

Budget '93-94

'Self-sufficiency in food output targeted'



Saifur Rahman

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competitiveness. Public investment takes into consideration its direct role in augmenting private trade and business and indirect effect in crowding-in and leveraging private investment. In the medium-term, our investment in human capital is expected to pay-off in creating a healthy and productive labour force which would contribute to significant improvement in efficiency of investment reflected in a declining incremental capital-output ratio. Fiscal policy, among others, is also designed to promote allocative efficiency in economic activities, promote private investment, reward risk and entrepreneurship. The overall task system has an important role in influencing the flow of private resources in the efficient and productive sectors of the economy. Private capital grows in a society when risk

and accumulation of wealth are rewarded. We shall continue to fine-tune our fiscal packages keeping in mind these important aspects that underlie private investment growth.

32. Agriculture is our biggest private sector operation contributing 40% of GDP. The government has gradually removed the constraints imposed by state interventions, deregulated and liberalized the markets to allow further private participation, particularly in the supply of inputs and distribution of outputs. Aided by these conducive policies and favourable weather conditions, our hardworking farmers have produced all time high of 19.75 million metric tons of foodgrains this year — about 2.3% higher than the actual production of 19.31 million metric tons last year. The wheat crop is estimated at 1.1 million metric tons against the target of one million metric tons. By the grace of Allah, we are about to achieve self-sufficiency in foodgrain production and enter a new phase of agricultural development.

Mr. Speaker,

33. With every new achievement comes new responsibility, a fresh need to evaluate the existing policies. With respect to the input to agriculture, the direction of our policy will remain unchanged but we shall endeavour to improve upon the delivery and outcome of the policy objectives. Farm subsidies do not reach those who are targeted to benefit from them; instead, the intermediaries gain in the process and artificial scarcities are created. That is why we decided to remove subsidies on agricultural inputs and concentrated on ensuring their timely availability in adequate quantities to the farmers. Fertilizer use in 1992-93 is estimated to be 2613 thousand metric tons, showing a growth of 27% over 1989-90 sale of 2053 thousand metric tons. The prices of farm inputs, particularly of Urea, are expected to come down because of a number of policy initiatives. Government has drastically reduced duties and taxes on a range of agricultural inputs. Fertilizer will continue to remain exempted from custom duties and VAT. Vigorous cost reduction measures are underway which will bring down the

Modernisation of our budgetary system is a long-felt need. The government appointed a committee to identify the existing weaknesses in budget, accounting and expenditure controls and make recommendations.

price of domestically produced Urea by at least Taka 500 per ton which is Taka 25 per bag. Entry bar on fertilizer trading will be removed to increase competition at wholesale and retail levels which will put downward pressure on the price and enhance availability. Interest rate on agricultural credit is expected to come down in line with low rate of inflation. Krishi and other banks have modified their lending policy to agriculture; ceiling on farm-size has been raised from 2.5 acres to 5 acres to increase the coverage of credit; the farmers whose debts were written-off have also been made eligible for credit. The research institutions assisted by the large extension network will strengthen their efforts to increase productivity and find new and efficient avenues of crop diversification. I shall mention other fiscal measures to support agriculture sector in the second part of my speech.

34. The traditional interventions in the output market have to be modified in the context of new situations. The strategies for intervention in the food and agricultural markets have to be designed keeping the new realities in mind. We have been experimenting with a few innovative ideas. In the coming year, we shall design a policy package which would ensure remunerative price to farmers, maintain favourable price relationships between agricultural input and output as well as inter-sectoral prices so that the backbone of our economy remains strong and productive.

Mr. Speaker,

35. Government will continue its policy to promote private industry. We have amended the Industrial Policy 1991 and opened up power and telecommunication sectors for private investment. Foreign investment proposals worth hundreds of million dollars in power sector have been received by the government. These clearly demonstrate the growing confidence of foreign investors in our economic policies. Energy policy will be announced soon enunciating the detail framework for, among others, private sector participation. Prime Minister has taken over the supervision of Board of Investment to ensure all supports are speedily available to private sector. A Board has been set up responsible for privatisation of state-owned enterprise. Our past experiences show that just disposing off public enterprises cannot fulfill the objectives of privatisation. Detail preparatory exercises are needed to restructure the enterprises and establish their viability before privatisation. Two in-depth studies have been completed on jute and textile sectors which have identified the steps required for successful privatisation of these industries. Government is in the process of finalizing the overall strategy although down-sizing of manpower has already started through voluntary separation. We hope to make significant progress towards meaningful privatisation of state-enterprises in the next fiscal year.

Mr. Speaker,

36. An efficient and stable financial market effectively supports growth of the real sector of the economy. The sector has been liberalised; banks are free to charge market based interest rate except for small and cottage industries. Nationalised Commercial and Development Banks have complete freedom in making investment decisions; there are no mandated or directed credits with concomitant refinancing facilities.

37. Monetary growth would be targeted consistent with our projection of economic growth and inflation. Broad Money grew at an estimated rate of 13.8% in 1992-93 and the projection for 1993-94 is 12.5% which would allow private sector credit growth of about 15% — sufficient to support the envisaged expansion in investment and economic activity. During the first half of current fiscal year, the expansionary impact of reserve money was offset by decline in credit to government and repayment to Bangladesh Bank by the commercial banks of significant portion of their borrowings from discount facility. If required, new monetary measures may be undertaken during the next year along with traditional broad money programme.

38. In view of lowering of inflation rate and to promote private sector demand for credit, Bangladesh Bank lowered the bank rate in quick successions from 8.5% in early January to 6.5% in April, this year. The floor rates of saving and term deposits have also been lowered in consonance with the low inflation rate. In response to these monetary measures banks have lowered their lending rates. Although some of the banks are constrained by the magnitude of their non performing assets, we believe that there are further scopes for reduction of interest rates. In the meantime, it appears that these measures are having salutary impact upon private sector credit and

investment. Excess liquidity with the banks has come down from over Taka 1200 crore to around Taka 600 crore during the last five months. This is indicative of increased level of economic activity. This is indeed a healthy trend. To encourage the growth of small and medium scale industries, Bangladesh Bank provided a line of credit to commercial banks which is estimated to reach Taka 250 crore at the end of the current fiscal year. In response to government's policy initiatives, Banks have undertaken enhanced lending programmes to new industrial projects and rehabilitation of viable industrial units facing resource constraints. The results are encouraging — NCBs alone have sanctioned around Taka 300 crore as term — loans for industry during the five months from January to May this year.

Mr. Speaker,

39. As I have already stated, the financial imprudence, indiscipline and rent seeking activities of the autocratic regime had, at one stage, seriously jeopardized the viability and stability of the banking system. Therefore, reform of the sector demands that the banks clean up their non-performing loans through restructuring and other requisite measures and achieve a qualitative improvement of their investment portfolio. To strengthen the financial position of the nationalised banks which have been heavily exposed to the staggering burden of public sector debts, government has issued special bonds for recapitalisation to meet the requirement of the law and shortfalls in provisions against classified loans. One of the key elements of reform of this sector is the strengthening of the regulation and supervision capability of Bangladesh bank. With this objective, important amendments have been made in the Banking Companies Act, 1991. Financial Loan Court Act has been amended to enhance its effectiveness in recovering loans. Further changes are being contemplated to speed up execution of decrees awarded by the court. The Central Bank as well as the public sector banks need to develop their professional and

House that we have completed the first phase of the reform. We now have in place a system that has reversed the past anti-export bias and can promote and sustain export-led growth. Our exports are responding to this more supportive environment. Even with continuing recession in the developed countries, as well as collapse of the market of the former centrally planned economies, exports from Bangladesh registered a robust growth of 20% and are estimated to earn US\$ 2.5 billion during the current fiscal year — against a target of US\$ 2.3 billion in the export policy. This happened in the face of unfavourable prices of two of our major traditional exports — jute and tea. Annual percentage changes in terms of trade in 1992-93 are estimated at (-) 12.7% for raw jute and (-) 10.3% for tea. The government will continue to explore avenues for improvement particularly to diversify the export-base and increase domestic value-added. Imports, though sluggish at the beginning of the year, have started picking up and estimated to grow around 12% with total import bill standing at around US\$ 4.0 billion by the end of 1992-93.

Mr. Speaker,

42. Government has pursued an active and flexible exchange rate policy designed to ensure medium-term viability of the balance of payments while supporting progressive liberalisation of trade and tariff regimes to stimulate and promote investment in production of internationally traded goods and services, and sectors where Bangladesh enjoys comparative advantage. We shall continue to follow an active exchange rate policy to support and maintain our external competitiveness and send signals to potential areas of export growth.

43. The exchange controls have been relaxed and investments in shares and securities, working capital and term loans deregulated with no restriction on remittances of dividends, royalties, salaries and repatriation of capital. We



Treasury Bench members with Prime Minister Begum Khaleda Zia during yesterday's Budget speech. — Star photo

technical capabilities commensurate with the requirements of modern banking and a liberalised financial system.

40. Development of the capital market is essential to mobilise domestic resource and stimulate investment in the private sector by providing long term funds. Establishment of an appropriate institutional framework with requisite legal reforms has therefore received urgent attention of the government. Some important steps have been taken with the setting up of Securities and Exchange Commission and abolition of the office of the Controller of Capital Issues which had outlived its usefulness. The Securities and Exchange Ordinance, 1969 has been made more comprehensive and effective with devolution and investment of appropriate regulatory powers and functions in the Commission. It is hoped that the Commission will

Fiscal deficit has been brought down to below 6.0% of GDP from 7.1% in 1990-91. Current account deficit has also come down to below 2% of GDP from about 7% three years ago. Foreign exchange reserves stand at US\$ 2.2 billion — equal to 7 month of import. Broad money supply is well within target. The rate of inflation has been brought down to below 3% from an average of 10% during the second half of the eighties.

effectively enforce transparency in trading, full disclosure of information, protection of investors and stringent application of norms for market intermediaries. With the withdrawal of capital gains tax on share transfers and by allowing Bangladeshi companies to issue securities to overseas investors and permitting latter to invest in the local stock market, new incentives and opportunities have been given to the capital market. We are indeed encouraged by the interest shown by reputed foreign financial institutions in investing both in the primary issue of shares and securities and participating in trading in the secondary market.

Mr. Speaker,

41. You are aware that we had undertaken a massive overhaul of our trade regime. The reforms were aimed to transform our restrictive and anti-export biased trading system to a transparent and an open one that would promote efficient industries, both export-oriented and import substituting. With these objectives in mind, steps were taken to remove market distortions, lower the prohibitive tariff rates, rationalise the tariff structure and eliminate the quantitative restrictions that favoured rent-seeking activities. I am happy to inform this

have introduced foreign currency retention quotas for exporters of goods and services. With further liberalisation of exchange regulations last April, there hardly remains any restriction on foreign exchange transactions. Besides, with a view to further deregulating the exchange controls, full convertibility of Bangladesh taka on trade account is under active consideration of the government. Meanwhile we shall gear up appropriate institutional arrangements for smooth transition and operation of the new system.

Mr. Speaker,

44. Bangladeshi wage-earners abroad have earned a good name as a hardworking and disciplined labour force. Aided by the active policy of the government, the number of wage-earners

grew from 1,01,724 in 1989 to 1,88,124 in 1992. Workers' remittances in 1992-93 may reach close to one billion US\$ and we expect the upward trend to continue in future. But the picture on the domestic front is not that reassuring. Some vested interests are trying to undermine the industrial peace, output growth and potential foreign investment by extra-legal actions. As a nation, we cannot afford this if we are to move ahead with our desired economic growth and poverty alleviation programmes. While we would like to see our labour force better paid, this could only be achieved through higher productivity. All labour disputes including wage settlements have to be carried out within the existing legal framework. Our government is certainly responsive to any need for modifications in the relevant laws and regulations that would ensure better labor-management relation and resolution of disputes.

Mr. Speaker,

45. For the first time in Bangladesh, our government has articulated and announced Environment Policy in 1992. It reflects our concern for protection of the environment while we pursue economic growth. We did not stop at mere declaring our policy intentions; an action plan for implementation including



Awami League MPs with acting Leader of the Opposition in Parliament Abdu Samad Azad (in cap) and Syeda Sajeda Begum during the Finance Minister's budget speech. — Star photo

Text of budget speech

responsibilities for both public and private sectors has been prepared. A national conservation policy is also under preparation. We hope that these initial measures will help pave the way for a environment friendly growth process reconciling apparent short-term conflicts so that we could bestow to our posterity a world better than the one we inherited. Prime Minister Begum Khaleda Zia has given personal support to the policy and launched a vigorous tree plantation programme last year.

GOOD GOVERNANCE

Mr. Speaker,

46. Allow me now to move to my last theme of today's presentation — good governance. We are blessed with a society which is homogenous, not differentiated by castes or tribes; our people have demonstrated a high degree of tolerance of other's beliefs and persuasions, they shun dogma and obscurantism and they have repeatedly demonstrated unflinching courage, fortitude, and admirable resilience in most adverse circumstances. This is, indeed, an invaluable asset and on such a foundation the edifice of peace, progress and prosperity can be structured. Having achieved reasonable success in our macro economic management and maintained the momentum of reforms of the financial sector, trade and investment, and management of public resources, we have an excellent opportunity for an accelerated programme of structural reform to achieve higher economic growth and a more rapid poverty alleviation and human development.

47. We believe in a system that is transparent, accountable, and is based on the principle of democratic pluralism. We have deep concern for the welfare and the rights of the individual. We emphasize the market as the principle for economic organization of the society not only because it secures efficiency and higher level of welfare; but also — and more critically — it guarantees the existence of free society.

48. Our cherished goal of poverty reduction and sustainable high economic growth cannot be attained unless we are prepared to do away with the plethora of controls that restrict economic activities and allow the latent enterprises and entrepreneurship of people to find free expression. It is now proven beyond any controversy that government must confine itself to things that it should do best, that is, maintenance of law and order, development of social and physical infrastructure, formulating and implementing monetary, fiscal, trade and investment policies that explore all potentials and avenues of growth and are in harmony with the inherent dynamics of society and genius of the people. The rest should be left to private endeavours — of individuals, and organisations. We must trust the ability of the common man to change his lot and draw upon his courage and strength. Programmes of poverty alleviation in many developing nations specially of South Asia including Bangladesh, have shown that the poor are creative and efficient in the use of factors of production — that they neither want nor do they need doles and subsidies which often stultify initiatives and prove counterproductive.

49. Time is now propitious to broaden and deepen the process of structural adjustments and reform of the economy.

Our medium-term strategy is to achieve acceleration of GDP growth rate to around 7% per annum starting with 6% for 1993-94 to double our GDP at the end of the decade.

When public investment is increasingly devoted to development of physical and human capital and the role of government is defined in terms of creating an enabling environment for the growth of private enterprises in industry, agriculture, trade and commerce, it is indeed imperative that the machinery of government as well as the public services are substantially restructured. The size, organisation and functions of the ministries, attached departments and directorates must undergo a comprehensive review and re-evaluation. The laws, rules and regulations too must evolve and be adapted to the new demands of the economy and a rapidly changing society. Law and administration reform committees will soon be set up with broad-ranging terms of reference. We expect to introduce major reforms in these areas in course of coming years.

50. While implementing reforms which will inevitably touch the life of people in all strata of society, we must avoid accentuation of social tensions. Thus the effective enforcement of law and order, securing the life and property of the people, cannot be overemphasised; since without them, all our reform measures will eventually flounder at the rock of public apathy and distrust.

51. It is an incontrovertible fact that without the active and effective participation of the people the development programme can, at best, achieve limited success. We are committed to the democratisation and strengthening of local government bodies and institutions. It is through a systematic devolution of powers and authority to these institutions and creating conditions as would enable people to organise themselves in cooperatives and self-help groups that their latent energies can be harnessed at the grassroot. The empowerment of the people and their institutions is not only in accord with the norms of a democratic polity but also a necessary condition for an integrated approach to development. It is in this context that functions and responsibilities of public servants have to be understood and articulated. It is indeed important that at all levels government functionaries establish a relationship of trust and confidence with the people. It is true that a bureaucracy trained and oriented to the exercise of power and control cannot shed its old habit quickly. But the time has arrived that it must do so or else it will find itself marginalised and alienated from the people. This equally applies to everyone involved in various capacities in the governance of the Republic. The need for accountability and commitment is of course not limited to the bureaucracy alone. In the final analysis between the government at all levels and the governed there has to be a covenant of trust.

52. Mr. Speaker, I would like to conclude the first part of my speech with quotation from Kenneth Arrow, an eminent economist and a Nobel Laureate. "The basic element — of the good society is the centrality of others. This has two aspects, distinguishable but certainly coherent and even complementary; concern for others and respect for others. Concern without respect is at best paternalism and can lead to tyranny. Respect without concern the cold world of extreme individualism, a denial of the intrinsically social nature of humanity."

**SECOND PART
FISCAL MEASURES**

MR. SPEAKER,

The tax proposals outlined in the budget for fiscal year 1993-94 are inevitable outcome of far-reaching and bold economic reforms. This budget is not a catalogue of isolated proposals. Behind it lies a well-defined economic vision of a dynamic and humane political leadership. The leadership of Begum Khaleda Zia is on the one hand inspired by an abiding love for the soil and people of Bangladesh; on the other hand it is alive to rude economic-realities of world economic situation, dismal future of command economies and the inherent possibilities and limitations of a competitive economic system. The economic programme of the present government is, therefore, a happy blend of idealism and realism, democracy and sense of responsibility, open economy and self-reliance, market system and social security.

2. During last two years, the present government has been continuously reforming tax system on the basis of well-defined policies. On 1st July, 1991, Value Added Tax (VAT) was introduced. In order to reduce dependence on customs duties, the collection of direct taxes have been intensified. Ibn Khaldun, the distinguished philosopher of the fourteenth century, rightly observed that the collection of taxes tends to fall when the rate of assessment is very high. The Government is, therefore, continually reducing direct tax rate. The customs tariff has also been restructured on the basis of transparent principles. Seven

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