

In the name of Allah, the Merciful

Mr. Speaker,

I seek your permission to place before the House the budget for 1996-97 and the supplementary budget for 1995-96.

2. It is a matter of joy and pride for me as a freedom-fighter to have the privilege of presenting before this august House the budget of the Government of independent and sovereign People's Republic of Bangladesh for the year commemorating the 25th anniversary of liberation struggle. Since time immemorial, the long history of Bengali nation has been a saga of continuous struggle. The foundation of this ninth populous state of the world was laid by the sacrifices of innumerable martyrs. At this moment I remember with profound respect those valiant sons of Bangladesh whose sacrifices have earned for us a place in the comity of nations. From the Language Movement in 1952 to the successful completion of the glorious Liberation War, our struggle has created an unforgettable and glorious heritage. I recall with profound reverence the unique and immortal contributions of Bangabandhu Sheikh Mujibur Rahman who was at the same time the noble leader of our liberation struggle, the greatest Bengali of all times, the architect of independent and sovereign Bangladesh and the Father of the Nation. His fearless leadership, matchless patriotism and noble ideals will be an eternal source of inspiration for the people of this country. I will cherish forever the memory of his affectionate personal association with me during my tenure in the Ministry of Foreign Affairs immediately after independence. I am grateful to Allah for giving me the opportunity of being associated as a colleague after about twenty four years with his able daughter Sheikh Hasina who is the cynosure of the masses of Bengal and the great leader of the people. With sad heart, I pray for the departed soul of the Father of the Nation, his family members and the national leaders who were assassinated by the conspirators in 1975.

Mr. Speaker,

3. The present government which was elected through a proper democratic process under the supervision of a caretaker government, is the outcome of a united movement. This national movement was led by the champion of democracy, the leader of the people and the leader of the House Hon'ble Prime Minister Sheikh Hasina with great courage, patience and wisdom. History will forever remember with gratitude her contribution to restoration of democracy in Bangladesh. After restoring voting rights of the people, she has taken the initiative to establish the democratic system in Bangladesh on a lasting basis by setting up a consensus government. The politics of consensus is based on mutual respect, tolerance and understanding. She wants to take opposition into confidence in running the government. By eschewing conflict and inner contradictions, politics of consensus, we believe, can unleash the captive creativity and the ability of the people of Bangladesh.

Mr. Speaker,

4. We would like to review our experience since independence on the occasion of 25th anniversary of our liberation war. We should search our souls for the lessons of history. Have we realized the vision of the golden future which was presented to us by the Father of the Nation while inspiring and organizing the people during the turbulent days of liberation struggle? Will his Golden Bengal remain a mere dream? Despite twenty five years of political freedom, the life of more than half (51.7 percent according to a survey in 1994) of total population in Bangladesh is blighted by the quiet violence of poverty. In 1994 per capita income in Bangladesh (\$ 220) constituted only 58 percent of the average per capita income (\$ 380) of the low income countries in the world. Accelerated economic growth contributed to significant reduction of poverty in a large number of countries in Asia. However, the undemocratic and selfish politics have stunted the growth potentialities in Bangladesh. According to World Development Report, 1996, the average annual growth rate of 51 low income countries was 3.4 percent during 1985-1994 whereas the corresponding rate for Bangladesh was only 2 percent. Growth rate in Bangladesh is much slower than those in most of the SARC countries. Structural reforms did not succeed in infusing significant dynamism in Bangladesh economy. We should, therefore, like to identify the main sources of the sluggishness of Bangladesh economy.

5. The distinguished American economist Paul Krugman rightly pointed out that hidden budget deficit is a major obstacle to long-term sustainable growth. These unannounced deficits are not directly placed before the public representatives; indirectly they pose serious threat to the very economic structure of the state. Inefficient management and weak administration encourage such unannounced budget deficits. I would, therefore, like to highlight several types of unannounced budget deficits.

Mr. Speaker,

6. The ever-increasing losses in the state owned enterprises constitute a major weakness of Bangladesh economy. In 1972, the Awami League government nationalized some industries with definite objectives. Article 13(a) of the constitution of the People's Republic of Bangladesh clearly states that state ownership refers to "ownership by the state on behalf of the people through the creation of an efficient and dynamic nationalized public sector embracing the key sectors of the economy". From the economic point of view, efficiency implies the best utilization of resources and dynamism refers to those factors which accelerate economic growth. Those state owned enterprises which in flagrant violation of constitutional mandate have crippled the economy through their losses rather than paying dividend to the people have no right to exist in the nationalized public sector in the true spirit of the constitution. Unfortunately owing to corruption, inefficient management and short-sighted policies in political interest during last twenty one years, state owned enterprises have deviated from the main objectives of nationalization and have contributed to increased losses. In recent years, these deficits are mounting fast. According to one survey, losses of state owned enterprises excluding banks and railways increased from Tk. 1400 crore in 1994 to Tk. 2300 crore in 1996. According to some economists, if losses in state owned enterprises could be prevented, gross domestic saving in Bangladesh would increase by two percent.

Mr. Speaker,

7. The irregularities and inefficient management in financial institutions not only contribute to deficits but also impede the development of a market-based economy. The Government has issued bonds to the tune of Tk. 3917 crore and paid Tk.1061 crore in cash to four nationalized banks for provision against bad and doubtful debts. The total interest costs of these bonds would be about Tk. 300 crore per year. This implies that each citizen in Bangladesh has to pay an additional tax of Tk. 25 per annum to compensate for the loan defaults by the wealthy. Despite these significant investments by the Government, financial discipline has not been restored in nationalized banks as yet. Thanks to short-sighted politicization of bank boards, classified loans of four major nationalized banks, according to their own estimates, constitute about 31 percent of their portfolio. Furthermore, other state-owned financial institutions such as Bangladesh Shipa Bank (BSB), House Building Finance Corporation (HBFC), Bangladesh Shipa Rin Sangstha (BSRS), Bangladesh Krishi Bank (KKB), and Rajshahi Krishi Unnayan Bank (RAKUB) are yet to be rehabilitated financially. Those who have created anarchy in the financial sector during last twenty one years have cheated the people and actions will be taken against them under the laws of the country.

Mr. Speaker,

8. The deferment of essential investment is another source of structural weakness of the economy. Essential investments were not made in the power sector. The supply of natural gas

and water is inadequate. Investment to the tune of Tk. 2000 to 3000 crore is needed in power generation sector alone. The issue is not one of resource mobilization only. Such projects cannot be implemented overnight. The nation will have to bear the cost of electricity, gas, and water shortage arising from the failure to make essential investments in time.

Mr. Speaker,

9. Despite the postponement of essential investments, domestic and foreign debt of the government increased significantly during last five years. In 1974-75, the total foreign borrowing of the Government was \$ 973.8 million. In 1990-91,

November 1995, the monthly rate of inflation was 5.9 percent. It is now estimated at about 5 percent. It may be mentioned here that inflation rates quoted in this speech are based on the rates calculated by Bangladesh Bureau of Statistics (BBS) on the basis of their traditional formula. This is based on the cost of living index of Dhaka middle class. BBS has devised a new method for calculating the rate of inflation on the basis of cost of living throughout the whole country. There are, however, some questions regarding the reliability of data on cost of living in rural areas. This is why, new inflation index was not quoted in the speech. However it appears that the new index might indicate a higher rate of inflation. The increase in the

undertake necessary reforms. However, we must be aware of administrative limitations in undertaking too many reforms simultaneously. Moreover, hasty reforms generate social and economic tension and unrest. Consequently, bids for widespread reforms often turn out to be counterproductive. The experience of incomplete reforms during last five years in Bangladesh supports this hypothesis. The present government will, therefore, undertake reforms in selected areas in accordance with a strategy rather than undertaking too many reforms at the same time. Once reforms are undertaken, there will be no withdrawal or backtracking. The priority reforms will have to be protected at any cost.



Finance Minister Shah AMS Kibria presenting national budget for fiscal year '96-97 in the Jatiya Sangsad yesterday.

— Star photo

it stood at 12731.8 million. In 1994-95 it increased to 16766.5 million. During the first four years of the former government foreign debt increased by \$ 4052.7 million or Tk. 16900 crore. During last five years, internal debt increased to about Tk. 12980 crore. The allocation for interest payment has sharply risen. In FY 1990-91, Tk. 845.55 crore was allocated for payment of interest on domestic and foreign debt. It rose to 1739.7 crore in the revised budget of FY 1995-96. In FY 1990-91, interest on debt constituted 11.6 percent of revenue budgets; in FY 1995-96 it increased to 14.7 percent. In the current fiscal year foreign debt repayment is estimated at \$ 525 million or about Tk. 2200 crore. New debts are created to service old debts. Debt financing by the government is not unusual. However, the future generation will have to bear liabilities for the unproductive investments in the past.

Mr. Speaker,

10. The sluggishness of agricultural sector, particularly of the crop subsector, is a matter of great concern for the nation. During last five years, investment in agriculture had been inadequate. During the period 1985-86 to 1989-90, total irrigated area increased by 8.39 percent. During the period 1990-91 to 1994-95, this rate has fallen to 2.86 percent only. The distribution system of fertilizer broke down as a result of undesirable political interference. The farmers had to lay down their lives for fertilizer. Agricultural credit system is paralysed by overdues. Owing to inadequacy of investment, agricultural sector in Bangladesh has become increasingly dependent on the whims of nature. During last two years more than five million metric tons of foodgrains were imported from outside. In 1990-91 per capita availability of foodgrains per day was 459 gram. It gradually decreased during last five years and now stands at 432 gram.

11. During last five years, the Government undertook structural reforms in various sectors. However, from agriculture sector to jute sector, from trade liberalization to public resource management, firm political commitment was lacking for full implementation of the reforms. Consequently abortive reforms contributed to social and political unrest, economic reforms did not yield expected benefits. Because of short-sighted politicization and arbitrariness, the morale of the public servants broke down. The domestic and foreign investors lost confidence because of bureaucratic delays and failures. Private sector did not, therefore, respond.

Mr. Speaker,

12. It is not my purpose to create despondency by presenting a gloomy picture of the economy. However, it is my sacred duty to present to this august House a realistic and objective account of the economy. It can not be denied that the present government has inherited a sluggish and fragile economy. During last five years the economy of Bangladesh has been trapped in a vicious circle of low growth. GDP grew at 4.2 percent in 1993-94. It edged up to 4.4 in 1994-95. GDP growth rate for the year 1995-96 is projected at 4.7 percent. However during the year 1995-96, growth in all sectors except agriculture and mining declined compared to previous year.

13. Foreign exchange reserve has been dwindling during last fifteen months commencing May, 1995. Total reserve stood at \$ 3.07 billion on 30th June 1995. It declined to \$ 2.03 billion on the corresponding day in 1996. Total deficit in the current account was \$ 420 million during the FY 1993-94. It increased to \$ 1.03 billion in FY 1994-95. It is projected at \$ 1.27 billion at the end of the FY 1995-96. According to the estimates of Export Promotion Bureau, exports grew at the rate of 37.04 during 1994-95. Export growth rate declined to 10.5 percent in 1995-96. Imports increased by 23.3 percent during first nine months of FY 1995-96. Remittances of expatriate nationals was \$ 1.19 billion in FY 1994-95. It is projected at \$ 1.20 billion for FY 1995-96 - almost at the same level as the previous year. The total disbursement of aid has significantly fallen. In FY 1994-95, it stood at \$ 1.74 billion. Expected disbursement for FY 1995-96 was \$ 1.85 billion, actual disbursement is however estimated at less than \$ 1.45 billion. The failure to utilize foreign aid is one of the reasons for the reduction of the foreign exchange reserve.

14. Inflation has been edging up since March 1995. In

price of foodgrains is a major factor for inflation. This might have been reinforced by the increase in domestic credit. The supply of domestic credit increased by 16.2 percent during the year commencing from May, 1994; it stood at 27.9 percent during the corresponding period in 1995-96. However, because of the contraction in the external sector, broad money supply increased by 4.2 percent during the first eleven months of 1995-96. This might have partly offset the pressure on prices resulting from the sudden spurt in domestic credit.

Mr. Speaker,

15. The greatest challenge before to-day's government is to accelerate growth by infusing new life in a sluggish economy. We cannot realize the dream of Golden Bengal without converting the problem-ridden and fragile economy of Bangladesh into a rapidly growing sustainable economy. Economists maintain that accelerated economic growth is contingent on ever increasing investment. Under the leadership of Prime Minister Sheikh Hasina our government will not only encourage domestic and foreign investment but also create a congenial and helpful environment for safe investment by pursuing mainstream open economy policy. With these ends in view, creative and risk-taking entrepreneurs will be given all help and facilities. Investment will have to be raised rapidly not only in industrial sector but also in infrastructure, agriculture and social sectors. Actually investment is the key to acceleration of growth and development. However, rapid economic growth alone is not sufficient. We have to harmonize economic growth with social justice. We will determine our strategies for development taking into account our supreme goal of poverty alleviation. The present government is determined to transform the poor and unemployed into dignified and self-reliant manpower. We want to rid the country of the curse of illiteracy. Hon'ble Prime Minister Sheikh Hasina has expressed her determination to eradicate illiteracy and expand facilities for education. Our government is determined to implement her pledges. We would like to make safe drinking water available to all citizens, to provide modern medical facilities to all and to provide safe maternal care. Special attention will be paid to the problems of women and children. In fact we will realize the dream of Golden Bengal by providing the basic needs of the people such as food, clothing, shelter, education, medical facilities and a clean and safe environment. It is feasible to achieve these objectives in next ten years. All our commitments cannot, however, be implemented simultaneously. We will, therefore, pursue a phased programme.

16. Because of constitutional compulsion, the present government had to place the budget within five weeks of its assumption of office. Obviously, five weeks is not adequate for the preparation of a budget. As the National Assembly was in a state of dissolution in last June, the President in exercise of the powers under clause 93(3) of the constitution authorised expenditure for supplementary budget for FY 1995-96 and three months' estimated expenditure for FY 1996-97 through two separate Ordinances. Article 93(4) of the constitution requires that provisions of articles 87, 89 and 90 shall with necessary adaptations be complied with in respect of these ordinances within thirty days of the reconstitution of the Parliament. The budget had to be prepared hurriedly for placing the Annual Financial Statement in accordance with the constitution. However, even within this short time, representatives of trade and industry, economists, journalists and NGOs were consulted. I took an initiative for pre-budget exchange of views with the Hon'ble Members of the Opposition. Unfortunately, I did not receive any positive response. Efforts have been made to reflect the priorities of the newly elected government in the budget. We must remember that our desired goals cannot be achieved through government expenditure alone. The preconditions for attaining these goals are good governance and sound principles of financial management.

Mr. Speaker,

17. There is an urgent need for immediate reforms in administration and economy of Bangladesh. Whatever might be the odds, the present government will not hesitate to

like Bangladesh. The amount of foreign aid is fast dwindling. The conditionalities of aid are also becoming stringent. We must, therefore, take appropriate initiatives for proper utilization of foreign aid. Above all we need a new approach to aid by our development partners. We need not only more aid but also better aid.

24. I am placing first the revised budget for the year 1995-96. The former government prepared the original budget for 1995-96 and it was revised by the caretaker government with the approval of the President. I would like to thank the caretaker government for taking necessary measures for ensuring constitutional continuity. However, the present government had no direct role in formulation of the revised budget. It appears that the original allocation for the revenue budget was Tk. 11070 crore. This estimate in the revised budget was raised by Tk. 744 crore (6.7 percent) and the revised estimate for revenue budget stood at Tk. 11814 crore. Revised revenue expenditure increased owing to increase on interest payments for domestic and foreign loans, defence, election, and post flood rehabilitation projects. Because of the increase in revenue budget and specially fall (16 percent) in the estimated receipts of foreign aid, total size of ADP was reduced from Tk. 12100 crore to Tk. 10447 crore.

25. On the basis of existing taxes, total receipts have been estimated at Tk. 17120 crore in the budget for 1996-97. This is 10.3 percent higher than the estimated receipt in the revised budget for the year 1995-96. The size of revenue budget for FY 1996-97 is proposed to be fixed at Tk. 12103 crore. The proposed revenue budget is 9.3 percent higher than the original revenue budget for the FY 1995-96 and 2.4 percent higher than the revised budget. In the proposed budget, revenue surplus is estimated at Tk. 5077 crore. The Annual Development Programme (ADP) for the year 1996-97 is estimated at Tk. 12500 crore. The original estimate for the ADP in 1995-96 was Tk. 12100 crore and this was reduced to Tk. 10447 crore because of resource constraints. 47 percent of the ADP in FY 1996-97 is proposed to be financed from internal sources. The share of domestic contribution was 40.3 percent in last year's original budget. However, the increase of domestic contribution in the ADP is not an unmixed blessing in the present socio-economic perspective of Bangladesh. We still need foreign aid to accelerate economic development.

Mr. Speaker,

26. I would like to discuss the highlights of public food distribution system before outlining the allocations for various sectors. The main goal of public food distribution system is to ensure food security. In the current fiscal year, 17.6 lakh metric tons of foodgrains will be procured from both foreign and domestic sources at a cost of Tk. 2172 crore. Throughout the year adequate stocks will be maintained for food security. However, the increase in import of foodgrains from outside has on the one hand exerted pressure on the foreign exchange reserve, on the other hand has reduced resources for development budget. We would, therefore, like to increase food production in tandem with the strengthening of food security system.

27. From the economic and social point of view, agriculture is the most important sector in Bangladesh economy. About 75 percent of people in Bangladesh are directly and indirectly dependent on agriculture for their livelihood. Because of wrong agricultural policies pursued during last five years, agriculture sector's share in the ADP was 6.94 percent. It fell to 5.71 percent in the original budget for 1995-96 and was further reduced to 5.34 percent in the revised ADP. This shortsighted policy has contributed to deceleration of growth in agriculture. As a result, standard of life of small and marginal farmers is declining and the country is becoming increasingly dependent on food imports. The present government has, therefore, decided to increase the allocation for agriculture sector. Total allocation for agriculture sector in the revised ADP of 1995-96 was Tk. 588.54 crore. It is proposed to raise this allocation to Tk. 748 crore - an increase of 34 percent. As a result the share of agriculture sector will increase from 5.34 percent to 6 percent. The share of agriculture sector in the ADP will be increased gradually.

Mr. Speaker,

28. With a view to accelerating development in the agriculture sector, it has been proposed to set apart an agricultural subsidy fund of Tk. 100 crore in the ADP. Allocations will be provided to the participating banks from this fund for subsidizing 80 percent of interest cost on the credit for purchase of irrigation equipment and other agricultural machinery. This will reduce the investment cost on irrigation equipment and farm machinery. Allocations will also be made from this fund for the rehabilitation of the farmers who are affected by natural calamities. Furthermore, proposals for sanction of grants for stabilizing output and input prices may also be considered. In order to encourage the efficient use of irrigation equipment through command area development, the possibility of providing grants for fuel and infrastructure in such projects will also be examined. Grants for the fuel cost of irrigation in drought affected areas will be considered. The main purpose of this subsidy is to raise agricultural productivity. Every year new programmes will be drawn up considering the realities of agriculture and no project will be undertaken on a permanent basis. Some agricultural inputs such as urea fertilizer (which is produced from subsidized gas and sold at below production cost by the BCIC) receive hidden subsidy. In future all implicit subsidies will be made explicit. It appears that subsidy alone is not the main problem in case of many inputs. The real problem is the non-availability of agricultural inputs in time and at fair price. The distribution system will have to be reformed to ensure the easy availability of agricultural inputs.

29. Fishery and livestock subsectors make important contribution to national economy. These subsectors are also important for employment generation and as sources of protein. The present government will, therefore, make more investment in these subsectors. With this end in view, total allocation for these subsectors in revenue and development budgets has been increased by 8.5 percent and is proposed to be fixed at Tk. 255.77 crore. If necessary, the concerned agencies can undertake new projects from block allocation of Tk. 100 crore earmarked for poverty alleviation.

Mr. Speaker,

30. With a view to reducing dependence of agriculture on nature, artificial irrigation and flood control structures will have to be expanded. In the revenue budget a sum of Tk. 164 crore has been earmarked for Bangladesh Water Development Board. An additional allocation of Tk. 20 crore is proposed to be provided from the unallocated fund in the revenue budget for immediate maintenance of infrastructures. In the revised development budget for 1995-96, total allocation for water sector was Tk. 747 crore. In the development budget for 1996-97, allocation for this sector has been increased to Tk. 1021 crore - an increase of 36 percent. We will also take initiative on the basis of neighbourly friendliness and cooperation for solving the problems of sharing the water of the Ganges and other international rivers. We hope that an acceptable solution is feasible on the basis of principles enunciated in the temporary agreement in 1974 which was approved by Bangabandhu.

31. In the industrial sector the main responsibility of the government is to create an investment-friendly environment. With a view to accelerating development, the existing rules and restrictions in industrial sector will be re-examined on an urgent basis. The newly elected government has already decided to establish a permanent Law Commission, which will examine all existing laws on investment and submit recommendations to the government. The main objective of industrial development is generation of employment and increase in production and exports. Necessary incentives will be provided to individual initiative, investment and private

23. The path of economic reforms was never strewn with roses. However, the international economic environment has posed new obstacles to economic development of countries