



BUDGET

2006 - 2007

Text of FINANCE MINISTER'S speech



12

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Bismillahir Rahmanir Rahim

Mr. Speaker,
I would like to thank you for your kind permission to present the supplementary budget for the fiscal year 2005-2006 and the budget for the fiscal year 2006-2007 before this august House. As Minister for Finance, I am placing the national budget for the twelfth time. I am grateful to the Almighty for affording me this rare opportunity to serve the nation. At this moment, I remember, in reverence, the great leader Shaheed President Ziaur Rahman, the proclaimer of independence and the founder of modern Bangladesh who gave me first the opportunity to present the national budget. I am grateful to the Hon'ble Prime Minister Begum Khaleda Zia for reposing continued trust on me in discharging this important responsibility. Under her premiership I placed ten out of twelve budgets. I take this opportunity to congratulate her for securing overwhelming mandate of the people by winning all the seats she contested in all national elections since 1991. I would also like to congratulate her for being in office for long ten years as a democratically elected Prime Minister and for having the rare distinction of becoming the longest serving head of the Government in the history of Bangladesh. The people of Bangladesh bestowed on her this extraordinary honour for her courageous and bold leadership.

Mr. Speaker,
2. Thirty years from now in 1976 Shaheed President Ziaur Rahman presented the national budget for FY 1976-77 before this august House as Advisor of the Ministry of Finance. From then on began the process of reforming all backward looking economic policies and practices in order to move forward towards a free and open economy. Against this background I, as Minister for Finance, presented national budget in 1980 for the first time before this august House. Since then, the fundamental objectives of our economic system are: formulation and implementation of appropriate and realistic economic plan; build capacity to sustain in a competitive global environment through advancement of economic and structural reform programmes; implementation of liberal trade and investment policy; maintaining economic stability and achieving self-reliance gradually; enhancing savings and investment to raise them to a sustainable level; stabilizing continuously financial system, eliminating misuse and inefficiency in public sector, unlocking the potential and entrepreneurial abilities of the people to achieve total economic development, women empowerment, human resources development, employment generation and achieving pro-poor growth to build a self-reliant and prosperous Bangladesh. The election pledges of the present Government broadly reflect these objectives. We are making tireless efforts to achieve these goals.

Objectives and Philosophy

Mr. Speaker,
3. The Bangladesh Nationalist Party (BNP) has been in power for about 16 years over three tenures including the current one, which implies that BNP stayed in power almost half of the time since the birth of Bangladesh. It is the BNP that transformed Bangladesh from the slur of a "bottomless basket" to a nation of high potentials. Whenever we came to office, we found the country economically in shambles due to misrule and mismanagement. And, after facing all the challenges and odds, on each occasion when we left the office the country was economically stronger and prosperous. At this moment, while presenting the last budget of this tenure, I would like to reflect on what challenges we faced and what we have achieved, over the three tenures of BNP Government.

4. During our first term when Shaheed President Ziaur Rahman assumed office, the country was ravaged by famine and one-party misrule. He abolished one-party rule and restored multi-party democracy, Rule of Law, independence of judiciary and freedom of press. Shaheed President Ziaur Rahman encouraged private-sector-led growth, involved the women-folk in the development process, established a separate Ministry for Women Affairs, and turned the energy of youths towards development activities. He also ensured religious freedom of all people irrespective of caste and creed. He also involved the people at grass-roots level in local governance and development work. He opened up the new frontiers of technology. He took the initiative to launch SAARC to forge regional cooperation.

Mr. Speaker,
5. Immediately after his election to Presidency in 1978, Shaheed President Ziaur Rahman embarked upon the task of establishing good governance. He sternly instructed his ministers and government officials that his governance system does not get trapped in parochial, clannish and partisan pursuits. He resolved that his administration stays above party interest and gives priority on national interest, state functions and the interest of the people at large irrespective of ideologies and party affiliations. Shaheed President Ziaur Rahman had the vision of a prudent and sagacious statesman who could foresee, how in our setting, the so-called populist cheap politics creates hurdles at every step in establishing good governance and corruption-free governance system. At that time I was the Advisor of Ministry of Commerce and a letter addressed to me at that time reflected his vision which I would like to share with you: I quote, "My Dear Adviser, With the election to the Presidency and revival of political activity, it is possible that attempts are made by some political quarters to exert pressure on the administration and try to influence decisions one way or the other. It is needless to emphasise that not only such pressure should be sternly opposed, also extreme care should be exercised that cases are decided purely on merit and strictly according to the law and the established procedures. I also ask you to please pass on this instruction to the Secretary of your Ministry and other officers concerned. Yours sincerely, Ziaur Rahman." Unquote.

At this juncture, as a close colleague of Shaheed President Ziaur Rahman until his martyrdom, I would like to draw the kind attention of the Hon'ble members of Parliament and to say that today, after 25 years since his martyrdom, we are receiving prescriptions from the donors to establish a corruption-free administration and impartial social order. Whereas, President Ziaur Rahman as a visionary statesman, gave this insightful directive to a young nation over two and a half decades ago.

Mr. Speaker,
6. Shaheed President Zia's pro-people development initiatives were thwarted by autocratic conspiracy. In nine years of autocratic rule, the state treasury dried up with inflation reaching 9 percent and the budget deficit running 7 percent of GDP. Our development budget became 100 percent foreign-aid dependent. There was anarchy in the economy. In such a situation, the BNP Government led by Begum Khaleda Zia came to power through a free and fair election in 1991. We introduced parliamentary system of government, to restored political stability and ensured to hold all future general elections under a neutral caretaker government.

7. Universal primary education was made compulsory by enacting laws with the objective of developing human resources. Mass education programmes were expanded extensively. Highest allocation was earmarked for education. It is the BNP Government that held out the opportunity for the free education to girls up to Class X, introduced 'Food for Education Programme' and various stipend programmes. The farmers received waiver on interest up to Tk.5000 against agricultural loans and credit programmes for the distressed women were introduced. Life-time pension coverage was introduced for the widows and retarded children of deceased government employees. Laws preventing repression against women and children were enacted.

Mr. Speaker,
8. We embarked upon structural reforms in line with the economic programmes formulated by BNP. Stringent regulatory controls were relaxed in phases and private sector-based export-oriented development strategy was put in place. To support the development of free market economy, bank and insurance sector as well as power and telecommunications sector were opened up for private investment. The Securities and Exchange Commission was set up to develop the capital market. The tariff



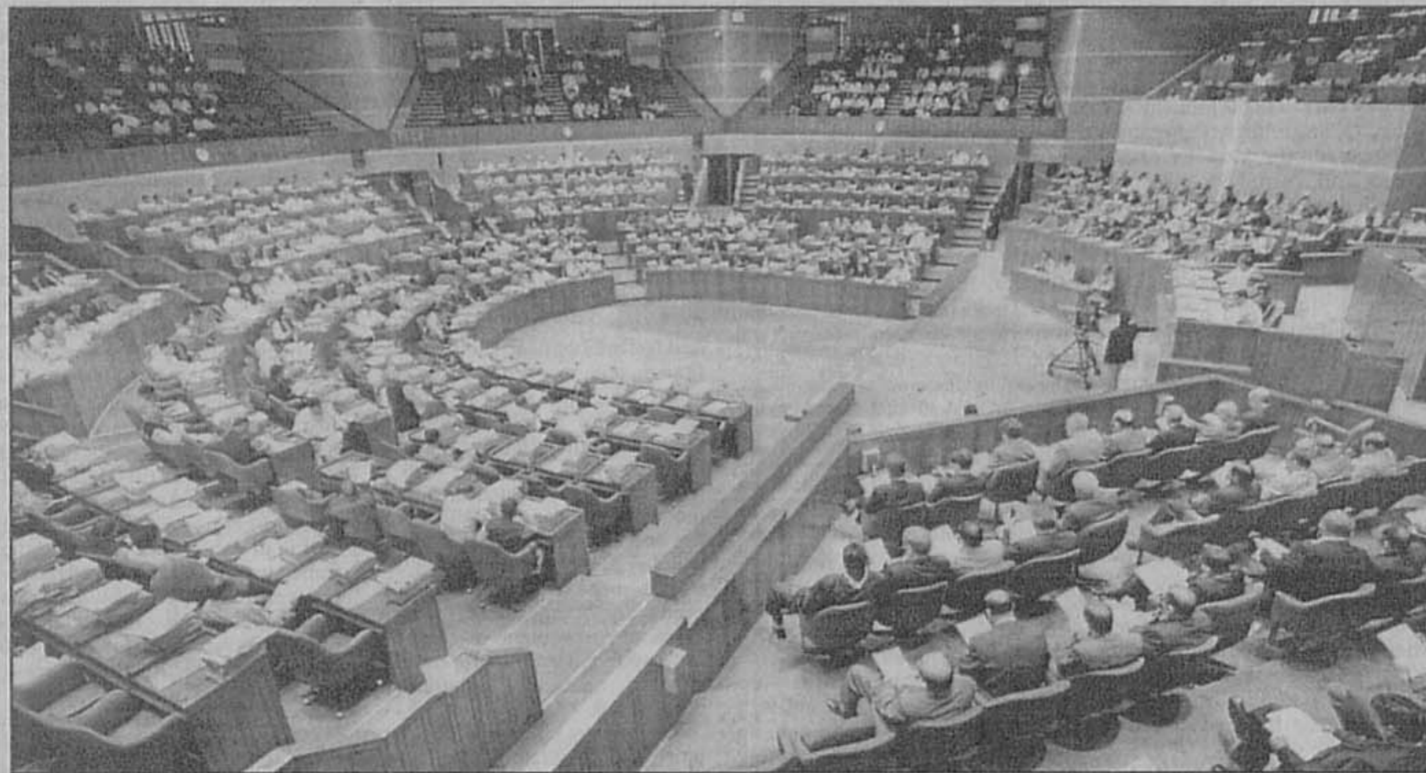
and tax structure was revised to liberalise the economy. We reduced tariff slabs from eleven to seven. The introduction of VAT was an epoch-making event in our efforts to reform revenue administration at that time. Banks were allowed to determine their lending and borrowing rates in areas of trade and commerce except priority exports, micro credit and agricultural credits. All these reforms together generated a competition and brought about dynamism in the economy.

9. It is widely recognised that the reform programmes initiated by the BNP Government in the early 1990s resulted in opening up the doors of socio-economic development in Bangladesh. Economic stability was restored and the wheel of progress began gaining momentum. In FY 1990-91, the export earning stood at US\$ 1718 million which in five year's time more than doubled to US\$ 3884 million. Dependency on foreign aid began to reduce and the share of internal resources in financing ADP began to increase. In FY 1990-91, the estimated internal revenue was Tk. 7563 crore which nearly doubled to Tk. 15450 crore in FY 1995-96. But towards the latter half of 1990s during the Awami League rule, the reform programmes stalled and momentum of the economy slowed down.

Mr. Speaker,
10. In 2001, the people re-elected the present BNP-led coalition government with two-thirds majority. This time again, the alliance government had to take over the responsibility of a fragile and imbalanced economy. There was fiscal profligacy in the name of unbridled expenditure in unproductive sectors, sluggishness in revenue collection and indifference towards economic reforms. Budget deficit exceeded 6 percent of GDP. Domestic borrowing exceeded the sustainable limit and went up to 3 percent of GDP. The Current account balance also dwindled.

Reforms of Alliance Government

Mr. Speaker,
11. Within weeks of her assumption of power, Prime Minister Khaleda Zia launched an exceptional '100 Days' Programme' to restore discipline in



the economy. This programme laid the foundation for some bold and far-reaching reform initiatives, both medium and long term. Revamped efforts were made to fix the structural imbalance in the economy. Financial and capital market was made more efficient, transparent and market-oriented, secondary market created for government securities and discipline was restored in the financial and fiscal management. For the first time in Bangladesh, Performance Budget under Medium Term Budget Framework was implemented. Existing tariff slabs were cut to 3 levels including the reduction of maximum rate. Supplementary tariff was also rationalised to only 6 slabs and we introduced for the first time floating exchange rate regime in Bangladesh which was a landmark decision. As a result, we could accelerate the growth momentum remarkably without destabilising macro-economic fundamentals. Consequently, during the current fiscal year we expect a growth rate of 6.7 percent which would be the highest in the past 29 years.

National Poverty Reduction Strategy

Mr. Speaker,
12. In my Budget Speech for FY 1995-96, I said, "Our investment should be for the people and for their development. Care should be taken so that the investment is directed towards welfare of the poor, social justice established, pollution free environment is ensured and the development of the women is actively pursued." Immediately after assumption of office, we, therefore, embarked upon the task of formulating a three-year I-PRSP

After extensive consultation and exchange of views with different organisations and groups of stakeholders in the society, we have already finalised a full-blown poverty reduction strategy titled "National Strategy for Accelerated Poverty Reduction - Unlocking the Potential". This strategy is now the basis of our development plan.

13. Consistent with the Millennium Development Goals (MDG) we have prepared our National Strategy Document. The alliance government on assumption of power extended full support to the Millennium Declaration. I would like to inform this august House, through you, that we have already achieved two targets of MDG by ensuring access to safe drinking water and by removing gender disparity in primary and secondary education. Enrollment in primary education for 97 percent of our children has been ensured. Apart from these, Bangladesh has achieved remarkable success in reduction of child mortality, maternal mortality and malnutrition and in improving food security.

Medium Term Budget Framework (MTBF)

Mr. Speaker,
14. Poverty is a multi-dimensional complex issue that cannot be eliminated overnight. We have begun implementation of our development programmes through channeling of resources on a priority basis to targeted programmes in the light of poverty reduction strategy (PRS). In order to enhance efficiency and effectiveness in public expenditure and to ensure achieving the goals of the poverty reduction strategy, the Government has taken steps to introduce Medium Term Budget Framework (MTBF), replacing the traditional budget system. Through this new budget framework, the poverty reduction strategy is being implemented. We have so far brought within the fold of MTBF 10 ministries and divisions including the ministries of education, health and agriculture. Gradually, this budgeting system will be rolled out to all ministries and divisions.

15. The implementation of MTBF initially may face some difficulties but eventually we would derive greater benefits from the new budget approach. The MTBF will bring in remarkable qualitative changes in public financial management. The new budget approach will effectively link public resources with the government policies, strategies and priorities. This will ensure more effective use of public resources. The people and the parliamentarians would be able to know the outcome against the inputs.

Gender Budgeting

Mr. Speaker,
16. In my budget speech for FY 1991-92, I said, "The progress of the society is bound to be hindered if half of the population remains neglected and deprived of the benefits of development. Therefore, the womenfolk should be increasingly involved into the mainstream of development." We continued our efforts towards this end through gender budgeting. Steps are being taken to ensure women empowerment in the development projects and programmes of different ministries and divisions.

MACROECONOMIC PERFORMANCE

Savings, Investment and Growth

Mr. Speaker,
17. Following successful implementation of structural reforms, we have been able to keep the momentum of our economic development. With application of appropriate strategies and policies, our economic growth in FY 2002-03 and FY 2003-04 stood at 5.3 percent and 6.3 percent respectively. Despite political instability on domestic front as well as the situation arising from the devastating floods in 2004, we could achieve a growth rate of 5.9 percent in FY 2004-05. In spite of unprecedented surge in oil price and political instability, we expect that the growth rate would still reach 6.7 percent during the current fiscal year. It is expected the manufacturing sector will achieve a double-digit (10.45 percent) growth during the current fiscal year. There are positive changes too in the composition of GDP. The contribution of industry sector to GDP grew to 29 percent.

18. Mobilisation of domestic resources is an essential requirement for sustainable economic development. In FY 2000-01, our domestic savings and national savings accounted for 18 percent and 22.4 percent of GDP. In FY 2005-06, they are expected to grow at 20.3 percent and 26.6 percent

respectively. During the period between FY 2001-02 and FY 2004-05, the total private investment stood at about Tk. 225000 crore while in the previous 5 years this amounted to about Tk. 166000 crore. With the projected investment in FY 2005-06, the amount of private investment during the 5-year tenure of the present Government will be almost doubled.

Sustainable Fiscal Policy

Mr. Speaker,
19. Following a prudent fiscal policy to ensure sound macroeconomic management, we have been able to contain budget deficit at 3.5 percent of GDP. Government continued its efforts to receive concessionary foreign loans by avoiding hard-term supplier's credit. The amount of borrowing from domestic sources was also within the limit of 2 percent of GDP. As a result, the total debt stock as percentage of GDP did not increase rather it went down to 48 percent from 51 percent of GDP. There is a widely held wrong perception that in the current fiscal year, private sector credit flow has declined due to excessive borrowing by the Government from the banking system. The fact is, up to 23 May of this fiscal year, the amount of such borrowing is only Tk. 688 crore. However, Bangladesh Petroleum Corporation (BPC) had to borrow heavily from the banking system to finance its high priced petroleum imports. In spite of that, the credit flow to the private sector remained unhindered and up to March, 2006, industrial credit has increased by 20 percent compared to that of corresponding period of last fiscal.

Supportive Monetary Policy

Mr. Speaker,
20. The broad money supply grew to 17 percent in the terminal year of the previous Government. Consistent with our macroeconomic environment, we adopted a growth-supportive accommodative monetary policy. Fundamentally, due to price hike of consumer goods including food items and oil in the international market, the annual price inflation in the first half of the current fiscal year reached 7 percent. In fact, we imported inflation concurrently with the import of commodities at higher price. Due to adoption of a prudent and contractionary monetary policy, inflationary pressure largely eased up. In March 2006, price inflation came down to 6.2 percent. Interest rate increased a bit. This reduced unproductive private sector borrowing, mitigating the pressure on exchange rate.

External Sector

Mr. Speaker,
21. The present government assumed power at a time when the world economy was reeling under recessionary impact of terrorist attack on the US. The Bangladesh economy could not escape from its adverse effect. Export plummeted, national growth somewhat slowed down. Remittance flow decreased. The deficit in current account of Balance of Payment (BOP) exceeded 2 percent of GDP. To overcome this, the government quickly took steps to diversify export market and provided soft loan including other incentives to the export sector. As a result, the subsequent years witnessed significant rise in exports. Belying all apprehension, Bangladesh's growth in the exports of garments sector continued to rise even in post-MFA years. As per latest data available up to March 2006, export income was US\$ 7.5 billion, which was 19 percent higher than that of the corresponding period of the last fiscal year. Given this trend continues, in the current fiscal year export is expected to exceed US\$ 10 billion (Tk 70000 crore) which in FY 2000-01 was only Tk. 34800 crore. To maintain this trend of export growth in RMG sector, after safeguarding the interest of the workers, the prevailing temporary unrest should be dealt with sternly by all irrespective of party affiliation.

22. Following introduction of several incentive programmes, the enactment of Money Laundering Prevention Act, and introduction of effective measures to prevent Hundi by the present Government, the remittance flow continued to rise in the last 5 years. The remittance flow grew by 20 percent on an average during this period. In the current fiscal year this trend is continuing and up to April 2006, the remittance flow was US\$ 3.9 billion, which is 22 percent higher than that of the corresponding period of the last fiscal year. It is expected that the remittance from expatriates will exceed US\$ 4.5 billion in the current year which was only US\$ 1.9 billion in FY 2000-01.

23. In the last 5 years 42 percent of total import payment was on account of import of raw materials while 24 percent was for importing intermediate goods and capital machinery. Therefore, the import during the period was supportive to industry and growth. Due to timely intervention by the present government, the current account balance remained positive during most of the tenure of our government. Up to March 2006, there was a surplus of US\$ 230 million in the current account. Because of efficient macro-economic management, foreign exchange reserve rose to US\$ 3 billion up to February 2004; the reserve is still above US\$ 3 billion mark which was only US\$ 1.1 billion when the present Alliance Government took office. It is pertinent to mention that due to rise in oil price in international market, the external trade of the developing countries is experiencing severe negative impact; the stability of exchange rate is exposed to high volatility. We should bear in mind that maintaining a comfortable foreign exchange reserve is essential in a floating exchange rate regime, otherwise it will not be possible to maintain a stable exchange rate, and with the depreciation of Taka it may not be possible to contain price spiral.

Revised Budget for FY 2005-06

Mr. Speaker,
24. In the original budget of FY 2005-06, revenue receipt was estimated at Tk. 45722 crore. To minimize the burden of tariff on the people, tariff rates of some essential commodities have been reduced. Therefore, I now propose to set the revenue target at Tk. 44868 crore in the revised budget which is 10.8 percent of GDP. Total expenditure under Development and Non-development budget combined was estimated at Tk. 64,383 crore, which now stands at Tk. 61,058 crore in the revised budget for the current fiscal year, which is 14.7 percent of GDP. In the original budget, the total non-developmental outlay was Tk. 38082 crore. Despite pressure of additional expenditure due to implementation of new National Pay Scale and price escalation of importable commodities including oil in the international market, the non-developmental expenditure has been scaled down to Tk. 37057 crore following strict fiscal discipline, cutting wasteful expenditure through austerity measures. In the original budget, the size of the Annual Development Programme was Tk. 24500 crore. Due to dropping of a number of low-priority projects, adoption of austerity measures, declining foreign aid-flow and sluggish utilisation of funds in some projects, the ADP is revised at Tk. 21500 crore which is 16 percent higher than the actual expenditure of last year's ADP.

25. Labeling the current year as the election year, some quarters are launching propaganda that this year the Government will come out with a big budget to finance election campaign with higher dose of deficit which is proved wrong now. In fact, the budget deficit stands now at 3.9 percent in the revised budget against of 4.5 percent of GDP as projected in the original budget. The previous Government in their terminal year in FY 2000-01, keeping the national election in front, defying fiscal discipline spent Tk. 1400 crore in excess of the original budget and push the economy to the brink of disaster.

Budget for FY 2006-07

Mr. Speaker,
26. I would now like to focus on the proposed budget for FY 2006-07. The budget that we present today will be implemented by three governments, namely the present government, the Caretaker Government and the Government to be elected. Keeping that in mind, while preparing this proposed budget, I kept on board different stakeholders and professionals and I was in no way influenced by narrow party politics. I exchanged views with honourable members of parliament of both benches and honourable cabinet colleagues. I also interacted with renowned economist, ex-finance ministers, ex-secretaries, NGO representatives, journalists and the members of the civil society. Their valuable suggestions have been reflected in the proposed budget where found appropriate. I take this opportunity to thank all of them for their cooperation.

Fundamentals of the Proposed Budget

Mr. Speaker,
27. The main focus of all of our economic activities is poverty reduction. Meeting the MDG by achieving the annual targets embodied in PRS is the fundamental basis of our proposed budget. To this end, the strategy that we have followed: accelerate economic growth by further streamlining the strong macroeconomic framework that is in place through continuous reforms and create employment opportunities; elevate Human Development Index (HDI) with the increased allocation in education, health and other social sectors along with qualitative improvement; ensure financial security of the disadvantaged by widening social safety nets; promote private sector initiatives and investment by adopting prudent fiscal and monetary policy; reduce the cost of doing business by developing physical infrastructure; ensure economic good governance, improve law and order, maintain internal security and enhance public management capacity.