

'This budget is part of a medium-term strategy to accelerate economic growth'

Following is the full text of the budget speech delivered by Finance Minister M Saifur Rahman in the Jatiya Sangsad yesterday.



Text of Budget Speech

Mr. Speaker,

11. Let us first evaluate some macro-economic indicators. Soundness of these fundamentals are accepted the world over as the necessary first order conditions for sustainable economic growth and development. Countries around the world are trying hard to achieve and maintain macro-economic stability. Fiscal deficit in Bangladesh which was around 7% of the GDP in 1990/91 has declined steadily to below 6% (Figure 1) in 1993/94. This reduction has helped, among others, to arrest inflation, stabilize exchange rate and minimize the crowding-out effect on the private sector. Moreover, domestic resource mobilisation both from tax and non-tax sources, effective restraint upon non-development expenditure enabled the government in raising the development investment from taka 6121 crore in 1990/91 to taka 9600 crore in 1993/94 - an increase of 57%.

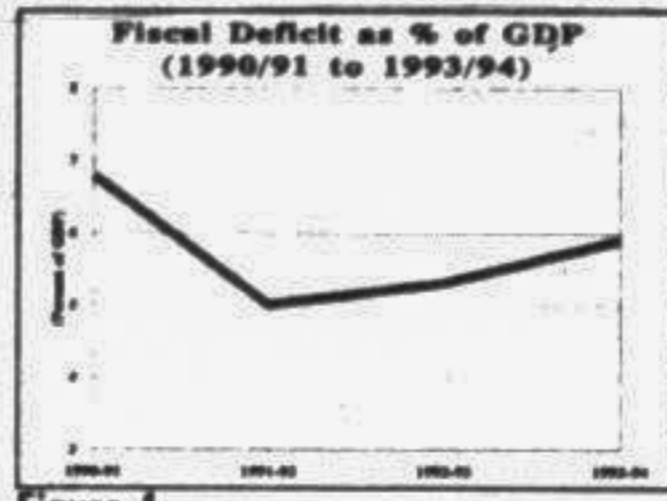


Figure 1

12. Fiscal prudence along with other measures taken by the government led to reduction of inflation from 9% in 1990/91 to present level of around 2% (Figure 2). We must keep in mind the fact that inflation is the worst form of taxation that erodes the real income of the poor and the fixed income groups; it discourages investment, both domestic and foreign, increases business uncertainty, depresses savings and puts pressure on exchange rate. Many countries have burnt their fingers by playing with pro-inflationary policies. As we know, high inflation rates and rising fiscal deficits are causing concern in some of the neighbouring countries.

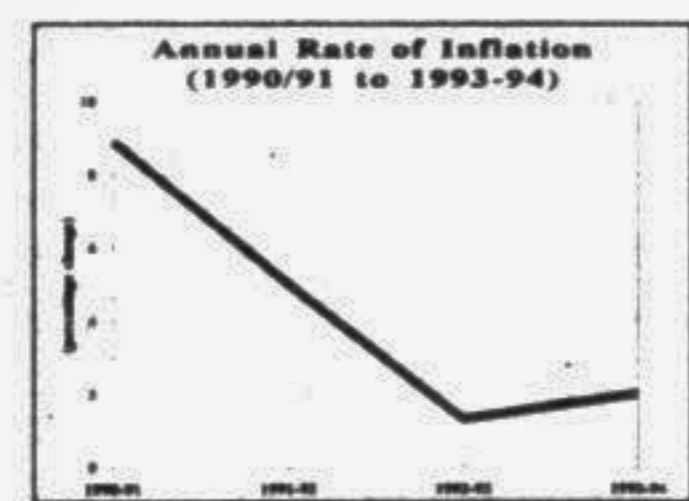


Figure 2

13. The country's performance on the external front continues to be strong. Current account deficit declined from over 4% of GDP in 1990/91 to around 1.5% this year. Our gross international reserves have risen from US\$ 880 million in June 1991 - equivalent to about 3-month of import bills to around US\$ 2800 million now - equivalent to over 7-month of import bills (Figure 3). The healthy reserve position not only enhances country's international credibility and prestige but has enabled the government to liberalise trade and foreign exchange policies including currency convertibility to achieve higher economic growth and absorb sudden external shocks. Comfortable reserve position can only be appreciated if we recall the days - not so long ago in late 80's - when a precarious reserve level had triggered scare and a host of painful adjustments.

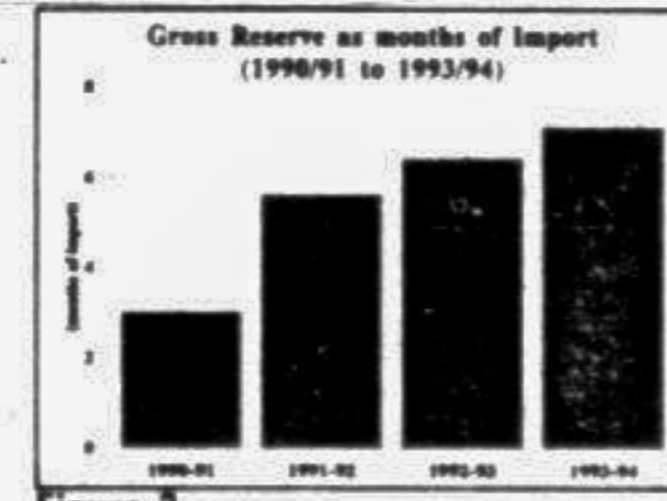


Figure 3

14. Growth rate of GDP though below our expectation has improved. I shall deal later in my speech the strategy for accelerating economic growth and poverty alleviation. In 1990/91 GDP grew at an annual rate of only 3.4%. We hope to reach a modest level of 5% this year (Figure 4). If we look at the sectoral levels there are slow but steady improvements of the growth rates in the industry and services sectors while growth in the agriculture sector remains around 2% annually. Industrial growth rate has increased from 4.5% in 1990/91 to 8% in 1992/93 and would hopefully maintain the upward trend in 1993/94 (Figure 5).

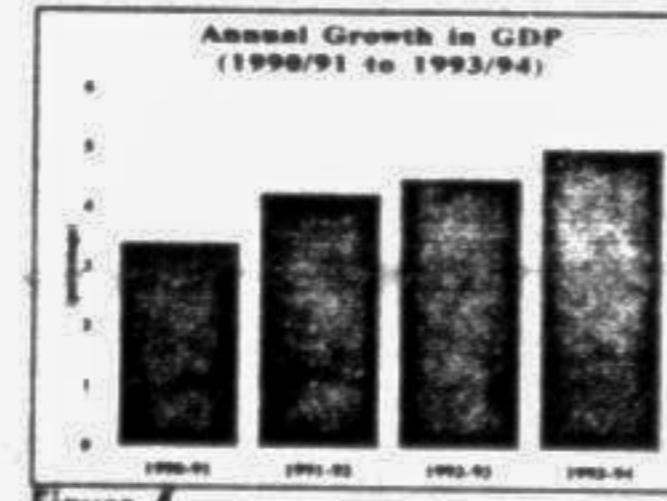


Figure 4

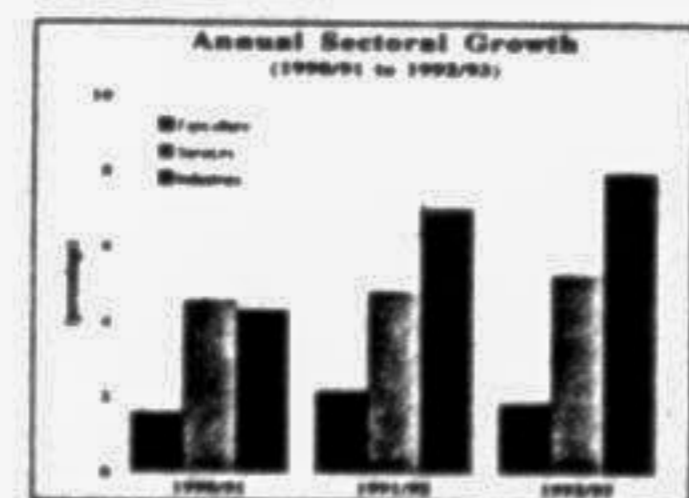


Figure 5

15. Let me now address changes in some underlying factors which are crucial. Domestic saving rate is an important indicator of sustainability of investment in the country. It is also true that poorer the economy lower is the rate of saving because current consumption needs are so basic that they cannot be deferred. Even under such difficult conditions, domestic saving rate which stood at meagre 4.3% of GDP in 1990/91 has increased to 7.7% in 1993/94 (Figure 6).

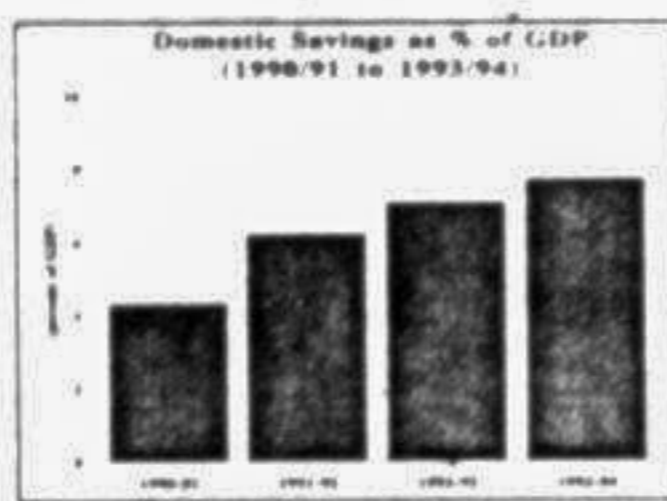


Figure 6

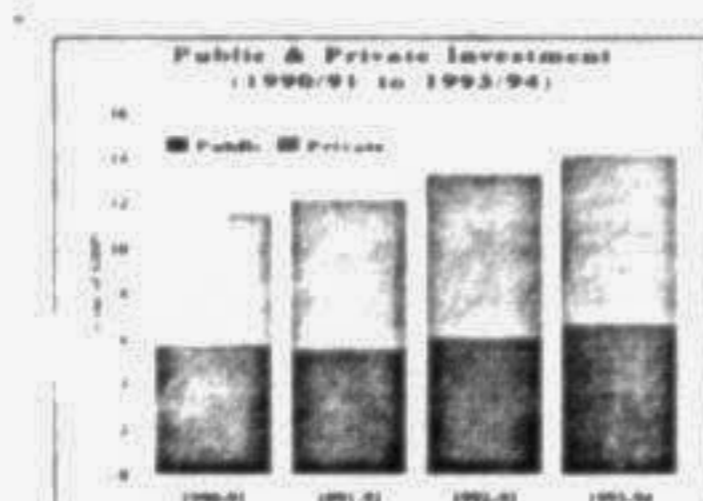


Figure 7

The rate of domestic investment has also shown signs of improvement. Investment as percentage of GDP has increased from 11.5% to 14% now (Figure 7) reflecting modest rises in public and private

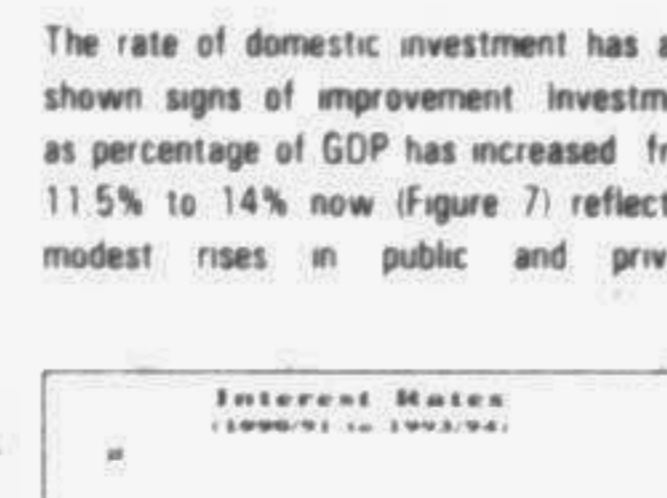


Figure 8

16. It is very reassuring to note the rise in investors' confidence as reflected in the huge relative increase in the stock market activities in 1990/91, the yearly turnover of shares and debentures was a little over taka 14 crore, in a matter of only three years, it is estimated to reach taka 260 crore in 1993/94, nearly 19 fold increase. Similarly market capitalisation which stood at taka 1100 crore in 1990/91 has risen to taka 4000 crore though these figures are as yet very modest (Figure 9). More



Figure 9

17. Export growth is one of our cornerstones of development strategy. In 1990/91 total export earnings were US\$ 1718 million, over three years it increased by over 57% and is estimated to be US\$ 2700 million in 1993/94 (Figure 10). This along with higher remittances from abroad has helped to reduce our debt service ratio from over 20% in 1990/91 to an unsustainable level to less than 13% in

important than these numbers is the fact that 75% of the tradings, excluding off market transactions of another taka 260 crore, are on account of foreign investors who responded very positively to removal of impediments to foreign portfolio investment expressing their confidence in our economic reforms and management.



Figure 10

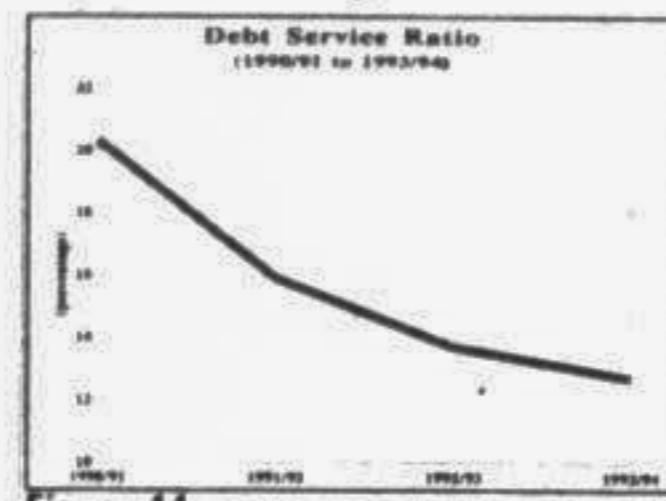


Figure 11

the current fiscal year (Figure 11). The continued improvement in export trade was accompanied by the benign structural shift in the composition of exports with non-traditional items contributing increasingly higher share of total exports. The share of non-traditional in the country's total exports which stood at 75% in 1990/91 is estimated to increase to 86% in 1993/94. In respect of economic classification of export commodities, the primary as well as the manufactured items of export commodities recorded a balanced growth with their respective shares in total exports remaining more or less at the same levels. Raw jute and jute manufactures suffered reverses which are causes for concern. Government is determined that restructuring of jute manufacturing industry should move space for much-needed viability and external competitiveness. There is need for requisite technological inputs to adequately exploit the potentials of this fibre. New opportunities have emerged to produce pulp from jute through chemical process. Steps are underway for production of 25000 MT of pulp for industrial grade paper during the current jute season.

18. Total import payments increased by 24% from US\$ 3470 million in 1990/91 to US\$ 4300 million in 1993/94. Current year's structure of import reflect a significant pick up of overall economic activities. Imports of intermediate goods, industrial raw materials and capital and miscellaneous machinery recorded increases during first three quarters of the current year. Industrial raw materials which constituted 29% of total imports in 1990/91 are estimated to increase to 38% in 1993/94.

19. Despite satisfactory performance of the export sector the balance of trade experienced some fluctuations owing mainly to fluctuations in the import levels. However, the trade gap which had stood at US\$ 1800 million in 1990/91 will decline to an estimated US\$ 1550 million in 1993/94. As mentioned earlier, on account of the export buoyancy and enhanced levels of private transfers, the current account deficit is expected to fall to 1.5% of the GDP by the end of this year from 4% in 1990/91.

INTERNATIONAL COMPARISON

Mr. Speaker,

20. I would now like to make a short appraisal of our performance by looking at comparable international experiences. I shall rely on a recent study of 19 low income countries which undertook various reform measures. It would not be possible to get in to much details although it is worth remembering that these countries had different initial conditions. A comparison of few important statistics for most recent year are presented (Annex 1). The GDP growth rate for Bangladesh is around 5% compared to 2.9% for the group of countries; inflation in Bangladesh is 2% annually whereas the same for those countries is on an average 17.6%. On the external sector, Bangladesh appears to have performed relatively well. Our exports have been growing at around 15% annually compared to 7.3% for others; current account deficit is 1.5% of GDP in Bangladesh whereas the average is 16.8% for other low income countries; our reserve as months of import is over 7 compared to 3.5 for others. But in terms of savings and investment as percentage of GDP, Bangladesh lags behind; they are currently 7.7% and 14.5% in our country compared to 10.2% and 19.7% on an average for other countries. These are illustrative examples to highlight the fact that we have done reasonably well; but the road ahead remains long and arduous.

EVALUATION OF PUBLIC INVESTMENT

Mr. Speaker,

21. Let us now look at the public investment programmes. Between 1990/91 and 1993/94 the total size of the Annual Development Programme (ADP) has increased by nearly 60% in nominal terms. This has been associated with increased domestic contribution - an important indicator of our self reliance. In percentage terms we have been able to finance 35.8% of ADP in 1993/94 compared to 12.6% in 1990/91 (Figure 12). This does not adequately reveal another important fact; in taka, the domestic financing has increased four and half times.

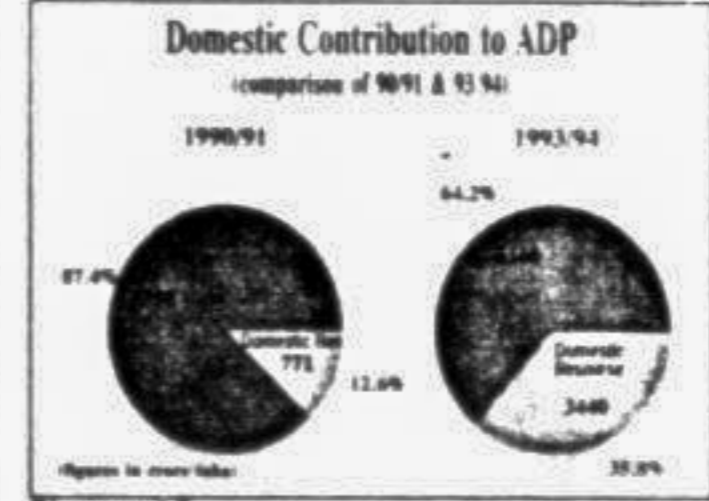


Figure 12

22. The qualitative improvement of ADP is no less significant. We have consistently increased allocations to human development - the most important area for long-term poverty alleviation and sustained economic growth. In place of taka 795 crore for education, health and family welfare in 1990/91, the current year's allocation is taka 1736 crore, an increase of almost 120%. In fact, the picture remains incomplete if we do not take note of the allocation under the revenue budget. We have made available taka 2363 crore from revenue account in 1993/94 compared to an allocation of taka

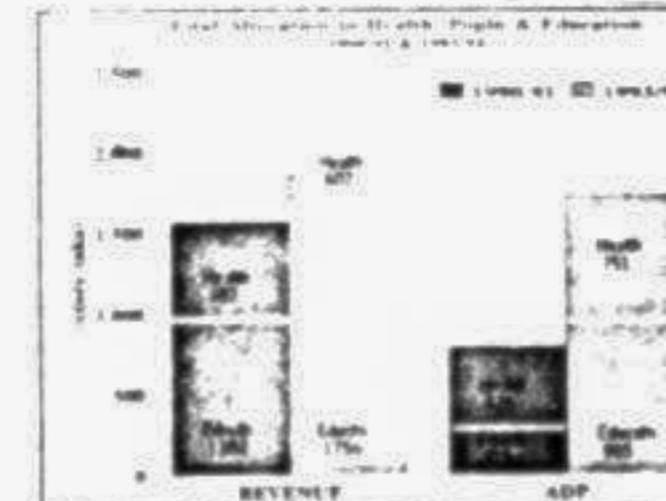


Figure 13

1569 crore in 1990/91 (Figure 13). Thus, the total fund to education, health and family welfare in 1993/94 amounted to taka 4099 crore. By any measure this is quite remarkable achievement. I would now like to place few more disaggregated statistics before this August House to highlight important changes.

Mr. Speaker,

23. All of us will agree that access to pure drinking water is a basic right. Allocation for improvement of rural water supply has been increased by over 450% from taka 35 crore in 1990/91 to taka 166 crore in 1993/94. Rural electrification plays a vital role in modernizing the rural community. The allocation was raised by over 70% during this period from taka 223 crore to taka 400 crore. Rural roads, another key infrastructure for agrarian development got a raise of 86% from taka 210 crore to taka 391 crore. Allocations to municipalities were increased by over 600%. Roads and highways got a big boost. In 1990/91 public investment in this sector was to the tune of taka 355 crore, this year we have made available taka 1010 crore - an increase of 280% (Annex 2). I could go on to add more to this list. The point I want to emphasize is that significant improvements have taken place in a matter of just three years whose benefits are going to accrue in years to come.

Mr. Speaker,

24. I would like to give few illustrative examples in physical terms to exemplify the financial statistics that I have just presented. Take the case of education. There is no alternative to primary and mass education for educating more than 80 million illiterate people in the country. The government has given special emphasis on the fast expansion of primary education and removal of illiteracy in the country. Since 1993, compulsory primary education programme has been expanded to cover the whole country. As a result the rate of enrollment of student in Class-I has increased by 12% to 87% and drop out rate has also declined significantly. This year we have introduced an innovative food for education programme in 4914 schools covering over 6 lac children in backward unions of each thana to encourage enrollment, reduce dropout rate and simultaneously alleviate poverty. This will cost taka 80 crore in the form of 100000 metric tons of wheat. Upon evaluation of the positive impact of the programme, it will be gradually expanded. It is a clear demonstration of our commitment to realize one of the 19-point programme of the BNP which is to remove the curse of illiteracy from the country. Programmes have been undertaken to reconstruct 7071 and repair 3454 primary schools and to set up 3060 low cost schools an impressive total of 13585 schools. Steps to improve the quality of education include appointment of 12569 primary school teachers of whom 80% are women. The nonformal education programme being implemented by the government and NGOs is going to benefit about half a million illiterate people.

25. We have launched a massive 3 year programme starting from the current fiscal year in the field of secondary and higher education which includes development of as many as 7360 institutions - 16 for each of the 460 rural thanas. Agriculture has been included as a compulsory subject in the secondary schools to ensure self employment for school-droppers; faster dissemination of agricultural technology and help diversify agricultural production. The government has also introduced vocational trades in selected high schools to facilitate employment of school graduates. An innovative programme has been launched to promote the empowerment of women through education by providing stipends and free tuition to all female students from Class VI to X in phases beginning this year. The programme will benefit 7.55 lac of female students in 1993/94, 15.58 lac in 1994/95 and 21.70 lac in 1995/96, it will be funded at a cost of taka 54 crore, taka 122 crore and taka 165 crore in the three consecutive years.

26. In the field of health and population progress has been achieved. For example, immunization programme in Bangladesh has been acclaimed internationally. The coverage is now over 80% compared to 55% in 1990/91. We intend to increase the coverage to 85% by the end of next year. Population growth rate has decelerated to around 1.8% annually, but we cannot rest on our efforts. Expanded programmes with improved quality of services supported by adequate financial allocations mentioned earlier will hopefully improve the overall health status of the nation particularly of children and women and reduce growth rate of population further.

Mr. Speaker,

27. We are all aware of the historic moment when the Prime Minister unveiled the

foundation of the Jamuna Multipurpose Bridge. Finalisation of foreign aid for the Bridge is the most important economic event of this year. Although the Jamuna Bridge was a national priority project, its fate was uncertain in the past because of lack of financing commitment. The donors declined to come forward during the last regime because of prevailing economic mismanagement and lack of domestic resources despite levy of Jamuna surcharge. The efficient and skillful economic management and success in the mobilisation of domestic resource by this democratically elected government gave new confidence to the donor community; World Bank, the government of Japan and the Asian Development have thus agreed to jointly finance the Bridge. I travelled to Japan in last November to resolve the procedural problems of the project although its economic viability was recognised. I had extensive discussions with the leaders of Japanese government on the technical and economic feasibility of the Bridge and other related issues. In December 28, 1993 the government of Japan agreed to join which led to financial closure of the project by the World Bank. In this backdrop, the signing of the agreement took place in Japan during the visit of our Hon'ble Prime Minister. I want to put on record our appreciation for the active role played by the World Bank in bringing the project into fruition by appraising its technical and economic feasibility. I thank all the donors of the bridge - the World Bank, Japan and the Asian Development for their support. I am happy to report to you that all formalities have been completed for startup of the river training programme during this rainy season while the construction of the bridge would start in the next dry season. We intend to build the bridge without any additional tax burden on our people. We have, therefore, decided to abolish Jamuna levy altogether which will cost the exchequer taka 60 crore annually. Inshaallah, the Jamuna Bridge, the dream of our nation, will be completed by 1998.

28. At the same time work is in full swing for rehabilitation and maintenance of 3000 km of national and regional highways. We have completed construction of the Gorai, Shambhuganj and Mahananda bridges; the Meghna-Gumti bridge is expected to be opened for traffic by the end of this year - 15-month ahead of schedule. Our road infrastructure programme also includes construction of major bridges over the rivers Ganges at Pakshi, Meghna at Bhairabbar, Dhaleswari, Kushiara, Rupsha and second bridges over Buriganga and Shitalakhya. Financial arrangements for most of these bridges are at an advanced stage. Government is aware of the increasing needs for improved infrastructure and civic amenities for the capital city. Discussions are underway for a comprehensive project to meet these requirements. Significant progress has been made in enlarging and improving the rural road network with the particular emphasis of linking rural growth centers with national and regional highways. During the last three years 4027 km of feeder roads have been constructed and maintenance works of another 4453 km have been undertaken. Bridges and culverts measuring a total of 23940 meters have also been completed. Coverage of safe drinking water in the rural area has increased from 72% in 1990/91 to 85% in 1993/94; rural sanitation coverage has similarly increased from a mere 6% to 27% currently.

Mr. Speaker,

29. Housing is an important growth sector having backward linkages. Because of ever increasing demand, the sector has tremendous potentials. A large number of property developers are already active in the private sector. To ensure adequate credit flow to this sector on easy terms, House Building Finance Corporation (HBFC) has been made fully operational. Through recapitalisation and fresh bond issues, the Corporation is now capable to meet its investment needs. It is expected that during current financial year it will sanction taka 250 crore. Programme for taka 500 crore has been drawn up for the next year. In addition, commercial banks are lending an estimated taka 200 crore for housing in the current year. Besides, to meet the acute scarcity of housing in Dhaka city, we have decided to construct 2500 flats for government employees. Work has already begun. Taka 150 crore will be provided for the purpose in the next fiscal year.

Mr. Speaker,

30. A quiet revolution is underway in the rural economy not only generating economic growth from new sources but also transforming the composition of production, consumption and employment. At the threshold of food self-sufficiency, we have launched programmes for crop diversification; our sustained efforts have also started paying rich dividends from off-farm activities. Fisheries and livestock sub-sectors are leading the pioneering role. These activities are labour intensive and quick-yielding; they are the typical examples of growth augmenting poverty alleviation programmes. In the livestock sector, the growth rate has accelerated from 2.2% in 1990/91 to 5% in 1992/93. About 31000 private poultry farms of various sizes are now in operation producing about 220 crore eggs; 11000 dairy farms have been set up under private initiative producing 1.5 million metric tons of milk. This achievement is corroborated by a 42% decline in the import of powder milk from taka 255 crore in 1990/91 to taka 148 crore in 1993/94. The growth in the fisheries subsector is equally reassuring. Production of fish has increased to over 10 lac metric tons - 20% increase over 1990/91. This is also reflected in the fast export growth of fish, fish products and shrimps by over 100% between 1990/91 and 1993/94 to its current level of taka 1100 crore. I would like to remind the House that our 19-point programme was designed, among others, to strengthen the rural economy by attaching the highest priority to agricultural development.

CHANGES IN THE POVERTY SITUATION

Mr. Speaker,

32. This discussion will not be meaningful unless we know in specific terms the change in the status of the poor. We believe the low and declining inflation rates, increasing - albeit slowly - GDP growth rate, increased off-farm activities I have just narrated, and other poverty alleviation programmes undertaken in the country during these years are likely to have a positive impact on poverty reduction. The enlarged programmes for poverty alleviation through income generation and targeted income transfers have now reached nearly half of the poor households. The combined effects of all these have resulted in progress in dealing with poverty. Surveys conducted by the BIDS not only show improvements in the incidence of rural poverty but the poor have also improved their lot in terms of landownership and accumulation of other assets. The Grameen Bank and a number of important non-governmental community organisations who are playing a pioneering role in poverty alleviation have been able to organise the landless rural poor, mostly women, into productive self-help groups. The government is firmly committed to the social and economic advancement of women and in creating an environment for them to play a more productive role in development. Women, who comprise half the population, must come to the fore of nation-building activities and contribute to our social, political, economic and cultural enrichment.

33. Nationally representative survey results indicate that per capita cereal consumption has increased both in the rural and the urban areas from 507.5 gms and 448.2 gms per day in 1988/89 to 516 gms and 462.3 gms respectively (Figure-14). Hard core poverty in the rural areas, defined as 1805 KCAL per capita consumption

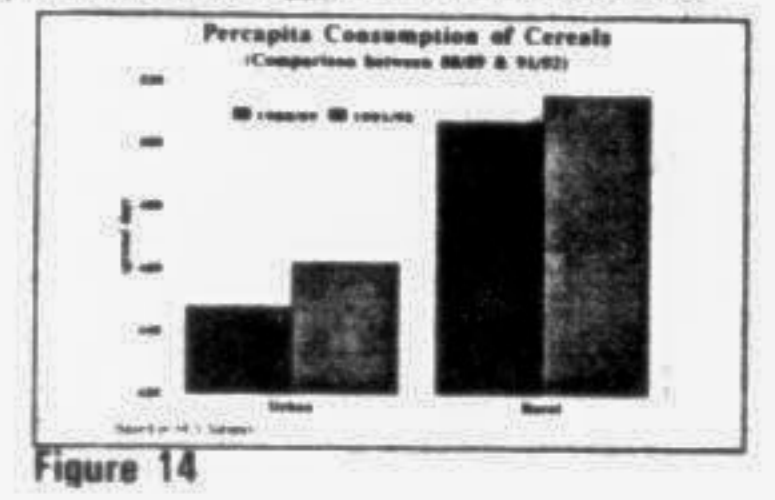


Figure 14

per day declined from 29.5% in 1988/89 to 28.2% in 1991/92 (Figure-15). The findings of BIDS of more recent years as mentioned earlier are thus consistent with those of HES reaffirming the contention that the general incidence of rural poverty has declined during 1990/91 and 1993/94.



Figure 15

Mr. Speaker,

34. Before I move to the details of the budget for the next year, I would like to state its main objectives. These are integral components of our broader strategy for the medium-term to which I shall come back later. The objectives are:

- First, to achieve an environmentally sustainable GDP growth rate of around 6%.
- Second, to contain inflation and fiscal deficit.
- Third, to reduce aid-dependence.
- Fourth, to enhance mobilisation of domestic savings, investment and promote self-reliance.
- Fifth, to deepen structural reform of the financial and public sectors to eliminate waste and inefficiency.
- Sixth, to make significant progress toward the viability of external sector and competitiveness of the economy.
- Seventh, to intensify efforts for human resource development and poverty alleviation and, encourage women's role in development.
- Eighth, to consolidate outward orientation of the economy and,
- Ninth, to reduce population growth rate.

EVALUATION OF PERFORMANCES OF THE LAST THREE YEARS

Mr. Speaker,

10. The BNP government has entered the fourth year of its term. I think it is appropriate to take an objective look at our performances during these three years. I shall do so in the following ways: First, we shall assess the relative changes that occurred up to 1993/94 compared to the initial macro and sectoral conditions prevailing at the time of our takeover in 1990/91.

Second, a comparison will be made of our achievements with those of a group of other countries. Despite the fact that objective conditions and socio-economic circumstances do vary, such an exercise is helpful for a better appreciation of our own development strategy.

Third, changes in the quality and quantity of public investments will be discussed with illustrative examples.

Fourth, an evaluation of changes in poverty situations will be undertaken.