

# Full Text of Finance Minister's Budget Speech

*In the name of Allah, the Merciful, the Compassionate*

Mr. Speaker,

I seek your leave to place before this august House the budget for FY 1999-2000 and supplementary budget for FY 1998-99.

2. Standing at the threshold of a new millenium, I rise to submit to this House the last budget in the twentieth century of the Government of the People's Republic of Bangladesh. I am grateful to the Prime Minister Sheikh Hasina for giving me this unique opportunity. At this grey dawn of a new century, we stand face to face with our past as well as our future. Behind us lies the tumultuous and kaleidoscopic history of the last century. The promises and challenges of the coming century stare us in the face. I would, therefore, start with a brief review of recent trends in the economy of Bangladesh against the backdrop of historical evolution. In the next section, I propose to outline the programmes and priorities of the present government in the light of our vision for the future. Finally, I would present the salient features of the revised budget of FY 1998-99 and the budget for FY 1999-2000.

Mr. Speaker,

3. Since time immemorial, the history of the Bengalee nation is an epic of ceaseless struggle. The emergence of Bangladesh as an independent and sovereign country under the charismatic leadership of Bangabandhu Sheikh Mujibur Rahman through a process of sanguinary struggle constitutes the most glorious chapter of this struggle. For the first time in its history, the Bengalee nation became the arbiter of its own destiny by ending exploitation and deprivation of centuries. I would like to recall with profound reverence the noble sacrifice of the great hero of this epic struggle and the Father of the Nation Bangabandhu, the martyred members of his family, his colleagues and the martyrs of our liberation struggle. However, the joy of our greatest victory was evanescent. A poignant tragedy was enacted in this country with the gruesome murder of Bangabandhu. The arbitrary rule of the military dictators systematically suspended the fundamental rights of the people. The electoral process was rendered into a farce. Murders, coups and conspiratorial politics supplanted the practices and values of democracy. The stagnation of the economy was an inevitable outcome of this sterile politics.

Mr. Speaker,

4. The government under the stewardship of Prime Minister Sheikh Hasina restored democratic rights of the people after long twenty one years. The Ganges Water Treaty and the Chittagong Hill Tracts Peace Accord have today created in Bangladesh an environment of peace and development. The conclusion and implementation of Chittagong Hill Tracts Accord without the mediation of a third party has earned accolade both at home and abroad. The award of UNESCO peace prize to Prime Minister Sheikh Hasina is an international recognition of her matchless success. By trying the assassins of Bangabandhu through the normal process of law, the nation has been absolved of the pangs of conscience. The construction of Bangabandhu Jamuna Multipurpose Bridge over the immense flows of the turbulent Jamuna constitutes a new milestone in the development of infrastructure in this country. A new sense of confidence has been instilled in the minds of people and an optimistic climate about the potentialities of the future has been created. These bold political measures galvanized economic life. With the assumption of office by the present government, a new horizon of immense potentialities opened up in the economic sphere; it infused new life in the economy. Surpassing all previous records, economic growth accelerated significantly for two consecutive years. If the proposed measures in the budget for FY 1998-99 were implemented, the growth in economy of Bangladesh in the current year could have further accelerated. Unfortunately, the country experienced a devastating flood from July to September in 1998. This flood is not only the longest in our history, it also inundated the largest area. The average flood-affected area during floods from 1954 to 1996 stood at 20.56 percent of total land in the country. During 1998, 68 percent of land was flooded. In other words, the extent of flood in 1998 was three times larger than that of an average flood. 53 out of 64 districts were inundated, about 31 million people were marooned, fifteen thousand kilometers of roads were damaged, thousands of bridges and culverts were destroyed, about half a million houses were washed away and about 14 thousand educational institutions became unsuitable for normal use. According to estimates of Asian Development Bank and Bangladesh Institute of Development Studies, flood losses constituted about 6 percent of Gross Domestic Product. At this crucial juncture of our history, Prime Minister Sheikh Hasina came forward with indomitable courage and unflinching determination. The resilience, determination, promptitude and courage displayed by the people and government of Bangladesh in meeting the challenge of relief and rehabilitation under the dynamic and bold leadership of Sheikh Hasina will remain forever inscribed in golden letters in the annals of Bangladesh. I would like to express our gratitude to Almighty Allah for providing courage and strength during this extraordinary ordeal. I would also like to place on record our sincere appreciation to multilateral and bilateral donors who extended liberal assistance in time of distress. The timely assistance in food and cash provided by development partners played an important role in flood rehabilitation. Bangladesh has earned international recognition for skill and success in disaster management by proper utilization of aid from abroad.

Despite huge revenue needs for development works, we have refrained from imposing new taxes in the immediate interest of the citizens. Instead drastic duty reduction has been proposed to give incentive to our export and industrial growth. Emphasis has been on the expansion of the tax base through reformation and rationalization of tax system as well as through administrative improvement. Self assessment procedure of Income Tax has been further simplified and the tax exempt limit has been raised. To eliminate corruption from the tax system, proposals have been made to reduce the discretionary powers of tax officials. Moreover, we have proposed to adopt measures to reduce the interface between tax officials and taxpayers as much as possible. I hope all these measure will contribute in making our tax system suited to the needs of the coming 21st century and for the on going globalization.



Jatiya Sangsad in budget session.

— Star photo

5. With the outbreak of flood, the entire civil administration was deployed in relief operation. More than a million people were housed in 2716 shelters and more than four thousand medical teams were sent to flood-affected areas. In the first phase of the flood, gratuitous relief to the tune of 70 thousand M.T. of food-grains were distributed. Vulnerable Group Feeding (VGF) Programme was introduced in August 1998 and this programme was gradually expanded. It covered four million families in October 1998. From November 1998 to April 1999, the coverage of VGF was extended to 4.2 million families comprising about 20 million people (providing food relief for five months excluding the month of February). The total outlay on flood relief exceeded taka ten billion including an additional allocation of taka 5.82 billion. Because of large-scale relief operation, the apprehensions about massive migration from rural to urban areas did not at all materialize. Furthermore, NGOs and civil society made commendable contribution to relief operations. An allocation of Tk. 250 million was provided for house building grant to half a million affected families. 888 thousand landless, small and marginal farmers were provided inputs for agricultural rehabilitation at a cost of Tk. 300 million. The timely distribution of fertilizer and fuel was ensured. A sum of about Tk. 26 billion was disbursed as agricultural credit till 30<sup>th</sup> May 1999 through two agricultural banks, nationalized commercial banks and cooperatives; the disbursement of farm credit in the corresponding period last year was Tk. 14 billion only. In other words, the disbursement of agricultural credit was raised by about 86 percent. The successful implementation of agricultural rehabilitation programme contributed to record harvest of wheat and boro rice. Furthermore, physical infrastructure including roads and highways were repaired with utmost rapidity with a view to restoring normalcy in economic life.

Mr. Speaker,

6. During the current fiscal year, Bangladesh faced not only

an unusual natural calamity but also an adverse economic climate in the international arena. As the latest World Economic Outlook (May 1999) of International Monetary Fund puts it, "a new phase in the global crisis" has started. In 1997, world GDP increased by 4.2 percent. In 1998 it decreased to 2.4 percent. Latest projections suggest that world GDP growth in 1999 could be as low as 2.3 percent. In the developing countries, growth rate stood at 5.7 percent in 1997. It fell to 3.3 percent in 1998. It is expected to decline further to 3.1 percent in 1999. The growth of world trade has decelerated because of economic stagnation. In 1997, world trade grew by 9.9 percent. It stood at 3.3 percent in 1998. It is expected to edge up to 3.8 percent in 1999. The contagion effect of South East Asia, Latin America and Russia continues to cast dark shadow in the international economic sphere. Furthermore, some industrial countries are also likely to experience economic recession.

7. The effects of unprecedented natural disaster and unfavourable economic climate were reflected in the economy of Bangladesh. Nevertheless, with the blessings of Almighty Allah and efficient economic management, economic growth rate in Bangladesh in the current year is much more robust than that of other developing countries. According to latest preliminary estimates (May 1999) of Bangladesh Bureau of Statistics, GDP in 1998-99 grew at the rate of 5.2 percent in constant price. Growth rate stood at 5.7 percent in 1997-98. By achieving growth rate exceeding five percent for three consecutive years, the Government of Sheikh Hasina has added a new chapter in the history of economic development of Bangladesh. Incidentally, Bangladesh never experienced such high growth rate in the wake of a devastating flood. Bangladesh economy grew by 2.9 percent in 1987-88; by 2.5 percent in 1988-89. The sluggishness of growth in these years is attributed to effects of floods. However, despite prolonged catastrophic flood lasting from July to September 1998, the economy

bounced back to normalcy due to effective macro-economic measures, resulting in 5.2 percent growth in GDP. This is 67 percent higher than the expected average growth rate in developing countries. Despite the devastating flood in 1998, the average growth rate during last three years since the assumption of office by the present government exceeds 5.5 percent, whereas the similar rate during the period 1975-76 to 1995-96 was 3.7 percent only. A major source of growth in the current fiscal year is the remarkable success of rehabilitation programme of the government in the agricultural sector. The recorded highest boro production in the country was 8.137 million M.T. According to preliminary estimates of Bangladesh Bureau of Statistics, boro production in the current year stands at 10.05 million M.T. Total production of wheat is estimated at 2 million M.T. — exceeding the highest record of 1.803 million M.T. Despite a shortfall of about 1.172 million M.T. in Aus and Aman production, production of crop subsector is projected to grow by 4.3 percent. The growth in agriculture sector as a whole will climb to 5 percent because other subsectors of agriculture such as livestock (7.6%) and fisheries (8%) experienced higher growth rate. The highest growth is projected in the mineral resources sector (21.5 percent). The growth rate in manufacturing sector will be limited to 2.5 percent owing to ravages of flood. The construction sector is expected to grow by 6.5 percent; transportation sector by 6 percent.

Mr. Speaker,

8. During first two quarters of the current year, there was an upward pressure in food prices owing to flood. The inflation in April based on the average monthly inflation rates of last twelve months (May 98 — April 99) stands at 8.79 percent. This rate is comparable to average inflation rate (8.8%) in developing countries in 1999. During the corresponding period last year the inflation was 6.63 percent. Between April 98 and April 99, food prices grew by 9.78 percent, non-food prices by only 3.64 percent. There was a steady increase in prices from July 98 to December 98 owing to damages caused by flood. Fortunately, prices experienced consecutive declines from January 1999 to April 1999. Prices in December 1998 rose by 12.67 percent in comparison with prices in December 1997. After the new harvest, inflation rate in April 1999 increased by only 7.65 percent compared to corresponding period in the previous year. It is projected that this downward trend will continue in the coming months thanks to bountiful harvest of boro, wheat and potato.

9. A moderately expansionary monetary policy was pursued to ensure adequate flow of credit so that economic activities do not suffer and dynamism in the economy is not eroded. Six months' moratorium was allowed on industrial and export loans which became overdue during flood and special loans were given on priority basis to affected industries. Farmers were given new loans by rescheduling arrear debts. As a result, the supply of both narrow and broad money increased. During the period April 98 to March 99, narrow money supply (M-1) increased by 9.12 percent compared to 7.12 percent in the corresponding period last year. In the same period, broad money supply (M-2) grew by 13.06 percent, while it increased by 9.47 percent in the corresponding period of last year. Annual growth of domestic credit during the period April 98 — March 99 stood at 16.84 percent, the corresponding rate in last year was 11.94 percent. Furthermore, Bangladesh Bank advanced special loans to the tune of almost Tk. 9 billion to specialized banks and Grameen Bank.

Mr. Speaker,

10. On 31<sup>st</sup> May 1999, foreign exchange reserve in Bangladesh Bank was \$1,514 billion. The corresponding figure on 31<sup>st</sup> May last year was \$1.67 billion. In other words, foreign exchange reserve fell by about \$156 million during last twelve months. The present reserve is adequate to meet 2.3 months' import requirements and it is satisfactory at the moment. The fall in foreign exchange reserves is not in the least unexpected in the backdrop of devastating flood. During first half of the current fiscal year, import of food grains rose dramatically in view of wide-spread losses to Aus and Aman. Last year private sector imports of food grains stood at 1.149 million M.T. During the current fiscal year, private sector import of food grains has increased so far to 3.055 million M.T. The target of food import by the government from its own resources was 350 thousand M.T., this target was raised to 1 million M.T. in view of flood. However, actual government imports so far stand at 756 thousand M.T. According to estimates of Bangladesh bank, total bill for additional food import in the current year is about \$733 million. Because of the pressure on the reserve situation, the government took loans of \$138 million from the IMF and \$200 million from IDA for emergency imports.

11. The growth of exports from Bangladesh decelerated in view of flood and unfavourable international economic climate. During first ten months of the current fiscal year, exports increased in dollar terms by 2.99 percent in comparison to total exports in the corresponding period last year. It is expected that exports will pick up during remaining two months of the current fiscal year. The growth rate of export from Bangladesh is slightly higher than that (2.2%) of developing countries. Exports of manufactured goods suffered because of flood. Furthermore, the price of primary exports plummeted. The price of raw jute fell by 34.06 percent; leather by 38 percent; tea by 2.84 percent and frozen shrimp by 13.74 percent. On the contrary, imports during the first seven months registered a

Continued on page 6

To mobilize additional resources it is necessary to widen the tax base and increase the number of taxpayers. In order to do that I would like to propose: Introduction of "spot assessment" system. Under this system Deputy Commissioner of Taxes will identify new assesses from various commercial areas within their jurisdiction. If the persons having income only from business or profession agree to pay the amount of tax as determined by the tax officials then the Deputy Commissioner of Taxes will collect tax instantly and the assessment of such persons will be deemed to have been completed. Subsequently new file will be opened in the name of the concerned persons allotting tax payer's identification number (TIN).