

Structural adjustment process painful but a must



Finance Minister Saifur Rahman taking his seat at the parliament. —Star photo

Mr Speaker

A short while ago the cabinet approved the proposals for submission of budget for the year 1992-93 and revised and supplementary budget for 1991-92 to the Parliament. With your permission, I place these proposals for consideration of this august House.

2. After submission of the budget last year, this house adopted the Parliamentary form of Government with a view to consolidating the fruits of democracy. As a result, the role of this house, elected through a free and fair election, in formulating guiding principles in national life has been enhanced. Consolidation of Parliamentary form of Government on a more solid foundation thereby establishing real sovereignty of the people is a form commitment of the Prime Minister Begum Khaleda Zia and her Government. Effective transfer of power to this democratically elected government took place less than a year ago. Before the change of government in the face of great mass upheaval, the country was ruled for nine years under a Presidential System which was characterised by centralization of power and absence of accountability. As a result, the economy went through a long recessionary period. This government came to power with the promise to improve the lot of the common man by making the economy vibrant once again. The main theme of my speech to day will be the steps being taken to fulfil this commitment, our success as well as failures, and the directions of our socio-economic programme.

3. Our economy has been locked in a low-income-low-growth trap. Our history is one of low-growth and marginal improvement while the vast majority of our population continue to live below the poverty line. We have to get out of this morass of poverty by achieving higher growth and improve the quality of life of the common people. But how do we achieve that? First there has to be macroeconomic stability. This is the essential building block for a market economy and the first condition for sustained economic development. We have entered that phase. But we should be on it and make further gains in this regard.

4. Political stability and improved law and order situation are also prerequisites for economic development. Furthermore, a national consensus is needed on the goals of the economy. Fortunately, such a consensus seems to have been achieved in many areas. By embracing the market-oriented philosophy, the largest Opposition Party has made a significant contribution to such consensus building. The size and quality of investment has to be raised. A market oriented and competitive economy has to be built which will be both accountable and corruption free, and will ensure efficient use of resources. As a part of this macroeconomic framework a liberal trade and investment policy will be followed which will reverse the downward trend in investment and increase it gradually. It is our aim to strengthen economic management bring back discipline in the financial institutions, make the public sector productive and profitable by removing inefficiency and wastage and at the same time provide all needed assistance to the private sector and make them free from regulatory impediments so that they play their due role in the national economy. It will take time to bring about perceptible changes in the economy of a country which is poor and frequently subject to natural calamities. What is needed is structural adjustments in the key sectors of the economy so that a sustainable growth is achieved. People are the prime movers of the economy; they are also its beneficiary. The economy cannot flourish if the latent skills and entrepreneurship of the people are not used. Participatory development is therefore, our objective.

5. The growth path we are seeking is indeed achievable; but we need vast resources for that. We need to generate surpluses for development investment by economising our less productive expenditures and raising the revenue income. But this is not enough. The main problem is that we are caught in the low income-low saving-low investment-low growth cycle. The rate of investment as a percentage of GDP rose to 16 per cent in 1981-82 (Annexure-I). But it started to slide down and reached 10 per cent in 1990-91 (Annexure-II). This downward trend in our investment is particularly noticeable in the allocations for revenue expenditure and development projects. The ADP for 1980-81 had an allocation that amounted to 10 per cent of the GDP. It came down to 6 per cent in 1990-91. During the same period current expenditure increased from 5.6 per cent of the GDP to 9.7 per cent. In terms of money, at one point up to 1981-82 during term of the BNP Government development expenditure was twice that of current expenditure (Annexure-III). This started decreasing during the last regime and the development outlay of 1989-90 was three-fourth of revenue expenditure. The low rate of saving cannot of course be fully explained by the poverty of the people and their low per capita income. The rate of savings is few times that of ours in our neighbouring countries and other countries with low per capita income. It can therefore be said that as a nation we have a high propensity to consume. This has to change. We must save and invest more by reducing our consumption levels.

6. One of the structural weaknesses of our economy is that almost one-third of it is outside the organised market. Twenty-five per cent of the labour force is unpaid family labourers and possibly almost as many are engaged in non-formal sector. They are not involved in capital formation or its use. Poor rural people needing capital have to go to the money-lender as the institutionalised money market is outside his reach. Moreover, they do not get appropriate price for their product because of lack of organisational ability. But in spite of all these impediments the marginal farmers and small traders and small-scale producers are contributing about 40-50% of the GDP.

7. By bringing about structural changes and increasing investment, the economy has to be activated so that at least 5 per cent annual growth rate is activated. This rate was achieved up to the first two years of the eighties; the rate of growth tapered off to 2 per cent in later part of the decade. It would be our aim to reach the desired level of growth once again by increasing revenue. With this end in view, the wastage and inefficiency of the public sector have to be removed and the role of the private and external sectors in the economy have to be made more effective by removing all constraints in their operation. At the same time one-third of the economy that remains outside the formal sector will have to be linked to the mainstream of the economy through increased employment and appropriate market mechanism.

8. The outline of the programme imbued with the philosophy of BNP as has been described earlier was first put in a concrete shape in the 19 point programme of the late President Ziaur Rahman. The vitality and enthusiasm that were thus generated could not be sustained subsequently. We believe that the principles and programme followed by the Bangladesh Nationalist Party established by late President Ziaur Rahman will once again infuse the same vitality in the economy. The programme of economic upliftment announced by Prime Minister Begum Khaleda Zia points to that possibility. The basic tenet of this proposal is that the poor people must be allowed access to the basic needs of life. This includes (a) a recognition of the economic right of the people, (b) to create opportunities for people to devote their skill and energy to the production process, (c) involving the people in building an efficient, progressive and welfare oriented economy.

9. The emerging development perspective has evolved out of this perception. It emphasises human resource development, participation of women in development, and poverty alleviation. The specific policies that will be followed to achieve these objectives are:

(1) Limiting the role of the government mainly in building infrastructure, and development of social sectors like education, health care, family

planning etc, and promoting the role of the private sector in production and distribution activities.

(2) Ensuring adequate allocation for the social sectors in order to ensure basic health needs, family planning and removal of illiteracy.

(3) To build a market oriented economy, bringing about economic discipline and encouraging people's participation and women's role in development, all of which will lead to increased employment opportunities among the people, particularly the low-income 50% of the rural poor.

(4) To strengthen national economy through development of the rural economy and prioritisation of agriculture sector.

(5) To make the economy outward looking and competitive by freeing it from protectionism and domestic demand orientation.

(6) A self-activating accountability mechanism to be evolved in all sphere of socio-economic development so that a balance is achieved in micro-level and macro-level planning.

(7) To achieve co-ordination in national environmental policy so that environment degradation can be halted through a planned process.

It must be admitted that market structure in our country is weak and inefficient. We will, therefore, undertake reforms in the administrative machinery and operation of the market. We recognise the positive and supportive roles of established voluntary organisations in our development activities.

10. The participation of the people at the national level has been ensured through adoption of parliamentary form of government. A high level commission has been formed with the aim of establishing an effective local government that would be a participatory development tool at the local level through control over resource mobilization and its allocation. This commission is expected to submit its recommendations very soon, and it is hoped that an effective, participatory local level development structure will be established.

Three Years Development Programme

11. A three-year Rolling Plan/Programme has been prepared within the overall framework of the Fourth Five Year Plan (FFYP). The major actions under this programme would be: poverty alleviation, human resources development, education, health and other social sector and infrastructural development. The objective of the introduction of the programme is to ensure proper implementation of the current projects undertaken on the basis of realistic estimates of resources; and within



Treasury Bench members with the Prime Minister during the budget session.

the resource envelope identify new projects and determine their priority vis-a-vis current projects over the following two years. There has been improvement in the preparation processing and approval of the projects under the changed procedure. In implementation of projects, however, there still exists some slowness which needs to be removed for attaining investment momentum and target rate of growth.

Annual Development Programme (ADP) 1991-92

12. The original size of Annual Development Programme (ADP) for the current year was Tk 7500 crores. Due to slow implementation of the programme the proposed allocation for the revised ADP is reduced to Tk 7150 crore, though there was no shortfall in the availability of resources. This reduction in revised allocation is 5 per cent of the original ADP. The shortfall has occurred in the utilization of project and commodity assistance. The reasons for shortfall

been allocated for canal digging and Dhaka City flood protection scheme though there was no allocation in the original ADP for these purposes. For rehabilitation of the April '91 Cyclone affected coastal areas 29 projects were included in the ADP with an outlay of Tk 300 crore. Massive construction works under these projects are at the completion stage. For completion of these projects and economic rehabilitation of the affected people of the coastal zones an amount of Tk 512 crore has been proposed in the ADP of the coming financial year. A number of international organizations and NGOs have made their contributions in the construction of Cyclone shelters and other structures over and above investment through ADP.

Annual Development Programme (ADP) 1992-93

14. Our policy is to maximise investment expenditure through minimisation of current or revenue expenditure

and at the same time planned increase of revenue receipts. Consistent with this policy the ADP allocation for 1992-93 has been estimated at Tk 8,650 crore which is 21 per cent higher than this year's revised ADP. For the first time in five years it has been possible to allocate larger amount for development than the revenue sector.

13. In the revised ADP special priorities have been attached to the following sectors:



President Abdur Rahman Biswas recommending to submit the Finance Bill and National Budget for fiscal 1992-93 on Thursday. —PID photo

tors: Power, Transport, Water Resources, Agriculture and Family Welfare. In addition, the allocation for infrastructural development in districts and upazilas has been increased from Tk 60 crore to Tk 217 crore in the revised ADP. This has contributed to employment generation and physical infrastructural development of remote areas. The allocations for the four city corporations have been raised from Tk 10 crore to Tk 62 crore. In the revised ADP Tk 95 crore has

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used for the welfare of the people as it is allocated for various developmental works. I hope you will agree that reduced POL price will only result in reduced resource for the Government, but the general public will not get any benefit out of it, as there is no guarantee that there will be proportionate reduction in transport fare. Since Government had agreed to consider the matter, it has been decided to reduce fuel price by 30 (thirty) paisa per litre. As a result, the Government will lose, directly or indirectly, about 50 (fifty) crore taka as revenues which could be used for development. Even at this cost, the Government has taken this decision to give incentive to the transport sector and we hope that the transport owners will come forward to raise their standard of service. Some more incentives for the transport sector will be announced in the next part of my speech.

22. In the consortium meeting in April this year, our development partners appreciated our stabilization measures. They have committed an aid package of US Dollar 2.2 billion for the next financial year. It is pertinent to mention that this year the donors have committed aid rather than pledging it. This firmer commitment of aid is a reflection of the confidence of the international community on our economic management. There are some who contend that we are being compelled to submit to difficult and onerous conditions imposed by the IMF and the World Bank. I in most emphatic terms would like to say that nothing can be farther from truth. This Government has not accepted any condition that it does not perceive to be in the national interest. Mr. Speaker, there is no alternative to reform. However difficult the task is, we will not flinch from it. We can only shy away from the path of reform at the risk of marginalisation of

17. 1991-92 original budget

supply and proper implementation of on-going projects.

Power Sector

15. The mismanagement and wastage of the power sector is a serious problem, for which foreign assistance to this sector remains suspended. As a result, the entire sector faces a serious situation. Production in the industries sector and our export trade are being adversely affected by disruption in power supply. Unless this problem is solved soon, the whole economy of the country will be in jeopardy. Last year I had referred to this problem in rather harsh terms in my budget speech. At that time the system loss was 41 per cent at the national level.

The Government has been trying to bring down the system loss to acceptable limit. It is hoped that by September this year there will be an appreciable reduction in system losses in both PDB and DESA. The differential slabs in power tariffs have perhaps exacerbated the system losses and consequent loss of revenues. The matter is under close scrutiny and review by the government.



19. Early this year a large number of refugees entered Bangladesh from neighbouring Myanmar. Their influx is still continuing and their number has increased to 260,000. In spite of earnest attempt of the Government these people have not returned to their homeland. This has put some pressure upon our limited resources despite the assistance from external sources.

20. Originally it was estimated that domestic resources for financing of this ADP for 91-92 would be around 14 per cent. In 90-91 ADP it was 8 per cent. As against 14 per cent in the original ADP for this year, domestic contribution in the revised ADP has been estimated at 25 per cent of the total. By sustaining this effort at self-reliance domestic resource will be more than 27 per cent in the ADP for next financial year.

Energy Sector

16. Receipts from Bangladesh Petroleum Corporation is a dependable source of revenue to the Government. We have to evolve a system of user charges for proper maintenance and rehabilitation of the expanding road network in our country. It is not possible to construct roads only with the fund borrowed from abroad. Domestic resource is



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included, a revenue of Tk 9,100 crore out of which tax revenue was to the tune of Tk 7,498 crore and non-tax revenue was Tk 1,602 crore. Some new tax measures were adopted early this year prominent among which was Value Added Tax or VAT. VAT has been helpful in our resource mobilization effort. Estimate under this head in the original budget was Tk 1,552 crore; in revised budget it is estimated at Tk 1,675 crore. As there has been some gains in other taxes, Tk 243 crore will be available as additional revenue in the revenue budget. Non-tax revenue will also yield an additional Tk 174 crore. As a result with an additional Tk 417 crore total revenue in the revised budget will stand at Tk 9,517 crore. Substantial gains have been achieved in small scale savings through the National Saving Schemes. Net surplus in this area is estimated to be Tk 616 crore in the revised budget. Through increase in revenue and savings, an amount of Tk 1,787 crore will be available for financing of the annual development programme from domestic source as against Tk 1,108 crore estimated in the original budget.

18. Estimated revenue expenditure in the original budget was Tk 8,083 crore. This has been revised to Tk 7,900 crore in the revenue budget. Additional expenditure of about Tk 400 crore for increased salary for the Govt officials that became effective early this year is included in the revised estimate. Reduced expenditure has been estimated for contingencies in Government offices and for foreign interest payment, payment of subsidies, and additional allocation of Tk 108 crore has been made for operation and maintenance. This increased allocation for O&M will mainly be available for upazila roads, primary health units, primary schools and irrigation structures.

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21. It is undeniable that even if domestic contribution to the ADP gradually increases, we will remain dependant on foreign aid for substantial portion of development expenditure up to the year 2000. But it must be recognised that the political and ideological changes that are taking place in the world will bring about quantitative and qualitative change on the availability of foreign aid. Countries seeking aid are being advised to restructure their economy to be internationally competitive and mobilise domestic savings and investment. We, therefore, have to ensure optimum use of all foreign assistance. The structural weaknesses of our economy that resulted in wastage and inefficient use of resource have to be removed as a condition for getting foreign assistance. Structural adjustments in the economy are needed in our own interest and as they will improve our competitiveness in terms of productivity and skill. The process of structural adjustment may be painful but it is a necessary condition for our economic viability.

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our country in a rapidly evolving global economy. We are however careful that the deprived section of the people are protected from the adverse effects of structural adjustment. The needs of those who are relentlessly struggling to meet the bare essentials of life are indeed very meagre and we must see that these needs are not curtailed when the economy is going through the process of transformation.

Revenue budget 92-93

23. Revenue income for FY 92-93 has been estimated at Tk 10554 crore. This includes tax revenue of Tk 8573 crore and non-tax revenue of Tk 1981 crore. Revenue expenditure has been estimated at Tk 8550 crore. Increase in the revenue expenditure over the revised estimate this year is little over 8 per cent. Highest allocation of Tk 1592 crore has been proposed for the education sector which is about 19 per cent of the total revenue budget. Substantial increase has also been made for the health and family planning sector. Allocations for education and health sectors have been increased by 27 and 24 per cent respectively of the original allocation. The increased amount in these two sectors will be spent on enhanced the facilities in the rural health and primary education institutions. After adjustment of the deficit of domestic capital head and food budget, an amount of Tk 1914 crore will be available for financing the ADP on the basis of existing taxes (Annexure-III).

24. The rate of inflation last year was 9 per cent. During the last nine months of the current financial year, the rate of inflation has been estimated to be 5 per cent. This is the lowest rate of inflation in the last five years (Annexure-IV). This is exceptional in the Asia-Pacific region. Adequate supply of consumer goods in the market and stability in price of rice and other essential consumer goods have contributed to this low rate of inflation.

25. The contractionary trend that set in during the year 90-91 continued during the first five months of the current year. It showed some expansion from December '91. Broad money increased by 6.19 per cent as against 3.15 per cent last year. But this expansion is substantially lower than the target fixed for the first nine months of the year (Tk 2625 or 10.50 per cent). Narrow money declined by 1.46 per cent as compared to 2.46 per cent reduction in the previous year. In the first nine months of the year total domestic credit declined by 0.52 per cent and stood at Tk 25236 crores, which was an increase of 3.43 per cent in the previous year. During this time, credit to the public sector declined by 21.85 per cent and stood at Tk 1715 crores.

26. Agriculture remains the most important sector of our economy. Privatisation of supply of inputs to this sector has been beneficial. Credit programme for the agriculture sector contributes to growth, development of the socio-economic condition of the rural poor and marginal farmer, and above all to the effort at attaining self-sufficiency in food production. In consideration of this, the credit programme in this sector has been made easier this year and the agriculture/rural credit institutions and Banks have been given power to prepare and implement their own credit programme. As a result of this, agricultural credit during the period July-April this year stood at Tk 641 crore which is Tk 146 crore more than the credit available during the corresponding period of last year. During the last two years, recovery of loan was higher than fresh loan. This trend has been reversed this year. As per Government declaration, loan up to five thousand taka with interest has been forgiven. Up to 15 March 1992, this exemption amounted to Tk 2162 crore. Government will compensate the banks for the net 50 per cent of the forgiven amount. For this purpose, bonds for Tk 800 crore have already been issued. Revenue budget for the next year includes Tk 60 crores as interest on these bonds. Such interest burden will continue to be borne in the revenue budget in years to come.

27. At present the establishment expenditure of Ministry of Land comes to about Tk 90 crore, whereas collection of land revenue is about Tk 60 crore. As a result, Govt has to expend an additional amount of Tk 25/30 crore. To improve the situation to an end, Ministry of Land is actively considering the proposal of raising revenue by re-fixing the rate of land development tax on the lands used for industrial and commercial purpose and on land in municipal areas.

28. Though the contribution of the industry sector in our

(Continued on page 7)