

Accountability to be established, financial discipline restored

Mr. Speaker, Sir

I rise with your permission to place the budget for 1991-92 and the supplementary budget for 1990-91.

2. At this juncture of resurgence of democracy and inception, under the leadership of the Acting President, of a democratic government chosen through a neutral election, I take this opportunity to pay my respect to all those whose sacrifice and intrepid struggle led to the establishment of independent and sovereign Bangladesh; and to all those brave citizens whose love of freedom and bold struggle brought to an end the autocratic regime and made possible the establishment of a democratic and accountable government. All of us bear the moral responsibility to sustain and consolidate the democratic tradition.

3. The Acting President Justice Shahabuddin Ahmed deserves gratitude and respect of the entire nation for his critical role in our transition to democracy. After a long time the nation had the opportunity to express its political choice in the truly neutral election held under his able leadership. The whole world is full of admiration for the effective conduct of the neutral election which has become an ideal. In his speech to the First Session of the Fifth Jatiya Sangshad, the Acting President Justice Shahabuddin Ahmed dwelt on the various aspects of our political and economic system and identified directions for overcoming our problems. His administrative sagacity and sense of justice and equity will provide correct direction in resolving economic and social issues confronting us. Happily, many of his economic and social ideas are in conformity with the economic and social programmes of the Government of the Bangladesh Nationalist Party. On behalf of the Government and my own behalf, I convey sincere thanks to the Acting President Shahabuddin Ahmed.

4. On 29 April, 1991, we suffered a severe cyclone.

According to the information received so far, one lac and thirty eight thousand people have lost their lives; twenty lac families have been rendered homeless; and colossal damages have been suffered. May Allah rest in peace the departed souls. I also convey my condolence and sympathy for those who lost their dear ones or suffered losses otherwise. The government of the Bangladesh Nationalist Party had been in office for forty days only at the time of the cyclone. Nevertheless, the government promptly came to their help with all the resources at its command. I would like to assure you that we will continue our efforts for their rehabilitation and restoration of normalcy in their life.

5. I would like to recount some reminiscences at this hour of re-establishment of a democratic and accountable government. I had the privilege of presenting the budget for 1981-82 on behalf of the last democratic government of the 1980's only a week after the assassination of Shaheed Ziaur Rahman, a dedicated freedom fighter, who wisely led the country out of its first crisis encountered after independence, who resuscitated the process of democracy and stability, and who, until death, remained a pioneer of development centring the village. Killed by a heinous assassin, he is no longer with us. But under the leadership of Begum Khaleda Zia, his competent political successor, and with the support of all other democratic political parties of the country, workers, professional groups, and the broad masses of students and common people, the Bangladesh Nationalist Party, established by Ziaur Rahman, was able to bring to an end the decade-long autocracy and establish again a democratic government, which evinces unequivocally the endorsement given by the common people to the philosophy and sagacity of Shaheed Ziaur Rahman. To-day, after a decade, I am presenting again the budget for 1991-92 as the Finance Minister of an elected democratic government. It is a great privilege that I could present budgets for two democratic governments after such a long interval of time.

6. The major goal of this government, which has passed great political ordeals, is to mobilize the Bangladesh nationalist forces towards creation of a self-reliant, just and equitable social order. The agenda is based on our commitment to democratic pluralism, privatisation, deregulation and market oriented competitive economic environment. The central feature of the economic programme is the creation of a social and economic milieu which encourages efficient economic activities. We are determined to bring about fiscal and monetary discipline

in macro-economic management and roll back corruption by stressing accountability and transparency in all actions of the government. We are determined to remove the debilitating corruption which has afflicted our society, though we recognise that it is a hard task and will take long. For bringing about efficiency in economic activities, the government will continue to reduce regulations and controls, resist all pressures for their restoration, ensure implementation of policy decisions at all levels, and make our industries competitive under market pressure. The benefit will be lower consumer price. The system losses of the public utilities will be brought under control, so that prices need not be unnecessarily increased. Targeted programmes will be taken up for poverty alleviation, using our past experience of village government with genuine representation of the poor. For reaching the goal of a self-reliant economy we will improve domestic resource mobilisation and tax administration; it is our intention to raise tax revenues each year by 0.5 per cent of GDP. In 1980-81 domestic resources accounted for 35 per cent of development outlay; by 1989-90 it virtually ceased to make any contribution. We intend to raise the proportion of domestic resources in development outlay to 35 per cent by 1995 and by the turn of the century more than 50 per cent.

7. Experiments have been made with different economic systems in this country since independence. Immediately after independence the government had an important role in addressing an economy shattered by war and subject to other external shocks. Over time, however, the economy controlled by the government revealed weaknesses which impede realisation of the potential creative economic energies of the common people. Aware of these realities, the government of the Bangladesh Nationalist Party changed the structure and basic principles of economic management towards the end of 1970's which recognised the spontaneous energies of the people and initiated a process for gradual reduction of the role of the government. Unfortunately, the government was removed from office before the new principles could develop fully and since then the liberal economic structure has been subjected to various distortions and impediments. The policies might have been right, but there were wide deviations in their implementation. Opportunities for honest and equitable participation were replaced by dishonesty and patronage; consequently, the liberal and market oriented economy could not generate the expected benefits for the common people.

8. Corruption was institutionalised during the last autocratic regime. The structure of rules and principles for management of government finance, budgeting and planning broke down. Licences and permits were issued for the benefit of particular individuals or groups for import of essential commodities such as sugar, salt, milk powder. The privileged few appropriated scarcity premia and made large profits, while the common people had to pay higher prices and still there was not enough supply. The government takes up development programmes for the economic growth of the country and mobilizes external resources as loan and grant. There exists clearly defined procedures for selection, preparation and implementation of projects which utilize these resources. The Planning Commission scrutinizes projects which are taken up only if found financially viable and consistent with the main objectives of economic development. During the previous government, projects were taken up under administrative direction — the so-called "mandated" projects — in complete disregard of the process of scrutiny. Garments industry developed during the last two decades and played an increasingly important role in the growth of our export. The government used to reserve an export quota under its control, which was allocated on a discretionary basis to individuals or groups as patronage. Those who exercised this power also benefited — but at the cost of the economy. Corruption on this scale was possible as an effective system of accountability was absent. Accountability has to be established in all areas and at all levels of the government; discipline in government financial management has to be restored; and appropriate principles have to be established for planning and development.

9. Unnecessary and excessive government control distorts the economy which prevents the citizens from using their spontaneous creativity; generates inefficiency; and creates opportunities for dis-

honest appropriation of rent by those who are involved in management of the economy and the state. Therefore, unnecessary governmental control over the economy should be dispensed with. The need for such a course of action is clear from the experience of various countries and economic systems. Deregulation or roll-back of the state does not mean economic anarchy — it means removal of discretionary and direct intervention by the government. The public sector and the private sector will play complementary roles in the liberal market oriented economy that we are talking about. It is not expected that the private sector entrepreneurs will be devoid of a sense of humanity and conscience which makes them objects of public displeasure. They will be efficient, dynamic, conscientious, and committed to their social obligations. Such a humane system of private ownership alone can accelerate economic development consistent with public interest and social justice, which is so necessary for maintaining social equilibrium.

10. Both internal and external competition are essential for economic efficiency. Government control and regulation creates monopoly in the domestic market which enables enterprises to make profit despite inefficient allocation and utilization of resources. Similar opportunities are created in external trade by quantitative restrictions and high levels of protective tariff. In either situation the cost is borne by the consumers who are the ordinary citizens. Liberalization will be carried out in a manner consistent with the interest of the consumer and industrial development, to which end tariff and tax structures will be reformed and investment procedures simplified. The entrepreneurs, however, will be given facilities similar to those provided in other countries of Asia.

11. The Government will undertake a programme for divestiture of shares and disposal of industries under its ownership at appropriate prices for further expansion and consolidation of the liberal and market oriented economy. The government plans to dispose of assets worth Tk. 50 crores during 1991-92.

12. Indiscipline prevailed in the credit market or the financial sector far too long. The amount of bad loan is too large. Indiscipline in the financial sector has created a crisis for the economy: the financial institutions are experiencing shortage of loanable funds because of large defaults which limit their ability to sanction new loans; consequently, those who are new in the field of industry and trade do not have access to adequate loan and fail to use their capabilities. The government has taken steps to address this problem: law has been amended which provides for more effective procedures for recovery of loan; loan courts have been established; lists of large defaulters have been published; and their access to new loan has been restricted. It is expected that these measures would improve recovery of loan and induce the defaulters to repay loan in discharge of their contractual and social obligations. For recovery of defaulted loans, the government will firmly pursue these measures which have already received support from all quarters. They may still have access to new loan if their failure in servicing debts was due to genuine difficulties and the financial institutions are prepared to consider these cases on the basis of bank-and-client relationship.

13. The management of government finance calls for improvement. Data for the last few years show an unsatisfactory position with respect to government revenues while current expenditures increased significantly. From 1983-84 to 1989-90 annual growth of revenues averaged 14 per cent while that of current expenditure averaged 18 per cent. As a result, saving in the public sector declined; the government increasingly became dependent on external assistance; and the contribution of domestic resources to development outlay shrank. External resources accounted for 65 per cent of development expenditure in 1980-81, which rose to 99 per cent in 1989-90. I have already stated that our aim is to reverse this trend and increase allocation for development expenditure. If we are able to enhance mobilization of internal resources, it will be possible also to utilize more external resources; consequently total development outlay also can be increased. In allocating public resources higher priority will be given to sectors which contribute to development and welfare such as education, health, agriculture, water resources, etc., and specially primary and secondary education. Unfortunately, the allocations for different sectors

cannot be utilized effectively for weaknesses of management and monitoring. Steps are to be initiated for improving absorption capacity in the education sector so that its programmes can be further expanded. Inadequate allocation for operations constrain optimum utilization of existing assets; similarly, inadequate maintenance causes fast deterioration of assets. It will be necessary to improve qualitatively the programmes and management competence in those sectors which would be given higher priority in allocation of resources, failing which they will not be able to generate the expected benefits. This holds for all other programmes and sectors also.

14. One important reason for growth of revenue expenditure — unproductive and consumption expenditure in particular — is the large size of the government. It is difficult to contain revenue expenditure without reducing the size of the government, for which necessary steps will have to be taken.

15. The government spends a large part of its revenues to make up for the losses of departmental enterprises and public sector enterprises. Let me cite a few examples. The railway earned a profit of Tk. 1.60 crores in 1978-79 — and that was the last time it made



Acting President Shahabuddin Ahmed approving the revised budget for the current year and budget for the next fiscal year for placing before the Jatiya Sangsad on Wednesday. Prime Minister Begum Khaleda Zia and Finance Minister Saifur Rahman were also present. —PID photo

profit. Until 1982-83, however, its annual loss was limited to Tk. 6 crores only. The railway incurred a loss of Tk. 49.00 crores in 1983-84 and during the last few years annual loss was around Tk. 150 crores. The loss of the railway is due to excessive manpower, purchase of unnecessary and excessive equipment and stores, operational inefficiency, etc. The large amount of loss incurred by the railway cannot be avoided without significant restructuring and improvement of operational efficiency. This phenomenon is present almost everywhere in the public sector. The system loss of the Bangladesh Power Development Board is forty per cent or more; its receivables are large; and because of cash flow problems the Board cannot meet its debt service liabilities. Losses of the Bangladesh Jute Mills Corporation, the Bangladesh Road Transport Corporation, the Bangladesh Textile Mills Corporation, and other public enterprise amount to a few hundred crores. Unless these organisations stop making loss, it will be necessary to give them subsidies out of tax revenues for which there is little rationale. These organisations are to be turned into profitable ones by enhancement of efficiency, reduction of production cost and appropriate pricing policies, which will reduce the burden on the government. It is contrary to economic rationale and social justice to pay for the mismanagement of these organisations out of the revenues received from taxes on the daily necessities of the poor. Besides, it is not possible to mobilize domestic and external resources for these expensive but inefficient organisations. Nowhere in the world can an electricity utility survive if its system loss is 50 units out of 100 units generated. The nation has to be salvaged from this situation; failing which industrial development will be impeded and the burden of unjust tax on the people will increase.

16. Subsidy accounts for 12 to 14 per cent of our revenue budget. In the revised budget of 1989-90 allocation for subsidy was Tk. 940 crores, which is 14 per cent of the total revenue expenditure. Allocation for subsidy in the budget of 1990-91 was Tk. 988 crores, which was more than 13 per cent of the total revenue expenditure. In the revised budget it has been proposed to reduce allocation for subsidy by Tk. 218 crores to Tk. 770 crores; nevertheless, it will be 10 per cent of the total revenue expenditure. An allocation of Tk. 683 crores in

the budget of 1991-92, which would be more than 8 per cent of the estimated revenue expenditure. This trend for reduction of subsidy has to be maintained. Expenditure for the development and welfare of the poor, however, will not be part of this process; on the contrary, we consider such expenditure as investment in human resources development. We have to realise that the economy of a poor country like ours cannot be revitalized as long as we continue to incur such large expenditures on subsidy while depending largely on taxes affecting the poor as well as external resources.

17. A major objective of the government's economic development policy is alleviation of poverty through higher and equitable economic growth. The bulk of the poor people live in the rural areas and are engaged in agriculture or other off-farm occupations. Agricultural and rural development thus helps poverty alleviation. Based on these considerations, higher priority in development strategy will be accorded to agriculture, irrigation and water resources, rural infrastructure and small and medium industries — particularly agro-based and agro-supportive industries — located in rural areas. Efforts will be made to in-

tegrate the marginal social groups with the mainstream economic activities through appropriate structural and strategic measures, so that their access to benefits of development is enhanced. Education and health and family planning sectors will be emphasized as part of the strategy for human resources development. We believe that the government will have a lesser role in directly productive activities after adequate development of the private sector, which will enable the government to concentrate more on development of infrastructures. The Jamuna Bridge, the Meghna Bridge and the Flood Action Plan will feature prominently in the programme for infrastructure development.

18. Women constitute about half of our total population. But their participation in development programmes and at different levels of the government is rather insignificant. The progress of a society will be constrained if half of its population is neglected and excluded from the benefits of development. It is, therefore, necessary that the women are progressively brought into the mainstream of economic activities.

19. Maintenance of ecological balance and prevention of environmental pollution are very important for a small but densely populated country like ours. The growth of population itself generates ecological pressures: deforestation takes place for allowing human habitation; and human settlements grow up in far-out areas. The floods of 1987 and 1988 and the cyclone this year demonstrate how vulnerable we are to a hostile ecology. We have to take appropriate steps to save ourselves from such adversities. Tree plantation and coastal afforestation are among these initiatives. We have to construct shelters for protecting ourselves from cyclone, floods and tornado. Ecological and environmental impact of development projects is to be carefully ascertained.

20. Stabilisation and structural adjustment measures are necessary for sustained economic development. We have been pursuing these policies for a long time. In addition to macro-economic structural adjustments, we have taken up adjustment programmes in various sectors such as finance, energy, industry, agriculture and food. The principal objectives of all these sectorial reforms are enhancement of efficiency, enforcement of discipline, appropriate pricing, and reduction of rent-seeking opportunities. I have already referred to the indiscipline in

the financial sector and the system loss of the Power Development Board. The industrial sector reforms aim at enhancement of efficiency through competition. In agriculture and food, efforts are being made to reduce subsidy and to ensure stable food supply and price for all in place of low-priced food for a few. Agricultural inputs are getting easily available. The government will have to provide subsidy from its revenues and assume responsibility for losses incurred in the various sectors unless these measures are adopted. As a result, the other sectors will not get adequate resources, while the burden of the subsidy and losses are eventually passed on to the common people, which is contrary to all principles of justice and equity. The cost of adjustment may not be equally distributed among all the social groups. It may hurt some groups more than others. But we have to accept this sacrifice for sustained and overall development. However, we have to be sensitive to the impact on the poorer sections of the people and undertake ameliorative efforts whenever required. Some people have negative perceptions about these measures because they were undertaken as part of donors' conditionalities. In reality, we should implement

external Monetary Fund and other sources helped us in responding to the situation.

23. A severe cyclone hit the south-eastern part of the country on 29th April. I have already referred to the human dimensions of the cyclone. Economic activities have been adversely affected. Garments and other industries, physical infrastructures, shrimp culture and other piscicultures, industrial units of the Bangladesh Chemical Industries Corporation located in Chittagong and the infrastructures and industrial plants in Chittagong Export Processing Zone suffered damages. The operation of the Chittagong Port was constrained and sizeable quantities of imports at the port were damaged. According to preliminary estimates, the cost of relief, short term reconstruction and medium term rehabilitation is large. International agencies and friendly countries have extended cooperation in meeting our needs.

24. Shortly after the cyclone greater Sylhet district was affected by floods causing considerable damage to agriculture, roads and flood-control infrastructures which would need immediate rehabilitation.

25. During 1990-91 broad money supply and credit increased less than the expected. It was estimated that broad money and credit would increase by 16.48 per cent and 16.71 per cent respectively over 1989-90. From July to March in 1990-91 financial year broad money supply increased by 3.15 per cent only, compared with the expected growth of 11.23 per cent and 8.69 per cent during the corresponding period of the last financial year. Credit had increased by 14.40 per cent during the first nine months of the last financial year; for the corresponding period this year, the growth was 3.43 per cent only compared with the expected growth of 11.80 per cent. It was estimated that net credit to the government would increase by 11.57 per cent and by 10.74 per cent to the public sector. On the contrary, credit to the government has contracted by 22 per cent, aided by government's policy to restrain revenue expenditures. Credit to the public sector expanded by 3.04 per cent only. Credit to the private sector increased by 6.74 per cent only, compared with an expected growth of 12.26 per cent. Contraction of broad money and credit reveals recessionary trends in the economy, to remove which a number of corrective steps were adopted by the government in April. The reserve ratio was reduced from 10 to 8 per cent and statutory liquidity ratio from 25 to 23 per cent. During the last year a number of constructionally measures had been adopted in response to the depletion of foreign exchange reserve; some of these measures have been relaxed in the current year to encourage import. Banks have been permitted to fix, on the basis of bank-and-client relationship, the margin for import of industrial raw-materials; margin requirement for import of consumer goods has been reduced. According to the latest available data, credit increased by 5 to 5.5 per cent in April and May. It is expected that this will help partially to moderate the recessionary trends.

26. I would like to say a few words on the position of the external sector and the principles for its management. The external sector, which is an integral part of the economy, plays a complimentary and supportive role. The Gulf Crisis in 1990-91 financial year and the natural disaster of April had an adverse impact on the external sector. Our exports could overcome to some extent the adverse impact of the Middle East Crisis; the natural disaster of April, however, will cause an immediate set-back which is likely to reduce receipts on account of exports. On the other hand, payments for import may increase though it was estimated earlier that the recessionary condition of the economy would dampen demand for import. Nevertheless, import during this financial year is likely to exceed that of the last financial year only slightly.

27. The government has been able to address the uncertainty which emerged in the external sector in 1990-91 generated by decline of export and increase of import. Consequently, it has been possible to maintain a satisfactory level of foreign exchange reserve which can meet import needs for two-and-half months.

28. External trade should be used as a strategy for economic growth by a developing country like ours. We should diversify and increase export while maintaining a liberal trade regime to ensure adequate import of raw-materials, machinery and spares for export oriented and domestic industries as well as consumer goods. At the same time, in order to attain balance in the

external sector, we should adopt a medium term programme for reducing the gap between import and export. I believe that expansion of external trade can help achieve this balance which is also an important step towards self-reliance.

29. Exchange rate policy has an important role in maintaining competitiveness of our export and encouraging initiatives for new exports while discouraging undesirable import and protection. Exchange rate will be kept under observation from this perspective in order to avoid any persistent misalignment. Management of real effective exchange rate will be strengthened and the exchange rate of taka will be adjusted whenever necessary. Moreover, we would adopt other strategies also to arrest any deterioration which may decelerate growth of export. We are carrying on the burden of external debt contracted by the autocratic regime during the last nine years, although it was done in violation of all budgetary and planning disciplines. We have to take steps for reducing the burden of external debt in the future.

30. The price index in 1990-91 was somewhat lower than that in 1989-90. According to the consumer price index for the Middle Class households of Dhaka for 1989 prepared by the Bangladesh Bureau of Statistics, the price index for July-August was over 9 per cent. In the following months the price index declined below 9 per cent and reached 7.8 per cent in January, 1991. Thereafter the price index showed an upward trend and increased to 8.7 per cent in May. The general price index remained low this year as the price index for food was slightly lower. However, it should be noted that both the general price index and the food price index showed a persistent upward trend this year. The adverse external situation and the political instability in the recent past have generated underlying pressure on prices, which is likely to continue in view of the cyclone, floods, other natural disasters and external economic conditions. Appropriate macro-economic measures will have to be taken to arrest deterioration of the situation and the stabilization process will have to be sustained.

31. The production of food-grain was 187.50 lakh tons in 1989-90. The production for 1990-91 was initially estimated at 195 lakh tons, which has been revised to 193 lakh tons after the cyclone. It is estimated that the cyclone damaged 1.73 lakh tons of boro and 10,000 tons of aus, while the floods damaged 35,000 tons of boro.

32. Food stock in government godowns stood at 11.48 lac tons in July 1990. During July-April, 13.42 lac tons of foodgrains including 13.05 lac tons of food aid, were imported. Domestic procurement up to April was 4 lac tons. The Government had an operating stock of 29 lac tons by end of April and the quantity distributed totalled 20 lac tons. Since May an expanded programme has been taken up for distribution of food in the cyclone and flood affected areas. The latest estimates indicate that the government will distribute 24 lac tons of food through the public food distribution system in 1990-91. The Ministry of Relief plans to distribute 8.24 lac tons of food through non-monetised channel; the quantity may have to be increased to meet the needs of the affected areas. Food stock at the end of the year will be over 9 lac tons. Assuming that the desirable level of opening stock for 1991-92 is 10 lac tons, the actual stock would be slightly lower. The shortfall, however, is not critical. Additional pledge of 2.16 lac tons of food aid has already been received in the wake of the natural disaster, which will improve the stock position. We have already requested the donor agencies and countries to accelerate shipment.

33. The target for domestic procurement during the current year was revised to 8.36 lac tons; about 5 lac tons have been procured by the end of May. Procurement price for paddy was revised from Tk. 220 to 240 in order to improve domestic procurement. Support price for growers is necessary for agricultural growth and the government will try to ensure more effective domestic procurement.

34. We recognise that efficiency and contentment of the civil service is required for implementation of government policies and programmes. We are, therefore, cognisant of the need for appropriate levels of salaries, allowances and other benefits for the government employees. However, we should also recognise that expenditure on account of enhanced salary, allowances and other benefits should be considered in the overall context. See Page 11