in the world was typically characterised by some type of irrational behaviour in a short-term context, but those were addressed over medium and long period of time. He stated that just after the announcement of the budget, capital market index had fallen during first two days, but then again rebounded significantly. He explained that there was an expectation for additional benefits in the budget and their absence resulted in immediate adverse impact during the first two days. "Later, the market fundamentals started dictating the market trend," he said adding that the budget did not have any adverse impact on the capital market.

Agreeing with *Khosru's* contention on dearth of good scripts, the SEC Chairman mentioned that the SEC was trying its level best, and government departments and ministries needed to be more active in this regard. He, however, differed on structural changes to the SEC right now, claiming that the SEC had been running with inadequate manpower. He claimed that for 248 listed companies, the SEC's corporate finance department has only three officers who have to examine and monitor whether these companies are holding annual general meetings (AGMs), distributing dividends, maintaining accounts properly and so on.

Mirza Aziz stated that there in had already been some changes to the basic infrastructure along with change technical structure; however, there were still many areas that depended on judicial system for any change. In this connection he referred to the fact that not a single case of the 1996 share market scam had been settled till now, and this involved factors that were outside domain of SEC's authority.

He also questioned whether de-mutualisation had always resolved conflicts of interests in the stock exchanges and recommended further examination before going for de-mutualisation.

Tariff Reduction and Impact of Local Industry

Disagreeing with *Dr Debapriya Bhattacharya's* point on maintaining slower pace of tariff reduction, *Amir Khosru* noted that it was the government's commitment to reduce tariff and there was no justification for delaying this. On keeping room for trade negotiation, the ex-minister said that it was better to speed up negotiation process rather than keeping high tariff as a bargaining point for future trade talks.

In a similar vein, SEC Chairman *Mirza Azizul Islam* termed the idea of keeping tariff rate high on the plea of bargaining more effectively with other negotiating partners as a 'poor logic'. He felt that tariff rate should be determined on the basis of consideration for investment incentives, consumer welfare and income distribution. The SEC chief said that there were 'very rare' instances in bilateral or regional or multilateral trade negotiations where anyone really saw a provision for compensation for tariff loss. He added that even in the European Union there was a European Development Fund for block allocation for relatively weaker economies, but no compensation package for tariff loss.

Khosru admitted that some of the growing industries in Bangladesh would be affected by the tariff reduction. In this connection he named steel industry, which had already started to export its products. The former commerce minister noted that it had started from corrugation, then introduced galvanising and now produces CR coil as well. "It is moving up to HR coil, thus making an integrated industry," *Khosru* said adding that this industry should be allowed to continue with the old tariff structure so that they could accumulate some wealth and go for the integration since the country needed basic steel industry.

A Rouf Chowdhury, Director of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), stated that narrowing down gap between the highest and the lowest tax slabs was a wrong signal for investors in the industrial and manufacturing sectors. He pointed out that the reduced gap would make raw materials costlier compared to finished products despite the fact that raw materials were still imported under lowest tax slab and finished products under the highest one. He mentioned that the gap came down to 18.5 percent from 22.5 percent due to the proposed changes in the budget.

Professor *Abu Ahmed* suggested that the lowest slab should be brought down to 5.5%, widening the gap between imported finished goods and imported raw materials, in order to balance any adverse imports of tariff reduction on local industries. He further mentioned that the country has to reduce customs duty following the current global trend, and there was no reason why Bangladesh could not have a faster pace of liberalisation.

ICC,B President *Mahbubur Rahman* pointed out that in the early 1990s "we had become holier than the pope, even before the emergence of the World Trade Organisation (WTO) we had reduced all duties and taxes”.

The Bangladesh Bank governor *Dr Fakhruddin Ahmed,* pointing to the movement in terms of duty reduction stated that it was the right direction towards liberalisation (in line with the global trend). Dwelling on specific individual industries, he said that there should be research on the implications of tariff measures. "Otherwise, the general argument like '30% (highest slab) is better than 25%' seems to be going around."

Referring to the Indian tariff rates Awami League lawmaker *Dr Abdur Razzaque* stated that they were much higher than those in Bangladesh. The MP accused the present Finance Minister for hurrying up on tariff reduction which he had done in his last tenure as the Finance Minister during the 1991-96 period.

He was critical of the fact that the country imports juice from Malaysia and Indonesia and furniture from Malaysia although Bangladeshi carpenters were 'very good and doing nice in craftsmanship'.

The opposition leader said that if timbers were imported and used in making furniture then it could have generated employment opportunities. "When developed countries could use many strategies to protect their industries and market, why are we not doing that?" he questioned.

Taxation, Revenue Collection, PSI and Tax Holiday

Former Finance Minister *M Syeduzzaman* claimed that the high targets of the budget were not justified by the past performance. He noted that total tax revenue was to increase by 19% and in that head, income tax by 20%, VAT by 26%, import duty by 22% and non-tax revenue by 17%. On expenditure, he pointed out that non-development revenue expenditure would rise by 16% and capital expenditure by 50%. However, the ex-finance minister cited that in all these cases, revised estimates were lower than the original budget targets and despite this fact, the Finance Minister had projected a quantum jump in next year’s budget. According to him, it would be the highest jump in revenue target since 1991-92 when the government introduced value added tax (VAT).

Explaining the annual economic survey findings, the former minister added that the proposed growth in import duties was 22% whereas import growth, which was 15% this year, would go down to 8% next year. He claimed that there was an assumption that exchange rate would be depreciated substantially.

FBCCI Director *A Rouf Chowdhury* stated that the Finance Minister, *M Saifur Rahman,* spoke about expansion of allocation for subsidy and investment and at the same time expanded the VAT net, which would affect medium and small enterprises much more than any other sectors. The worst thing, according to the business leader, was that without creating efficient reforms in the VAT administration, VAT inspectors would be empowered to arrest businessmen. He expressed apprehension that such a step would shed a cloud on the investment climate.

Referring to the reduction of supplementary duty on refined sugar, *Mr Chowdhury* stated that the Finance Minister's steps would destroy local sugar industry, which employ more than half a million people directly or indirectly. He suggested the same duty on raw sugar and refined sugar and the pattern should follow the duty on refined vegetable oil and crude vegetable oil.

The business leader noted that the Finance Minister was very silent about whether to stop or go ahead with pre-shipment inspection (PSI), a dilemma that has been causing serious difficulties to the business community, particularly importers of raw materials and capital machinery. He mentioned that the withdrawal of tax holiday was a wrong signal to the industrial sector and new industries desperately need this facility of tax holiday, he said.

Former Secretary of the Economic Relations Division (ERD) *Dr Masihur Rahman* thought that ensuring tax growth would be a challenge particularly because of lowering of duty by about Tk 750 crore to Tk 800 crore. Therefore, the growth projection for the next fiscal would be higher than 20%. He pointed out that as growth would not exceed 6%, the Finance Minister was anticipating a disturbing level of inflation and adjustment of exchange rate. *Rahman* also claimed that there was a trick in the budget. As an example he cited that the Planning Commission has been given a development budget worth Tk 582 crore while the agriculture sector got Tk 582 crore as development expenditure. “The sector (agriculture) spends money while the commission only holds it,” he added. The former bureaucrat said that allocation of Tk 650 crore for micro-credit would be spent over a number of years. In fact, according to him, the Finance Minister has maintained “caution in the budget with built-in mechanism." The former secretary noted that the Finance Minister admitted ‘if things don't happen, if taxes and aid do not come, then it has to be adjusted’. All Finance Ministers have to play tricks and play to the galleries, he mentioned.

Regarding the expansion of the VAT, the Former Secretary supported the idea. However, he stated that it was going to take a considerable toll on small entrepreneurs, since given the quality of tax administration, they (entrepreneurs) might be subject to harassment. He suggested a review of both tax administration and tax rate. He also said that this required adjustments which would take capacity to pay into account. He expressed apprehension that AIT (Advanced Income Tax) might be ‘vulgarised administratively’ although its target was to get more people under the tax-net, rather than getting more revenue.

Awami League leader *Ali Ashraf* also questioned whether the government was capable of achieving the revenue target with the present set-up of the NBR.

President of Metropolitan Chamber of Commerce and Industry (MCCI) *Kutubuddin Ahmed* stated that though the budget cautioned an announcement about appointing tax ombudsman, there was no allocation in the budget in respect to this, and it was not clear whether it would start functioning from this year or the next year. He supported *Dr Bhattacharya’s* contention that people needed less interaction with the taxmen. The chamber leader suggested introduction of electronic system such as internet for submitting tax papers and all other documents, including self-assessment scheme.

The MCCI president pointed out that they did not want any surprise announcement in the budget as businessmen or investors want to invest under transparent predictable policies. "So, if the announcement changes (policies) all of a sudden, that would upset the entire programme of investment," he added. *Mr Kutubuddin* further stated that the budget did not mention anything about the PSI which, he felt, was a very good scheme that was introduced by the last government. He favoured continuation of the system for its transparent nature and relevance in the customs system. On the budget announcement of refunding 80% VAT to the exporters against utility services, he asked, “Why doesn’t the government reduce the bill by 80%?”

On the regressive nature of the tax system, Jatiya Party MP *GM Quader* mentioned that the Finance Minister was talking about a pro-poor budget; however he resorted to collecting revenue from them (the poor) through indirect taxes. He stated that out of the additional projection of Tk 5,000 crore as revenue, around Tk 4,000 crore would come from import duty, supplementary duty and VAT, and that would ultimately be paid by the low income group. *Quader* added that for government salaries, the projected expenditure increased by Tk 2,011 crore. He was of the view that revenue would be raised from the poor people and would be spent for government servants. He criticised the ‘gigantic size’ of the cabinet and insisted on its downsizing to 20 from 60 ministers, state ministers and deputy ministers. The JP lawmaker said that even for the Prime Minister’s Office, the budget increased by 27% and “such extra expense has been a sheer wastage (of money)”.

Delwar Hossain, former Director, FBCCI suggested that empowering of the VAT inspectors with authority to arrest businessmen was not a fair decision. He rejected the idea of continuation of the PSI system and said that it could be a choice of the importers. "We have to pay additional 1% charge and face a lot of hazards and it is encouraging smuggling," he added.

Is the Budget Pro-Poor?

Economist *Dr Atiur Rahman* pointed to the fact that the budget was supposed to be one of the early budgets designed during the implementation of the PRSP and seemed to give real indication on how the reduction in poverty would take place. He regretted that the budget itself did not talk about poverty allevation, and also how the implementation of different objectives would take place. He claimed that the Finance Minister laid a lot of emphasis on the revenue budget, which increased by about 71% over the last three years, while the development budget increased approximately by 20%. The economist further added, "on the one hand, you are not implementing development budget, on the other hand you are increasing revenue budget – the non-productive part of it".

The economist also hinted towards an element of tokenism in the budget for the marginalized groups i.e. farmers, street children, hard-core poor women and the disabled. *Dr Rahman* noted that these groups had managed to get only 5% of the revenue budgets, an allocation, which marks only 1% increase over the last fiscals' allocated amount. He also pointed out that despite certain improvement in old-age pension these days, an old woman gets a meagre Tk 5.5 per day and suggested that this should be increased to a minimum of Tk 500 a month to help her fight against the vicious circle of poverty. Atiur questioned that if the budget was really rural-centric, how it is that the development budget for the local government was reduced by 1%? "Not a single union parishad will get an additional one taka although it is the only functional body in the rural area," he added.

Former Ambassador *MM Rezaul Karim* stated that the government took lessons from the Indian election where the Congress Party said that their economic policy would be people-oriented. "Our Finance Minister too spoke of a caring budget for the general masses," he added. He said that increase in GDP is not enough unless benefits trickle down to the poor and rural masses. He viewed that farm subsidy had to be designed for improving the living conditions of the poor.

In line with the view of *Dr Atiur Rahman*, *GM Quader* too saw an element of tokenism in the budget and accused the government for allocating Tk 400 crore for this purpose. He thought that this fund would be distributed for the election purpose and ruling party activists, especially the MPs would distribute the fund as per their will. He said that not only the ruling party MPs, but also potential candidates among selected party workers would distribute the fund. He further alleged that they have started election campaign three years before the general elections.

The politician also described Tk 600 crore as a meagre amount of subsidy compared to the need of the people, saying that people wanted diesel, selling points, storage facilities so that the vegetables they produce could be stored and sold at reasonable prices. He insisted that the government should take adequate measures to stop the practice of tolls extracted by the police and the ruling party-men. The opposition MP also mentioned that the government has taken the challenge of beating up people in order to achieve the target of 16% growth in revenue earning. “It’s not a budget for the poor, it cannot be so,” he added.

Focus on Rural Economy, Agriculture Subsidy and Agro-Based Industry

M Syeduzzaman appreciated the budgetary move to double the credit flow to the rural sector. He, however, said that it had to be sustainable, and could not be a one-shot operation for the FY04-05.

Jatiyo Samajatantritk Dal (JSD) leader *Hasanul Huq Inu* claimed that the budget contained no support for the marketing of agricultural products for the marginal farmers, nor had there been any programme for fertiliser distribution and pricing system.

Moreover, regarding the farm subsidy Awami League MP *Abdur Razzaque* pointed out that subsidising fertiliser or irrigation in the name of farm subsidy would not be effective in helping the farmers. Furthermore, he added that when 54% of farmers were landless, a subsidy such as this would have limited usefulness.

Referring to the utilization of a mere 30% of the total subsidy allocated in the outgoing fiscal, he pointed out that there was no specific guideline for utilisation of Tk 600 crore subsidy to be provided during next fiscal year. According to him agriculture does not cover only the crop sector, and hence livestock and fisheries should also be covered by the subsidy. He stated that if a land-less farmer could run a poultry farm or dairy farm by availing of the subsidy, it would bring positive results.

Razzaque noted that as the country has 10 million farmers, the count of per capita subsidy stands at Tk 600, ‘which is not much’, he claimed.

However, he appreciated the move to increase cash incentives for agro-based products to 30% from 25%. The Awami League leader noted that in the first year, the government had kept Tk 100 crore to support export of agro-based products which was not utilised and in the second year, Tk 300 crore was kept as EEF (equity and entrepreneurship fund) for promoting agro-processing and information technology sectors and this also remained unutilised. He mentioned that this year also Tk 50 crore has been reserved, but he wondered how much of the fund would be utilised.

Un-Addressed Issues

Former Minister *M Syeduzzaman* pointed out that issues that frequently hit the newspaper headlines were law and order, investment climate, price-hike, frequent changes to import taxes, interest rate regime, level of foreign investment, privatisation, controversy surrounding the NGO sector, post-MFA regime and quality of social sector service delivery. However, he noted that very few of these issues really received any attention in the budget, apart from the support to the garments sector in the post-MFA period. He claimed that the Finance Minister mentioned that price increase this year was mainly due to an increase in international market price, a claim that was not true for all the cases, and reasons other than the international price-hike were also cited in the media.

On the government-NGO relationship, he claimed that there was controversy between the NGOs and the government machinery and NGOs as well as between government leaders and NGO leaders. He underlined the need for clear directives in this regard so that the NGOs could continue to play their ‘very important’ role in implementing important development projects in education and health sectors.

Referring to *M Syeduzzaman's* comment, JSD leader *Hasanul Huq Inu* stated that without analysing past years’ mistakes, the government has set higher targets which were not achievable. The politician also noted that there were no major steps for reforms, no major steps for decentralisation of the administration by empowering the local government, no land reform and ownership of wetlands to the poor, to remove injustices inherent in the structure. *Inu* also drew attention to absence of any recovery plan for jute and sugar sectors. He added that after the closure of Adamjee Jute Mills, Indian jute mills were thriving. The politician also felt that the government had no plans for reopening seven closed textile mills. He claimed that there should be some provisions for youth entrepreneurs. *Inu* blamed the government for making no proposal for reducing the *mastan* tax, bureaucratic tax and ministers’ tax. Moreover, he added that without better financial management and better governance, this budget was not going to make a breakthrough in the current state of poverty.

Kutubuddin Ahmed noted that an allocation of Tk 5 crore towards setting up of an anti-corruption commission was “too little” considering the tasks they were expected to perform.

Financial Sector

Referring to the financial sector of the economy, Former Finance Minister *M Syeduzzaman* stated that the budget had no reference of the private sector except for the declining lending rate in the financial sector. The probable presumption was, he added, that private investment would continue to depend mainly on commercial banks — both nationalised and private. Moreover, he claimed that a low interest rate regime, as past experience showed, gave rise to some dangers as well.

Former ERD secretary *Dr Masihur Rahman* mentioned that in the financial sector, the thrust had been towards more repressive financing. He pointed out that there was a certain pressure on the banking sector to reduce the interest rates. The former secretary added that reducing the deposit rate and correspondingly the lending rate, result in the profit remaining the same, which in effect implies protection of the banks' profits and squeezing of the depositors. He apprehended that it would affect long-term investment and savings. *Dr Rahman* claimed that for the last few years, both investment and savings remained almost stagnant, however, savings were more than investment, which he termed as a 'bad trend'.

Furthermore, the former secretary also stated that huge sums of fund were involved since the IPOs were oversubscribed. However, this money was not getting into the system due to a gradual weakening of inter-mediation, which was again due to repressive measures. *Dr Masihur Rahman* requested the governor to pay serious attention to the management of financial sector and investment, particularly inter-mediation.

Bangladesh Bank Governor *Dr Fakhruddin Ahmed* conceded that in some of the neighbouring countries like India, Pakistan and Thailand, interest rate was lower compared to Bangladesh. The Governor claimed that the all time lowest interest rate in India had really contributed to a surge in the growth of the country. Moreover, he added that Pakistan's budget had also emphasised to keep a low cost of capital, which contributed to a large growth of the manufacturing sector.

Dr Ahmed also ruled out the observation that Bangladesh Bank was directing the banks to reduce the interest rate. He said that for the last few months central bank has reduced the SLR requirement, and keeping rate of repo and reverse-repo low and kept the overnight rate very low. *Dr Ahmed* claimed that these were all signals to the banks for reducing interest rate. He also stated that, on numerous occasions he had discussions with bankers regarding these issues. Referring to central bank and SEC's joint proposal to the Finance Ministry for lowering the income tax rate on bond investment to 20%, which was reflected in the budget, he said that they were trying to develop a secondary bond market. "Basically we want to pull the industry to become more efficient. So, interest rate has already come down," he added.

On increasing the savings rate, the Bangladesh Bank Governor stated that it was not a valid logic that retaining high bank rates would lead to higher deposits. He claimed that if things were so, savings should have been higher since for the last several years banks have had high deposit rates in real terms. It was thus not clear whether deposit rates actually determine the savings.

On excess liquidity, the Governor pointed out that the actual surplus was not so high. He stated that according to the market discipline, interest rates should go down with increasing liquidity. Therefore, keeping the liquidity high would ultimately reduce the interest rates.

Regarding the financial sector, *Prof Abu Ahmed* stated that there should always be some idle fund in the market economy. *Prof Ahmed* also insisted on the need for estimating the optimum level of idle money that should be present in the economy. The economist also stressed on identifying the reasons, and asked CPD to estimate what amount of money should remain idle in the economy at some point of time.

Post-MFA Issue

Regarding the post-MFA challenge, ICC,B President *Mahabubur Rahman* stated that since the budget has allocated some Tk 20 crore for job losses and *Dr Bhattacharya* was advocating compensation to the losing SMEs, it seems “we are already considering the garments sector to be a losing concern.” The ICCB president questioned why the sector could not be competitive even after enjoying the quota and other privileges? He underscored the importance of free movement global economy and suggested to provide fiscal and non-fiscal supportive measures to this sector. Moreover, he also added that the textile sector should be competitive so that it could generate enough production for the entire garments sector. He added that for the last two years, people were listening to debate between BGMEA and BTMA; however, both textiles and apparels are domestic industries and we have to save both.

Referring to the textile sector the MCCI President *Kutubuddin Ahmed* noted that textile spare parts had been exempted from duties, however, garments spare parts did not receive such privilege. He stated that the textile sector grew because of the ready-made garments sector. Furthermore, the MCCI President stated that although the budget kept Tk 20 crore for retraining and other programmes for the jobless garments labourers, no provisions were made for small investors.

Mid-Term Planning Issue

Regarding the medium-term macro-economic framework, *M Syeduzzaman* questioned whether targets, proposed in the budget, such as revenue-GDP ratio to increase by 12% in three years, public expenditure by 16.2% of GDP and budget deficit by 4.2% of GDP, would be achieved or not. Moreover, he added, "there is no indication about generating public savings, monetary expansion targets, weakness of growing foreign aid pipeline, accumulation of liquidity in banking sector and generating current account surplus". He was of the view that all these were indications of the inability of the government to employ all available resources. Furthermore, he insisted that the government should implement CPD suggestion for a *fiscal responsibility act*, which CPD proposed some two to three years back.

Mr M Syeduzzaman also stated that a new pay commission and a new pay scale should be carefully thought-out since it was a major issue of fiscal management and not of populism, especially when privatisation had virtually come to a standstill. He further noted that a pay increase without other accompanying measures would bring enormous pressure on the fiscal balance and upset all macroeconomic projections unless it was accompanied by measures to improve quality, efficiency and productivity of the public servants and rationalisation of their numbers.

On the macro-economic framework, *Professor Md Masum* of Jahangir Nagar University pointed out that the country did not have any medium term plan which usually spells-out what should be the policy over the next few years. Moreover, he claimed that the annual budget was not framed against the background of a medium term plan. Referring to the allocation for education in the proposed budget, *Professor Masum* stated that although allocation for education was highest, in terms of GDP it was only 2%, which was not helpful for ensuring the quality of education in a country where income disparity is increasing. He further added that the rich section becomes richer while the low-income group is further marginalized and unless we put emphasis on human resource development in the truest sense, we would not be able to perform. *Professor Masum* noted that like primary education, it was very important to have a stipend programme for boys in the secondary schools; otherwise the poor would never have access to education.

Speaking on inflation, *Dr Masihur Rahman* claimed that the target of 4.2% inflation might not be achieved. He suggested that the government should improve the mechanism, which it uses to measure inflation and identify some core areas so that it can be used as a bargaining point while dealing with the World Bank and IMF.

Dr Rahman also stated that the macroeconomic balance would not be a major problem; however, major challenges lie with micro-economy and the government should look more carefully at it. Furthermore, he claimed that as long as we have remittance and aid, macro-economic balance would not be a problem.

Referring to the macro-economy, Bangladesh Bank Governor stated that since there were no major macro-economic problems and no major incentive problems, the question was whether target of the budget was ambitious but implementable.

The governor also noted that there were both short-term and long-term issues. He added that there were institutional changes, which would require time. He questioned whether people could wait that long or if there were any other ways to improve the implementation capacity with some short-term measures.

Employment

Regarding the issue of employment generation, *M Syeduzzaman* made a proposal for monitoring the implementation of Finance Minister's budget statement as regards creation of some 900,000 jobs when textile parks would be set up on the premises of the closed Adamjee Jute Mills and the Chittagong Steel Mills.

FBCCI Director *Rouf Chowdhury* identified generating employment as a major instrument for alleviating poverty. He further added, "If the manufacturing sector, including the agro-processing, is to create more jobs, it must get right signals from the government to do so."

On the issue of creating employment, *Dr Atiur Rahman* stated that the present budget fails to address the issue of generating employment. He then mentioned," We have to wait another one year to see whether nine lakh jobs will really be there on Adamjee compound and on the other abandoned industrial estate."

Supporting Industries

Former Commerce Minister *Amir Khosru Mahmud Chowdhury* pointed out that although the private sector was described as the engine of growth, it was not reflected in reality. The BNP MP stated that in the budget, there should be plan for the development of the private sector and it must be known that whether the private sector could participate in the infrastructure, industry or the social sector in short-term, mid-term and long-term. The politician claimed that he did not see a clear plan and a road map for the industrial sector. *Khosru* further added, "If you want the private sector to play a role in the infrastructure development, entrepreneurs must know what the policies are, and it must be reflected in the budgets. And that is missing".
The politician expressed his regret and pointed out that in order to generate a private sector-led growth private sector's integration to the economic development mechanism was needed. However, in reality this was missing.

Speaking on jute and textile sector, *Dr Masihur Rahman* stated that jute and textile sectors receive rebates on income tax although most of these industries were losing concerns. The former bureaucrat noted that due to technological stagnation, improvements in these sectors were limited, lack of investment also contributed to this. He suggested that government should provide investment support rather than tax relief since people hardly understood where exactly they were receiving a tax discount. Furthermore, regarding direct subsidy, *Masihur* stated that it was possible to establish links between performance and cash support.

Taking part in the discussion former Foreign Minister *Barrister Anisul Islam Mahmud* pointed out that the main reason behind low investment was the poor condition of the infrastructure. The lawyer claimed that it required 25 bighas of land to set up a spinning or textile mill. However, this is not available in Tongi and Mymensingh, where gas facility is also available.

Moreover, the Former Minister further stated that it was not possible to run the computerised machinery of the mills with PDB or REB electricity. He said that it was not the shortage of power, but it was the quality that was more important and so investors had to set up gas-based captive power generation plants. *Mr Mahmud* suggested specialised economic zones with all utility services for investment and ecological balance. He insisted that the EPZs did not actually provide any extra facilities rather they merely provided regular utility services and land without any litigation. "So, foreigners are coming here to go to the EPZs to avail those facilities," he added.

Furthermore, *Mr Mahmud* claimed that there would be a change in the nature of business in the textile sector. Bangladesh needs strong backward linkage industries in the textile sector.

Delwar Hossain pointed out that the government has increased price of furnace oil from Tk 8 to Tk 10 per litre despite the fact that 80% of the industry depends only on furnace oil and only 20% of the industry have the privilege of gas connection. He stated that for the small and medium enterprises, one could get only 49-kilowatt-capacity electricity connection from the PDB and for anything beyond that one had to set up his/her own sub-station. *Mr Hossain* noted that an entrepreneur investing Tk 50 lakh to 1 crore in a business could not afford to invest additional Tk 5 to 15 lakh for sub-station. He stressed on supplying at least 200 kw of electricity by PDB or REB to small and medium industries.

Role of MPs in Budget Monitoring

CPD Chairman *Professor Rehman Sobhan* urged the opposition lawmakers to prepare a report on the state of the development projects in their respective constituencies. *Prof Sobhan* offered them professional and technical support from CPD to carry out assessment of particular development projects. *Prof Sobhan* said that the Members of Parliament should take responsibility and present the report in the Parliament and to the Finance Minister on the basis of their inspection of the projects.

However, in response, Awami League MP *Abdul Razzaque* explained that they had little opportunity for carrying forward such inspection due to the current state of over centralisation. The opposition lawmaker further added, "Even for any allocation in a primary school it requires the Prime Minister's approval, and district education and local development of education officers have no authority to sanction even the blackboards".

In a similar vein *GM Quader* stated that the development budget was made in a centralised manner, by taking suggestions from various government departments there was no geographical distribution in the allocation. He added that the opposition MPs in general were not given development funds and they had deliberately been deprived of funds for infrastructure facilities and other areas; until and unless the opposition lawmakers express agreement with government policies they cannot expect to receive fair share in budgetary allocations. The JP leader pointed out that the revenue budget was being distributed regularly; however, funds from development budget were only allocated to those constituencies where the ruling party had their own lawmaker. This is due to the presumption by the ruling party that if they allocate fund to the constituency of an opposition MP, this will help the opposition lawmaker to gain popularity. He, however, expressed his agreement with the CPD Chairman’s proposal, saying that they would try to see the implementation and raise the issues in the Parliament.

Economist *Professor Nurul Islam* said that it was unfortunate that the opposition MPs were seeking the CPD chairman's help to influence government policy. He was of the view that CPD should ensure the presence of the members from both the parties at the dialogue since it was ‘only the poor opposition members’ who were venting their anguish against the ruling party and this was not a healthy sign.

The eminent economist observed that everyone, either from the ruling party or from the opposition camp, complained about the Prime Minister’s Office (PMO), which made it appear that the government of Bangladesh was absolutely “of the Prime Minister, by the Prime Minister, for the Prime Minister”. He questioned if any ruling party member would dare to say that everything was PMO-centric. *Prof Islam* suggested that CPD should organise a dialogue on public expenditure in the future.

Concluding Remarks by the Chair

Professor Rehman Sobhan concluded the session by expressing his gratitude to everyone present at the CPD dialogue, and hoped that the key issues articulated at the dialogue would be debated in the parliament at the time of discussion over the budget for FY05.

Annexure A

List of Participants
(*in alphabetical order*)

Dr Fakhruddin Ahmed	*Governor, Bangladesh Bank*
Kabir Ahmad	*Advisor for Economic and Commercial Affairs Royal Netherlands Embassy*
Kutubuddin Ahmed	*President, MCCI*
Professor Abu Ahmed	*Department of Economics, University of Dhaka*
Professor Dr Salahuddin Ahmed	*Dean, School of Arts and Social Sciences, Southeast University*
Syed Abu Naser Bukhtear Ahmed	*President and Managing Director, South East Bank Limited*
Dr Kazi Saleh Ahmed	*Former Vice Chancellor, Jahangirnagar University*
Manzur Ahmed	*Director, DCCI*
S M Shah Alam	*Author & Director, Rural Development Bangladesh*
Jahangir Bin Alam	*Secretary, FICCI*
Afreen Alam	*Intern, The Hunger Project Bangladesh*
Dr Rajani Alexander	*First Secretary (Development), Canadian High Commission*
Major Gen A M S A Amin	*Former Ambassador*
M Aminuzzaman	*Managing Director, N.C.C Bank Ltd*
Mahfuz Anam	*Editor, The Daily Star*
Sabira Areefin	*Intern, Bangladesh Enterprise Institute (BEI)*
Professor Ali Ashraf	*Former Deputy Speaker*
M A Awal	*Executive Director, Polly Unnayan Prochesta*
M F Azim	*Chairman, Azim Group*
Shampad Barua	*Deputy Secretary , Ministry of Finance*
Dr Irina Bhattacharya	
Z H Bhuiya	*EC Member, BKMEA*
Professor Ayubur Rahman Bhuiyan	*Department of Economics, University of Dhaka*
M A Sattar Bhuyan	*Economic Advisor & Director, BKB*
Maggie Bringham	*Royal Norwegian Embassy*
Wengue Cai	*North-South Institute, Canada*
Dr Toufic Ahmad Choudhury	*Professor and Director, CPGS*

A Matin Chowdhury	*Former Chairman, BTMA*
Amir Khosru Mahmud, Chowdhury, MP	*Former Minister for Commerce*
Anwar-Ul-Alam Chowdhury	*Vice-President (Finance), BGMEA*
Absar Karim Chowdhury	*Director, DCCI*
Dr Zafrullah Chowdhury	*President, Consumers Association of Bangladesh*
Professor Amirul Islam Chowdhury	*Former Vice Chancellor, Jahangirnagar University*
M A Rouf Chowdhury	*Director, FBCCI*
M Anis Ud Dowla	*Chairman and Managing Director, ACI*
M Ghulam Faruq	*Vice-President, BGMEA*
Allen Flaming	*Director, USAID*
Gene V George	*Chief of Mission, USAID, Embassy of USA, Dhaka*
Abdul Haque	*Managing Director, Haq's Bay*
Dr Khaled Hassan	*Acting Representative, WHO*
Delwar Hossain	*Former Director, FBCCI*
S A M Showket Hossain	*Managing Director, CDME*
Dr Zahid Hossain	*Senior Economist, ADB*
Mosharaff Hossain	*Country Representative, Action on Disability in Development*
Annisul Huq	*President, BGMEA*
Imtiyaz Hussain	*Chairman, Imtiyaz Hussain & Co.*
Hasanul Haq Inu	*President, Jatiyo Samajtantrik Dal*
Dr Mirza Azizul Islam	*Chairman, Security Exchange Commission*
Matiul Islam	*Former Finance Secretary*
Professor Nurul Islam	*IFPRI (USA)*
Reazul Islam	*Financial Controller & Programme Officer Embassy of Sweden*
Rokeya Kabir	*Excutive Director, Bangladesh Nari Progati Sangha*
K M S A Kaiser	*Division Chief , Socio Economic Infrastructure (SEI), Planning Commission*
Ambassador M M Rezaul Karim	*Member, Advisory Committee, Bangladesh Nationalist Party*
M H Khaleqe	*Bangladesh Enterprise Institute*
Dr Wajedul Islam Khan	*General Secretary, Trade Union Kendro*
Dr Rezaul Karim Khan	*Senior Economist, Asian Development Bank*
Enayetullah Khan	*Editor, The New Age*

Salah Uddin Ahmed Khan	*Chief Executive Officer, Dhaka Stock Exchange Ltd*
Nawshin Laila	*Research Officer, Australian High Commission*
Barrister Anisul Islam Mahmud	*Former Foreign Minister*
Anne Marchal	*First Secretary, European Commission*
Professor Mohammad Masum	*Dept of Economics, Jahangirnagar University*
Dr Badiul Alam Mazumdar	*Vice President & Country Director, The Hunger Project Bangladesh*
Nasreen Awal Mintoo	*President, Women Entrepreneurs' Association of Bangladesh*
Moniruzzaman	*Mechanical Engineer*
Fahmida Muhit	*Senior Programme Manager, AusAID*
A M A Muhith	*Former Finance Minister*
Dr Ainun Nishat	*Country Representative, International Union for Conservation of Nature*
Mr G M Quader	*Member of Parliament*
A S M Quasem	*Vice President, ICC-Bangladesh*
Dr A K M Masihur Rahman	*Former Secretary, ERD*
Golam Rahman	*Managing Director, Deshbondhu Sugar Mills Ltd.*
Dr Nafeesur Rahman	*Director, National Forum of Organisations Working With the Disabled*
Dr Atiur Rahman	*Chairman, Unnayan Shamannya*
Shafiq Rahman	*Economic Specialist, Embassy of the USA*
Dr A Atiq Rahman	*Executive Director, Bangladesh Centre for Advanced Studies*
Kamran T Rahman	*Vice President, Bangladesh Employers Federation*
Mahbubur Rahman	*President, International Chamber of Commerce Bangladesh*
Nasreen Rahman	*Bangladesh Centre for Advanced Studies*
Dr Mohammad Abdur Razzaque	*Member of Parliament*
Ataus Samad	*Editor, Weekly Ekhon*
Mashuda Khatun Shafali	*Executive Director, Nari Uddog Kendra*
A K M Shamsuddin	*Former President, FICCI and Chairman, Aventis*
Rajjab Sharif	*Managing Director, Sharif Melamine*
Toru Shibuichi	*Country Director, ADB*
Dr Kaniz Siddique	*Professor, Department of Economics, North South University*
M Syeduzzaman	*Member, CPD Board of Trustees and Chairman, Bank Asia*
Mohammad Shahid Ullah	*Senior Coordinator, SUPRO*

Christine Wallich	*Country Director, The World Bank*
Yumiko Yamakawa	*Economic Researcher, Embassy of Japan*
Muhammad Zamir	*Former Secretary and Ambassador*

Annexure B

List of Journalists
(*in alphabetical order*)

Rozina Akhter	*Tara Bangla*
A Z M Anas	*The Daily Independent*
Masudul Karim Biswas	*The Daily Jugantar*
Ezaz Hossain	*The Daily Janakantha*
Meer Saiful Islam	*UNB*
Aminul Islam	*Prothom Alo*
Rashidul Islam	*Radio Tehran*
Arif Showkat Kallol	*The News Today*
Kismat Khondakar	*Daily Manabzamin*
Asjadul Kibria	*New Age*
Dewan Hanif Mahmud	*Prothom Alo*
Badrun Nahar	*The Executive Times*
Shah Newaz	*The Daily Jugantar*
Nuri	*Crime News Media*
Rahul Raha	*ATN Bangla*
S M Mizanur Rahman	*The Bangladesh Today*
Zia Rahman	*The Sangbad*
Mir Mostafizur Rahman	*The Daily Independent*
Masudur Rahman	*Daliy Samacher NAB*
Rahman	*Daily Rupaly*
Salehur Rahman Ratan	*News Network of Bangladesh*
Hamid Sarker	*The Daily Ajker Kagoj*
M G Shahni	*BSS*
K Main Uddin	*New Age*