

In the name of Allah, the Beneficent and Merciful

Mr. Speaker,

I seek your leave in accordance with rule 111 of the Rules of Procedure of the Parliament to place before this august House the budget for the fiscal year (FY) 1997-98 and supplementary budget for the current year.

2. On this momentous occasion of discharging the responsibilities of the Government, I express my profound respect and gratitude to the Father of the Nation Bangabandhu Sheikh Mujibur Rahman. I recall with reverence and gratitude the national leaders who were his able lieutenants and the indomitable sons of Bengal, the freedom fighters. The nation will remain ever indebted to them for their supreme sacrifices. The eternal flame of patriotism that they were able to blaze in the minds and hearts of the people of Bangladesh will remain a perennial source of inspiration for all of us. Their relentless struggle, endeavour, bravery and sacrifice resulted in the acquisition of an honourable position for Bangladesh to-day in the comity of nations. As an ordinary citizen my heart fills up with pride and joy when I find that within eleven months of the assumption of office by the present Government as many as eight world acclaimed statesmen from abroad visited Bangladesh. I am also proud to learn that Prime Minister of the country Sheikh Hasina has achieved the unique distinction of presiding over the world micro credit summit.

3. National budget is the most effective instrument for the implementation of the programmes of the Government. The budget mirrors not only economic promises but also political philosophy of the Government. The current budget has been prepared in the light of last fifty weeks' political and economic experience of this Government. The assumption of office by the national consensus Government in the wake of a protracted struggle and an election acclaimed throughout the world has opened a new and bright promising horizon for the country. The dichotomy and misperception regarding the existence, the past and the future of the Bengali nation is behind us. The repeal of the infamous Indemnity Ordinance which is inconsistent with our fundamental values has mollified the remorse of the people. The nation not only welcomed the measure but also heaved a sigh of relief as the Parliament took this bold decision. Bangladesh, illumined by the spirit of liberation war, celebrated the silver jubilee of its independence with deep emotion and joy. Conspiracy, terrorism and communal friction have been banished from Bangladesh, where the rule of law is firmly established through a constitutional process. By bringing the assassins of the Father of the Nation, his relatives and national leaders to the bar of justice it has been demonstrated that there is no power in Bangladesh which can defy the law of the land. The people of this country will never tolerate the insolent defiance of the murderers of women and children. In fact this historic measure undertaken by this accountable and elected Government has unleashed the vitality and creativity of the nation. Relieved of its remorse, the nation is firmly moving towards the next century.

4. We promised in our election manifesto that with a view to resolving Farakka problem on a permanent basis Bangladesh Awami League would engage in bilateral discussions with our neighbour India to conclude an equitable agreement. Bangladesh Awami League has fulfilled their commitment to the nation. Thanks to the wisdom, farsightedness and firmness of the leader of the people Sheikh Hasina, a historic thirty year agreement for equitable share of the Ganges water has been clinched. In fact this extraordinary diplomatic coup was widely hailed both at home and abroad. The bold step to establish peace in the Chittagong Hill Tracts has created an environment for peace and stability on a sustainable basis. Today I recall with happiness and pride the fact that within one year of its assumption of office, this Government has succeeded in creating a political and economic environment for comprehensive development of the country. We believe that the simultaneous initiatives to strengthen regional and subregional cooperation will accelerate the process of economic growth. A conducive political environment for comprehensive economic development has been established. History will never forgive us if we fail to avail of this extraordinary opportunity.

5. Hon'ble Members of this august House will please recall that I stated in my budget speech for FY 1996-97 "Poverty alleviation in Bangladesh is contingent on the transition of the economy from a sluggish to an accelerated growth path. We will raise GDP growth rate to 5.5 percent in the current year and further raise it to 7 percent in next five years". I am glad to inform the House that estimates based on trends in first ten months in the fiscal year indicate that GDP growth rate in the current year would be at least 5.7 percent. The actual growth rate has exceeded our target. Agriculture is the engine of this growth. Agriculture sector will register a growth of 6 percent this year, communication sector 6.1 percent, commercial services 6.5 percent, industry and construction sectors 3.6 percent each. Such growth was possible because of interaction of all sectors. This is the third highest growth rate in the history of Bangladesh and the highest growth rate in last seven years.

6. I am grateful to Allah, the Merciful, for this success. The real credit is to be attributed to 120 million people of Bangladesh. The untiring and hard work of all specially the peasants and workers made this success possible. The economic policies pursued by the present Government paved the way for this success. Undoubtedly the courageous and innovative decision of the Government to provide subsidy to agriculture sector encouraged healthy growth in agriculture. The most seminal contribution to economic policy formulation and speedy implementation came from the victorious leader in our democratic struggle Hon'ble Prime Minister Sheikh Hasina. Her personal initiative, untiring efforts and speedy decisions had infused a new life into the economy. We are confident that under her bold and dynamic leadership we will certainly attain the difficult goal of economic emancipation.

7. In the budget speech for last fiscal year, I expressed the determination of the Government to contain the rate of inflation. You will be glad to know that estimates based on first ten months (based on monthly average of 12 months) indicate that the rate of inflation has dropped to 3.34 percent compared to 4.07 percent in last June. GDP growth at 5.7 percent coupled with low inflation is indeed a milestone in the history of our economic development.

8. The struggle for economic emancipation is a long process. Sound economic policies and comprehensive development strategy are essential preconditions for success in this struggle. The experience of history suggests that rapid growth is the first



prerequisite for poverty alleviation. There are five elements in our strategy of growth which we are pursuing in the backdrop of sluggishness in the economy during last two decades. First, we must rectify the anomalies, indiscipline and inefficiency which we inherited from the past. We are certain that we can generate additional resources simply by reducing wastage. Secondly, we must maintain macroeconomic stability with a view to creating a congenial environment for investment. Macroeconomic instability is an omen in the economic horizon. Thirdly, private sector will have to be promoted as an engine of growth. This calls for not only provision of adequate physical infrastructure but also elimination of unnecessary restrictions. Fourthly, in the external sector we will have to promote export-oriented industries on a priority basis pursuing an export-led growth strategy. We will have to occupy our place in the world economy on the basis of competitiveness alone. Finally, the largest resource of Bangladesh is its population. The real hero of economic development is man, not machines. We will have to ensure sustainable growth by developing our human resources. Economic growth per se is not adequate for us. The benefits of growth do not automatically trickle down to people. Target-group oriented programmes for poverty alleviation constitute an essential element for our strategy. I would start my discussion with a review of the implementation of our development strategies.

9. I highlighted in my budget speech for FY 1996-97 the importance of reforms in various sectors of the economy of Bangladesh. The payoffs of successful reforms are enormous, the penalties of failures could also be staggering. As an Italian Philosopher rightly observed, "There is nothing more difficult to take in hand, more perilous to conduct or more uncertain in its success than to take lead in the introduction of new order of things". It is not sufficient to start reforms; one cannot reap the dividends of reforms unless they are completed. We must consolidate ongoing reforms before moving on to new areas. It is not possible to predict about the course of reforms; one has to learn through the process of reforms. Those who lack this flexibility or those who pretend to know everything like the omniscient in the uncertain world of economy are likely to reach wrong destinations. The pragmatic reformers who do not claim omniscience are likely to reach the exact destination. The French writer Andre Malraux was once asked to identify the factors for success. He replied that he does not know how one succeeds, but surely a person who wants to please everybody is likely to fail. Economic reforms cannot satisfy everybody. It is not possible to introduce any effective reform without hurting vested interest groups. I assure this august House that the Government of Sheikh Hasina will never hesitate to take action in the national interest against any vested interest group.

10. We pledged in the election manifesto of Awami League that implementation of needed economic reforms would be accelerated. The goal of economic reforms is not merely to rectify the mistakes of the past. Its main goal is to remove all impediments to the intrinsic ability and creativity of the people. The experience of the 20th century has clearly demonstrated that a command economy is not conducive to growth. This is why we pledged in the economic manifesto of Awami League to support an open economy based on private initiative, investment and privately owned enterprises.

11. In my last budget speech, I drew attention of this august House to hidden budget deficits originating from ever-increasing losses in the public enterprises. The adverse effects of state-owned enterprises are not limited to financial losses only. The state owned enterprises have hobbled the financial institutions in Bangladesh. By promoting unequal competition, the losing state-owned enterprises have impeded the development of private sector. Total Government investment in 38 statutory public authorities excluding financial institutions, railways and telecommunications stands at Tk. 21833 crore. The dividends from these enterprises are paltry. However, the Government had to pay Tk 688 crore in the form of loans and grants in the current

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fiscal year to keep these institutions alive. This expenditure represents a fraction of the losses because the Government has not as yet assumed the liabilities for all losses. The Government will, therefore, have to bear additional costs for these enterprises in the foreseeable future. We will have to intensify privatization measures in the interest of economic development. 61 state-owned enterprises were identified for privatization in the current year. Shares of 18 enterprises were planned to be offloaded through stock exchange. The shares of 9 enterprises have already been floated. Five enterprises have already been sold. The sale of 10 more enterprises are expected to be completed in the current fiscal year. The Ministry of Jute has already sold a jute mill to a foreign investor; the formalities for sale of another jute mill have been completed. Experience suggests that privatization needs prolonged preparation. As the World Development Report, 1996 rightly points out: "Privatizing large and medium size enterprises has proved far more difficult than originally thought. Policymakers have to weigh complex and competing goals, satisfy a multitude of stakeholders, and cope with the administrative difficulty of privatizing thousands of firms in a relatively short time without mature functioning capital markets". Two measures have already been taken to accelerate the privatization process. First, a chairman with the rank of a State Minister has been appointed from the private sector. This is likely to reduce the bureaucratic complexity. Secondly, a committee consisting of the members of the Council of Ministers and labour leaders has been formed to suggest measures for safeguarding the interests of the workers. The committee has already finalized its recommendations. We expect that the implementation of privatization programme will be completed with the spontaneous cooperation of the workers. 65 enterprises have been identified for privatization in FY 1997-98.

12. Macroeconomic stability is an essential condition for economic development. Inflation is not only harmful for growth but also antithetical to social justice. The expectation of hyperinflation is much more harmful than inflation itself. The spectre of inflation engenders instability and uncertainty in the economic system which in turn discourages saving, domestic and foreign investment. Inflation reduces the income of weaker segments of the society. The standard of life of fixed income group is eroded by inflation. It is an invidious tax on innocent citizens. We must always be on guard to contain inflation and the fiscal and monetary policies must be finetuned with this end in view. We are, therefore, pursuing a cautious and realistic monetary policy. In order to encourage small savers, the rate of national saving certificates has been raised by one percent. The bank rate has edged up from 6.5 percent to 7.5 percent. However, the lending rate of commercial banks remained unchanged despite the increase in bank rate. On the contrary, the interest on deposit in commercial banks has gone up. Broad money supply during July-March period of the current fiscal year increased by 5.72 percent compared to corresponding rate of 3.01 percent in the previous year. Domestic credit in this period increased by 8.42 percent against 13.62 percent increase in the corresponding period of last year. Credit to private sector increased by 8.24 percent during first nine months of the current year whereas during the corresponding period last year it increased by 17.19 percent. Compared to long term trends, credit growth to private sector in last two fiscal years was unusual. It may be mentioned here that credit to private sector grew by only 6.53 percent during the period 1st July, 1991 to 30th June 1994. The growth of credit to private sector in the current year is consistent with long term trends.

13. The financial institutions of Bangladesh were impaired by mismanagement during the past. Despite all problems, the banking system in Bangladesh is fully safe and secure. All deposits upto Taka one lakh in the scheduled banks are insured by Bangladesh Bank under the deposit insurance scheme. Furthermore, the Government has issued bonds to the tune of Tk. 5594 crore for bad and doubtful debts in nationalized banks. The Government is ready to assume any responsibility to ensure the safety of the banks. It is not, however, sufficient to ensure the safety of the banks. In the long run all liabilities of defaulters would devolve on the tax-payers. The supervision of central bank has already been intensified with a view to realising money from the defaulters in the private and public sector. A five year programme to enforce international standards for classification of loan and provision has already been undertaken and will be completed in next two years. Memoranda of Understanding have been signed between the problem banks and the central bank. Discipline has been restored in the problem banks by enforcing the Memorandum of Understanding. The Government has enacted three laws to facilitate the realization of loans from the defaulters. First, Loan Court Act of 1991 has been suitably amended so that the same court can enforce its decree. Secondly, Bankruptcy Act, 1997 has been promulgated. This law is expected to facilitate recovery of bad loans. Thirdly, the Banking Company Act, 1991 has been amended with a view to disqualifying any director who defaults on any loan from either his own bank or from any other bank. Banking Reforms Committee and Law Reforms Commission have already submitted recommendations to the Government regarding the ways of enforcing stricter discipline in the financial sector. These recommendations are being examined and will be implemented shortly. A commercial banking sector reform project has already been undertaken with a view to infusing dynamism in the banks. In order to protect the depositors of the now-defunct financial institution, BCI, an Act for reorganizing the same has already been passed by the Parliament. Hopefully, the measures taken so far will further consolidate the banking system.

14. Besides financial institutions, the share market always plays a significant role in the mobilization of domestic resources. The present Government inherited a very fragile capital market. Both the stock exchanges in the country are private limited companies. In the absence of modern computerised accounting system, it is very difficult to supervise these exchanges. The principal role of the Government in the share market is to protect the investors from fraud through appropriate regulations. Unfortunately, the Securities and Exchange Commission in Bangladesh is a new institution. It was established in 1993 and its experience is also very limited. Similarly, most of the investors in capital markets in Bangladesh are new and inexperienced. Though we do not pretend to know everything, we know that the risk is the very essence of capital market. There are dramatic ups and downs in this market. The recent fluctuations in Bangladesh stock market, though dramatic, are not unusual. Similar fluctuations were experienced by all stock markets including South Korea, Taiwan, Japan, Thailand, India and the USA. Samuelson and Nordhouse have rightly observed, "From time to time, investors lose sight of fundamentals and fall prey to rumors, hopes and fears. Sometimes speculation gets caught in the grip of mass contagion such as inexplicable dancing crazes that swept medieval villages, the Dutch tulip mania that sent the prices of a single bulb higher than that of a house, the South Sea Bubble in which companies sold stocks at fabulous prices for enterprises 'which would be later revealed' or some believe, the rise and fall of the dollar in foreign exchange markets in the 1980s". The main issue is not why share prices, which were inconsistent with market fundamentals, fell; but how and why these prices rose so high. In such contingencies, the responsibility of Securities and Exchange Commission is to maintain discipline in the market and to prosecute those who try to manipulate the market. In the backdrop of recent events, the Securities and Exchange Commission appointed a committee to probe into the recent developments in the share markets and legal prosecution has been undertaken on the basis of this report. However, short term measures are not adequate for the development of capital market; long term measures will have to be implemented for institutional development of this sector. Steps have already been initiated for the establishment of a National Stock Exchange. Permission has already been given for setting up Merchant Banks. Computerized accounting systems will be introduced in the stock exchanges. Finally, measures are being taken to reorganize the Securities and Exchange Commission. A project for the development of capital market will be undertaken in the near future with the assistance of Asian Development Bank.



15. Despite fluctuations in the share market, small investors are showing keen interest in new issues. The demand for initial offer far exceeds the supply. In order to ensure increased access of small investors to share markets, various quota in the initial public offering will be eliminated. However, the quota for the non-resident Bangladeshis will be increased from 5 percent to 10 percent with a view to encouraging them to invest in Bangladesh.

16. External balance is essential for macroeconomic stability. To compete in the export market, our entrepreneurs need price stability in domestic market, rise in productivity, and reduction in production cost. The exchange rate management must be flexible. In view of the realities of the market, the exchange rate in Bangladesh was adjusted appropriately and taka was devalued by 4.35 percent during the current fiscal year. Initially export growth was sluggish in the current year. However, in the second half of the fiscal year, exports picked up significantly. The estimates based on trends during first ten months of the fiscal year (in dollar terms) indicate that exports grew by 12.88 percent. The export target for the current year envisages a growth of 12.8 percent over last year's actual export. Despite shortfalls in some sub-sectors, the target for current year's total export is likely to be met. Excluding foodgrain imports, total imports during first eight months of the current fiscal year (on the basis of settled Letters of Credit) increased by 7.5 percent. Remittances by expatriate Bangladeshis during first ten months of current fiscal year increased by 23.5 percent.

17. Foreign investment is contingent on the availability of adequate physical infrastructure facilities. Highlighting the crippling effects of inadequate investment in infrastructure during previous five years, I warned in my last budget speech, "The nation will have to bear the cost of electricity, gas and water shortage arising from the failure to make essential investments in time". Our foreboding turned out to be true. Despite all-out efforts by the new Government, energy crisis arising from the failures and neglect of the past could not be averted. However, the Government has already taken some important long term measures to solve the problems of electricity and gas. Production sharing contracts have been signed for exploration of gas in eight out of 23 blocks in the country. Two companies have already implemented their programmes. From the first half of 1998, 260 million cft of natural gas will be supplied on production-sharing basis. These two companies will invest more than Tk. 1100 crore. The supply disruptions from Bakhrabad and Feni gas fields were compensated by completion of Ashuganj-Bakhrabad pipeline. Policies for attracting private investment in electricity have already been formulated. Offers for the construction of 300-450 MW combined cycle power generation at Meghnaghat are in the process of screening and construction is expected to commence shortly. Initiatives have already been taken to set up in the private sector one 300 MW generator at Haripur and one 100 MW power plant at Baghabari. Three barge-mounted power plants of 100 MW each in the private sector will be constructed at Khulna, Haripur and

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