

Text of Budget Speech

In the name of Allah, the Beneficent and Merciful

Mr. Speaker,

I seek your leave to place before this august House the budget for the financial year 1998-99 and the supplementary budget for 1997-98.

2. National budget is not a mere compilation of cold statistics of income and expenditure of the government. The hopes and aspirations of the people are reflected in the national budget. Although the approval of a budget relates to a specific financial year, every budget in reality reflects the successes and failures of the past years, the compulsions and priorities of the present and the guidelines for the future. I would, therefore, like to recount the experience of the past, analyze the present situation and envision the future. In reality, we can reach our desired goals only by implementing the economic activities outlined in the budget.

3. The national identity of the Bengali people was shaped gradually through the historical war of independence and relentless struggle of the awakened masses for democratic rights. At the outset I remember with profound reverence the great hero of our liberation struggle, noble dreamer of the Golden Bengal, the architect of independent and sovereign Bangladesh and the Father of the Nation Bangabandhu Sheikh Mujibur Rahman. His mission to build the Golden Bengal on the basis of economic growth and social justice was suddenly interrupted by the sinister conspiracy of the assassins. With his martyrdom, the ugly forces opposed to the spirit and ideals of the liberation struggle surfaced. Fortunately for us Prime Minister Sheikh Hasina has come forward to complete the unfinished tasks of Bangabandhu. Her noble sacrifice and fearless leadership for the establishment of democratic and civil society in the post-independent Bangladesh will forever be written in golden letters in our history. Under her leadership, the people of this country not only regained voting right but also escaped from economic stagnation. I remember with profound respect those valiant and fearless sons of Bangladesh whose supreme sacrifices have earned us a free, independent and democratic Bangladesh. I also recall with gratitude the invaluable contribution of the four national leaders who were close associates of the Father of the Nation. From the deepest core of the hearts of the grateful nation, the noble song - we shall never forget you - will be reverberating for all time to come. Our aim is the realization of those noble ideals which animated the Father of the Nation and the freedom fighters to make supreme sacrifices. We do not aim at achieving growth for the sake of growth only. We want to see percolation of the benefits of growth to the masses. In preparing this budget I was inspired by the firm commitment of Prime Minister Sheikh Hasina who has vowed to bring smiles on the faces of the poor.

Mr. Speaker,

4. In last June when we prepared the budget we expected that Bangladesh would experience rapid growth in a stable and tranquil international economic environment. But within a short period we were confronted with the totally unexpected and difficult reality of a turbulent and volatile international economic environment. Globalized economy has, on the one hand, opened magic windows of immense opportunities and on the other hand, exposed us to unknown dangers. The slump in the economies of the East and South East Asian countries which were once branded as mighty tigers, was unthinkable. But now it is a reality. One can gauge the depth of this crisis from the following statistics. Indonesian currency fell by about 80 percent against the value of dollar at the peak of the crisis. The value of currencies of Thailand, South Korea, Malaysia and the Philippines decreased by 35 to 50 percent. As a result of the crash in the share market, assets to the tune of 40 percent of the GDP of these countries were wiped out. IMF predicted 4.25 percent growth in 1998 for the world economy before the onset of the financial crisis. Because of the crisis this estimate has been reduced to about 3 percent. The economies in some countries of South East Asia will not grow at all, some of them may even contract significantly this year. This crisis has not remained confined to East and South East Asia only. Its influence is felt in varying degrees in other regions also.

5. By the grace of Allah the Merciful, Bangladesh has been able to safeguard herself from the contagion of this terrible crisis. We have been able to protect our macro economy from potential disaster by adopting a prudent credit policy, a flexible exchange rate management, careful supervision of the banking sector and relentless endeavors in balancing public income and expenditure under the sagacious and strong leadership of Prime Minister Sheikh Hasina. But the threat to the world economy is not over yet. Many countries in Asia are now struggling to cope with deepening economic crisis and increased trade competitiveness. In the face of this stiff competition we must implement reforms without delay and prepare ourselves to face the fierce competition unleashed by the forces of free market economy. Towards this end we must complete all the economic reforms in the shortest span of time. In a sense the so-called miracle economies of South East Asia are victims of their remarkable success. Blinded by rapid growth, they failed to realize the inherent weaknesses in their economic systems. Consequently they are paying a heavy premium now. Such economic crisis is not at all unheard of. In the thirties of this century the entire western hemisphere was plunged into a great economic depression. In this regard we should remember the note of warning in IMF's World Economic Forecast 1998: "Serious financial crises are not a new phenomenon and they will occur in the future. With the increasing globalization of financial markets and the apparent tendency for the investors to react exuberantly to success, belatedly to emerging concerns and eventually to overreact as sentiment changes, it may well be that risk of crisis is rising including the scope for international contagion". We shall have to remain ever vigilant not only in the management of the financial system, but also in the management of the macro-economy.

6. International economic stability alone is not sufficient for development, political stability is also essential. Suitable regional environment in economic and political spheres is a

precondition for growth. In the past, attempts were made to create congenial regional atmosphere but these efforts failed to produce results because of weaknesses in political leadership. Under the strong and farsighted leadership of Prime Minister Sheikh Hasina, the present government has taken certain historic steps to reduce tension and to enhance cooperation in the region. The Peace Treaty for Chittagong Hill Tracts is the realization of a long-cherished dream of the nation. This treaty will stimulate economic growth and protect the constitutional rights of the less advanced communities. The historic Ganges Water Treaty has laid the foundation for the development of agriculture in Bangladesh. The recently held 3-nation summit has established new links among the entrepreneurs and business leaders of these three important countries. In general, a new horizon has been unfolded for peace and stability on a long term basis in the South Asian region.

Mr. Speaker,

7. In order to attain proper coordination in the development activities, the Government has already approved Fifth Five Year Plan covering the period 1997 to 2002. This plan makes a significant departure from the previous plans on two counts. First, the Fifth Five-year plan is not the instrument of a command economy. The targets of the plan are indicative. These targets will be revised in the backdrop of the changed circumstances. However, the main objectives of the Plan will remain unchanged. Secondly, the driving force of this Plan is the private sector. It is expected that about 56 percent of the total investment will come from private sector. The main strategy of the Plan is not to expand public investment but to encourage increased investment by private sector, by maintaining macro stability and by creating infrastructural facilities. Our aim is eradication of poverty through accelerated growth. Employment opportunities will be created in a planned framework. Efforts will be intensified to improve the quality of life in the rural areas. The key to economic development of Bangladesh is the human resource development. Literacy rate will be raised from 47 percent to 70 percent in year 2002. Life expectancy will be raised to 60 years. Population growth rate will be reduced from 1.75 percent to 1.32 percent during the plan period. The proportion of the poor in total population will be reduced from 45 percent to 30 percent by the year 2002. Economic growth will make more resources available for the development of human resources and this in turn will reinforce growth process.

Mr. Speaker,

8. In the budget speech for 1997-98, I predicted a growth rate of 5.7 percent in GDP for 1996-97 which coincided with the first year of the present government's term. According to the final figures, the actual growth rate achieved in the last financial year was 5.9 percent. The preliminary estimates indicate that growth in 1997-98 is 5.6 percent. This growth rate is comparable to that of last year. It may be noted here that according to the data of the Bangladesh Bureau of Statistics never before in Bangladesh such high growth rates were achieved for two consecutive years by any previous government. The growth rate of 1997-98 has, therefore, added a new dimension in our economic history. The rapid increase in growth rate of last two years indicates strongly the success of the government's economic policies. Owing to unfavourable weather, growth of agricultural sector decelerated in FY 1998-99 compared to FY 1997-98. In 1996-97 actual growth rate in agriculture was 6.4 percent. In 1997-98 production in agriculture has expanded but the growth rate will decline to 3 percent. Aman rice production was lower than last year by 7.2 percent due mainly to adverse weather conditions. Because of record production in boro and wheat, crop subsector in the current year is expected to register a growth rate of about 1 percent. Higher growth rates in fishery, forest and livestock sub-sectors will enable the attainment of a growth rate of 3.1 percent in agricultural sector. In the industrial sector growth is faster in the current year than last year. In 1996-97 overall growth rate in industrial sector was 3.5 percent. In the current year this growth rate has increased to 8.1 percent. In the case of large industries the rate is higher. Last year large industries grew by 3.3 percent; this year, by 10.1 percent. Last year growth rate in small scale industrial sub-sector was 3.9 percent; in the current year this rate has gone up to 4.2 percent. In the construction sector the growth rate has increased to 6.2 percent from 4.9 percent. In other sectors also growth rates have accelerated. It appears that besides agriculture growth rates in commercial services and mineral resources sector may decline slightly.

9. For estimation of inflation two indices are currently in use in Bangladesh. The base of one set of index is 1973-74 and this index is compiled on the basis of prices of consumer goods of the middle-class of Dhaka city. The average of 12 monthly inflation rates calculated on the basis of this index has been for a long time quoted in the budget speeches as the annual estimated inflation rate. Recently a new index has been developed on the basis of the prices of consumer goods in different regions and taking 1985-86 as base year. The basis of this estimate is comprehensive. However, at the initial stages a large number of tests had to be carried out. Hence this inflation rate was not used in the earlier budget speeches. Today I propose to present estimates of both inflation rates on the basis of average of 12 monthly rates. In the month of April, 1998 the inflation rate was 6.28 percent on the basis of the old index. In June 1997 this index stood at 3.9 percent; in June 1996, 4.1 percent, and in June 1995, 5.2 percent. According to the new index in April 1998, the inflation rate was 6.63 percent. In June 1997 the rate was 2.51 percent and in June 1996, 6.65 percent. On the basis of both the indices the inflation rate has increased compared to last year. According to experts current inflationary pressure is due to unexpected shortfalls in Aman production. Meanwhile record boro and wheat crop is being reaped. On completion of harvesting the inflation rate is expected to decline. Because of vagaries of nature such seasonality in the inflation rate is not unusual. However, the Government is determined to curb any long term inflationary

pressure. Towards this end monetary and fiscal policies are reviewed regularly. The uncertainties of inflation will never be allowed to destabilize the macro stability and the Government will not hesitate to take any stern measure to contain inflationary pressure.

10. A cautious monetary policy was pursued in the current fiscal year. In November 1997 bank rate at which central bank provides credit to the commercial banks was raised from 7.5 percent to 8 percent. During July-February 1997-98 narrow money supplies (M-1) increased by only 1.6 percent. The rate of increase for the corresponding period last year was 1.1 percent. Growth rate of broad money supplies (M-2) decreased slightly this year compared to corresponding period of last year. During July-February last year the rate of growth of M-2 was 5.92 percent, in the current year the rate is 5.1 percent. Despite cautious monetary policy, the availability of credit to private sector was increased by reducing growth of credit to public sector. During July-February last year government's borrowing from the banking system increased by 18.7 percent. In the current year government's borrowing for the corresponding period increased by 5.54 percent only. During July-February period credit for the public sector increased by Tk 444 crore whereas credit for the private sector increased by Tk 2409.7 crore raising the total to Tk 37914.8 crore. A portion of government borrowing from the commercial banks has been utilized to repay the accumulated debt to Bangladesh Bank. Government's borrowing from the central bank decreased by Tk 175.48 crore on May 20, 1998 compared to total borrowing on June 30, 1997.

11. In the turbulent international economic climate, growth of world export decelerated in 1998. According to projections of International Monetary Fund, exports from developing countries increased by 10.8 percent in 1997. In 1998 growth rate of exports from developing countries will drop to 7.4 percent. Compared to average performance of developing countries, the performance of exports from Bangladesh during last two years is highly encouraging. In 1996-97, exports from Bangladesh in dollar terms increased by 13.8 percent. In the July-April period in 1997-98, it accelerated to 16.75 percent. The rate of growth of exports in Bangladesh is more than 200 percent higher than that of the developing countries. Imports during first six months of the current fiscal year increased by 2.21 percent. However, imports of industrial raw materials during this period registered an increase of 17.7 percent. The deficit in the current account balance during the period July-December of FY 1997-98 decreased by 24.9 percent compared to the corresponding period last year. Despite a sudden increase in food imports in the later half of the current fiscal year, there has been no deterioration in the reserve situation of the country thanks to rapid increase in exports. Bangladesh Bank is pursuing a flexible exchange rate policy with a view to encouraging exports. The exchange rate is determined on the basis of daily index of Real Effective Exchange Rate (REER). During the current year, so far taka was devalued against dollar on five occasions and taka depreciated by about 5.7 percent. In the backdrop of financial turmoil in South East Asia, the depreciation of currency in Bangladesh was modest. In the same period in India currency was devalued by 11.6 percent; in Pakistan, 8.3 percent; in Thailand, 33.7 percent; in South Korea, 38.28 percent; in Indonesia, 77.3 percent; in Malaysia, 33.21 percent; in Nepal, 10.1 percent and in Sri Lanka, 7.8 percent.

12. During FY 1996-97, the expatriate Bangladesh nationals remitted \$1475 million. The remittance from abroad is largely influenced by international economic environment. Despite the slump in South East Asia, the remittance by Bangladesh citizens increased at a satisfactory rate. During the first eight months of the current year it increased by 7.85 percent.

Mr. Speaker,

13. On first June 1998, total foreign exchange reserve in Bangladesh Bank stood at \$1.680 billion. The reserve on the same day in 1997 was \$1.607 billion. There has been a slight increase in reserve during last year. This improvement was attained in the reserve position of Bangladesh despite highly unfavourable international climate. It may be mentioned here that before the assumption of office by the present government, there was a sudden fall in the foreign exchange reserve in fiscal year 1995-96. During the period 30th June, 1995 to 30th June, 1996 total reserve in Bangladesh plummeted from \$3.07 billion to \$2.03 billion. The present government had to endeavor very hard during last two years to arrest this fast deterioration in reserve.

14. Parallel to the rapid growth of GDP, there has been some encouraging trends in saving and investment. First, the share of investment in GDP was 11.5 percent in FY 1990-91; it increased to 17.38 percent in FY 1996-97. The experts are of the opinion that investment/GDP ratio has now increased to about 22 percent. Secondly the share of private investment in total investment is gradually rising. In FY 1990-91, the share of private investment was 50.6 percent, it increased to 62.4 percent in FY 1996-97. The experts are of the opinion that national saving rate has also increased significantly. According to latest estimates, national saving rate is estimated at about 20 percent. Since the assumption of office by the present government, foreign direct investment has increased significantly. In FY 1990-91, total foreign investment in Bangladesh stood at \$35.9 million. In FY 1996-97, it increased to \$320.8 million. Recently there has been a surge in foreign direct investment in electricity, energy and physical infrastructure sectors. In fiscal year 1997-98, foreign private investment in natural gas sectors stood at \$320 million; in electricity, \$95 million; and in telecommunications, \$110 million. In other words, investment in these sectors alone stood at \$525 million (equivalent to Tk. 2450 crore). Furthermore, investment to the tune of \$363 million was registered in the Board of Investment during the period July, 1996 to December, 1997 in addition to investments listed above. Moreover, Infrastructure Development Company has been set

up under the aegis of the government with a loan of \$225 million from IDA. It will attract foreign direct investment in physical infrastructure through provision of concessional loans.

Mr. Speaker,

15. The shocks of world economy impinge on our economy in various ways. Much more complex than the shocks of the world economy are long-standing internal problems. The losses of state-owned enterprises are mounting; the reforms in banks and financial institutions are incomplete and administrative systems needs to be streamlined. The previous governments tried sporadically to grapple with these long standing problems. However, due to lack of political commitment the reform measures undertaken by them did not produce any sustainable result. The present government has unstinted support to reform programmes. We are determined not only to resolve these problems through reforms but also to create new opportunities in the economic sphere. The present government is implementing in a phased manner all the reforms pledged in its election manifesto of 1996. We pledged in 1996 that we will strengthen local government institutions through administrative decentralization. In the first phase a high level committee was constituted for reforming local government system. On the recommendation of this committee, a law on the Grameen Parishad (village council) has been enacted. In carrying out development activities, the village council will act as the link between the village and union. The Union Parishads have been reorganized. Previously there were three wards in each union; now there are nine. Under the new system female members of UP are directly elected. In the meanwhile, elections of Union Parishads have been concluded peacefully. Measures have already been taken to set up Upazila Parishad at Thana level and it is expected that democratically elected local government will come into being at this level by next December. District councils will be reorganized in the next phase.

16. Important measures have been taken for administrative and legal reforms. A permanent Law Commission has already been set up by the Government. This Commission is advising the Government in the simplification of existing laws and the enactment of new laws. A training academy for the judges has already been established. A project for judicial reforms supported by the World Bank is under process. The Administrative Reforms Commission is working to establish an administrative system capable of facing the challenges of the 21st century. A project for reforms in budget and expenditure control is being implemented with the assistance of the British Government with a view to strengthening the public financial management. New classification system in the budget has been introduced as a result of this reform programme. New chalan, pay bill and other forms will be introduced from 1st of July 1998 with a view to introducing computerization in budget and accounting. Already computers have been installed in the budget wing of the Finance ministry and offices of Chief Accounts Officers. This will facilitate analysis and examination of the budget and will also render accounting system more effective.

17. The British statesman Winston Churchill used to say that socialist leaders consider profit in business as a sin, but he considers losses in business as a vice. I am of the opinion that losses in state-owned enterprises is a vice not only from the capitalistic point of view but also from the consideration of social equity and justice. The state-owned enterprises are a sacred trust of the people. The main purpose of bringing them under ownership of the state is to redistribute the benefits of these enterprises to the poor. In reality the taxes collected from the poor are now financing their losses. The losses of state-owned enterprises resulting from the accumulated liabilities and mismanagement have turned out to be a big burden for the state and the banking system of the country. Total losses of eighteen state-owned corporations (excluding banks and financial institutions) are estimated at Tk 1039.13 crore for FY 1997-98. Total accumulated losses of all state-owned enterprises excluding the financial sector stand at Tk 12357.1 crore. Throughout the world, the state-owned enterprises fail to attain their objectives. It is very unlikely that they could be profitably rehabilitated. The Government has, therefore, been pursuing a two-fold strategy. Firstly, loss-making enterprises are being closed by paying adequate compensation to officers and workers through voluntary separation schemes. Under this programme the operations in eleven BTMC mills and four newspapers and periodicals run by state-owned Press Trust have been suspended. About Tk 200 crore was spent for the voluntary separation programme in FY 1997-98. Secondly, new guidelines are being prepared for privatization. It has been decided to separate sale of surplus land of the enterprises from the privatization process. The Privatization Board has finalized arrangements for transfer of nine enterprises to the private sector in the current year and shares of nine more enterprises have been offloaded in the share market. Programmes have been adopted to hand over loss-making enterprises to the management of the workers on an experimental basis. Indeed, the success of privatization programme is very important for the future of the nation. I, therefore, seek cooperation of all irrespective of party affiliation in privatization process in the greater interest of the nation.

18. Banks and financial institutions transform savings into investment. The invisible hand of the banks ensures most efficient utilization of financial resources. The weakness of the banking system not only threatens depositors' interest but also poisons investment climate in the country. The Government has, therefore, unequivocal commitment to the on-going financial sector reform. The Government is determined to keep the banking system in Bangladesh safe for depositors. However, the benefits of financial sector reforms cannot be reaped till the portfolios of investment in banks improve. A task force has been set up in Bangladesh Bank to intensify drive against default loans. In order to expedite the disposal of default cases, three exclusive Loan courts and two exclusive

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