

## Budget text

## Full Text of Finance Minister's Budget Speech

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growth of 7.7 percent compared to the corresponding period last year.

12. Bangladesh Bank has pursued a realistic and flexible exchange rate policy with a view to maintaining export competitiveness and to consolidating the value of the Taka. For a long time, the exchange rate is determined on the basis of real effective exchange rate as calculated on the basis of daily data. So far Taka has been devalued in dollar terms by 4.54 percent in the current year. The rate of devaluation during 1996-97 and 1997-98 was respectively 4.35 and 5.7 percent. It may be mentioned here that neighbouring countries in South Asia also experienced similar devaluation. Because of proper management of exchange rate, remittances from expatriate citizens increased. Total remittances from the nationals abroad in last fiscal year stood at \$1.433 billion. During first nine months of current fiscal year, total remittances have been estimated at \$1.242 billion which is 8.52 percent higher than remittance in the corresponding period last year. According to estimates of Bangladesh Bank, direct foreign investment in Bangladesh during first six months of current fiscal year went up by 46 percent compared to corresponding period last year.

Mr. Speaker,

13. I have so far reviewed the recent trends in the economy of Bangladesh. From the above analysis, it appears that we have succeeded in absorbing the shocks of 1998 flood ravages without disturbing macroeconomic stability owing to restrained and carefully planned management of the economy. Now we will have to look forward to the future and face courageously the challenges of the twenty first century. Rapid technological change and globalization of economic system have triggered complex transformation in political and economic life. But all changes are not conducive to developing countries. So we must not be swept away by changes. On the other hand, it is not possible to resist many changes. It is, therefore, counterproductive to attempt to stall such changes. We will, therefore, have to establish our control and direction over the scope and speed of the process of change and reform. The distinguished philosopher Alfred North Whitehead rightly observed: "the art of progress is to preserve order amid change and to preserve change amid order".

14. From the demographic point of view, Bangladesh is the ninth largest country in the world. Neither natural resource nor financial capital is her greatest asset. It is the people who constitutes the most precious resource. The development of human resources is the key to economic development in Bangladesh. The real difference between developing and

**Reduction of tax rates is not enough to induce tax payers to pay more taxes voluntarily. It is also essential to simplify tax payment procedures. With this end in view, it is proposed to accept the evidence of submission of return under the self assessment scheme as the final disposal of such cases. But the condition of equivalent amount of income shall apply to the previous source of income only.**

developed countries lies not in the volume of capital but in the knowledge gap. No nation can compete in the world today without appropriate education. The extension of education and health services not only benefits the recipients but also creates a productive environment in the society as a whole. Since its assumption of office, the present government has given highest priority to education. The present government has mobilized all possible resources to implement Sheikh Hasina's epochal declaration to banish illiteracy from the country. We are, however, conscious of the fact that quantitative expansion of education is not sufficient, qualitative standard of education has to be upgraded. In pursuance of Bangladesh Awami League's election manifesto, a new education policy has been formulated in the light of the report of Qudrat-e-Khuda Commission. The new education policy will be implemented in phases taking into account the financial limitations of the government. The management in the education sector will be radically restructured with a view to implementing new education policy. A five year Health and Population Sector Programme at a cost of Tk. 14 thousand crore has been launched with the assistance of development partners. The government, after assumption of office, has approved new health policy. This policy will also be implemented in phases. However, the demands in the health and education sector are so enormous that the government alone cannot meet all the requirements. Measures have already been undertaken to involve the private sector and civil society in human resource development.

Mr. Speaker,

15. The inward-oriented policies have become anachronistic in the context of the globalised world today. By pursuing outward-oriented policies we will have to encourage our exporters to create market for their products on the basis of competition. Meanwhile, trade has been liberalized in phases. Because of weaknesses in infrastructure and procedural complexities, there are still many impediments to exports. Considering these problems, the existing financial incentive for using domestic raw materials in ready made garments will

continue. The special assistance on manufactured jute goods at the rate of ten percent will be extended to current fiscal year. Considering the importance of leather industry in national economy and the potentialities of this sector, I propose to provide ten percent ad valorem assistance to selected finished leather products including shoes and handbags. Similar facility will be extended to quilts made with domestic materials. I also propose to provide similar assistance to exporters of fresh and artificial flowers. I propose to allocate a sum of Tk. 561 crore for subsidy and financial assistance to exports in FY 1999-2000. Furthermore, an export diversification project has been undertaken with the assistance of World Bank and DFID. Under the project, the exporters of non-traditional products may be given assistance up to fifty percent of the costs for promoting the market for their products. The total outlay of this project, which will be implemented in next three years, is

**To streamline tax collection system it is proposed to withdraw Electricity duty and replace it by Value Added Tax.**



Prime Minister Sheikh Hasina and Finance Minister Shah A M S Kibria inside the House. — Star photo

Tk. 223 crore. We hope that export sector will experience new dynamism in view of the facilities given by the government.

Mr. Speaker,

16. Private sector has been identified as the engine of growth in the Fifth Five Year Plan approved by the government. According to projections of the Planning Commission, 56 percent of investment during the Fifth Plan period will originate in the private sector. The rapid privatization of state owned enterprises is an essential condition for promoting private sector investment. The privatization process in Bangladesh will have to be speeded up not only for encouraging new investors but also for reducing the liabilities and financial losses of the government. An analysis of revised budget of statutory public authorities excluding financial institutions indicate that in FY 1998-99 seventeen statutory public authorities incurred losses to the tune of Tk. 1345.3 crore and 21 authorities earned Tk. 482.6 crore. In order to reduce the burden of accumulated losses stemming from mismanagement, it is essential to accelerate the process of privatization. The Government has advanced Tk. 114 crore as loan for paying the dues of workers of three textile mills and Chittagong Steel Mill which are proposed to be closed. A new draft law has already been prepared to strengthen Privatization Board. The procedures for privatization have been simplified in the light of last few years' experience and a procedure for separate sale of excess land owned by the enterprises has been introduced. The overdue loans of banks are mounting owing to losses incurred by state-owned enterprises. The Government will have to accept these liabilities ultimately. A phased programme is being drawn to repay the overdue loans of state owned enterprises. As a first step, I propose to earmark Tk. 150 crore in FY 1999-2000 budget for repayment of overdue loans of banks. Furthermore, Bangladesh Jute Mills Corporation is facing an acute financial crisis in view of its accumulated losses. I, therefore, propose to provide a loan of Tk. 100 crore to Bangladesh Jute Mills Corporation for purchase of jute.

17. The acceleration of private investment is one of the objectives of the government. We have noticed that since the assumption of office by the present government, direct foreign investment in Bangladesh has increased significantly. From a report of the World Bank it appears that FDI in 1994-95 stood at \$83 million. It increased to \$297 million in 1995-96. This is projected to reach \$807 million in 1998-99. 65 percent of this investment will be confined to infrastructure sector, 35 percent will be invested in other sectors. From a survey of Finance Division, it appears that domestic investment in industrial sector has been rising during last two years. In 1996, banks and financial institutions disbursed long term loans for new industries to the tune of Tk. 797.5 crore. The similar figure for 1997 was Tk. 1029.7 crore; in 1998, Tk. 1144 crore. However,

disbursement of industrial credit from specialized banks is not satisfactory because of the accumulated bad debts of the past. It is not possible for commercial banks to provide on a large scale long-term credit from short-term deposits. In order to encourage investment in the industrial sector, three special measures have been undertaken. First, Agrani bank has been permitted to float a govt. guaranteed bond of Tk. 500 crore to mobilize resources for industrial investment. Second, Sonali bank will sell government guaranteed bonds to the tune of \$100 million to expatriate Bangladeshis. The proceeds of the bonds will be invested in industrial undertakings under the overall supervision of Bangladesh Bank. They will not be confined to nationalized commercial banks alone but other eligible banks and financial institutions will also be allowed to participate in this programme. If this experiment of long term credit through bond turns out to be successful, initiatives will be taken for selling more bonds. Thirdly, a project for the development of financial institutions at a cost \$46 million has been undertaken with the assistance of the World Bank. This project will provide \$40 million for investment in industrial undertakings through financial institutions. Furthermore, initiatives have already been taken for resolving the problems of sick industries. A special committee set up as per the decision announced in the budget for FY 1998-99 has already settled about 400 cases of sick industries and recommended for the remission of interest to the tune of Tk. 150 crore. The term of the committee will be extended for a year and all the pending applications of sick industries are expected to be disposed of by 30<sup>th</sup> June, 2000.

Mr. Speaker,

18. An efficient intermediation system for converting savings into investment is an essential prerequisite for private sector development. Unfortunately, unacceptable levels of classified loans have crippled banks and financial institutions in Bangladesh. Because of high percentage of defaults, banks charge high interest rate. This discourages investment in the country in general and new investors in particular. Loan defaults have created an environment of mistrust in the financial sector. However, default culture was not created in a day. We have inherited this problem from previous governments. What Justice Earl Warren said about crime is equally applicable about default loans: "the crime problem is in part an overdue debt that the country must pay for ignoring for decades the conditions that breed lawlessness". If the previous governments had taken action against defaults in time, this problem would not have arisen at all. The real story behind origins of the default culture is not unknown to the nation. This originated during the martial law period. The military dictators sanctioned loans indiscriminately with a view to luring new supporters. The whole nation is now required to compensate for these misdeeds. However, bank management is also partly responsible for this. This is why, the present government since its assumption of office has pursued a deliberately cautious policy in sanctioning term loans. According to an estimate of Bangladesh Bank, the percentage of classified loans in total term loans sanctioned since 1996 is about 9 percent whereas the similar ratio for loans sanctioned before 1996 is as high as 40 percent. This clearly indicates that reforms initiated by the government in economic and banking sectors are yielding positive results. With a view to taking effective actions against loan defaulters, Money Loan Court Act has been amended and the Bankruptcy Act has been enacted. Five new exclusive courts have been set up to try cases regarding money loan and bankruptcy in Dhaka and Chittagong metropolitan areas. A high-level task force has been set up in each nationalized commercial bank and Bangladesh Bank to monitor classified loan. Laws relating to loan defaults have been examined and new amendments to these laws will be proposed shortly. The deposit insurance system is being streamlined. Bangladesh Bank has been given more powers for effective supervision of banks. Bangladesh Bank will be reorganized as an effective and strong institution with a view to restoring discipline in the financial sector.

19. Parallel to financial sector reforms, capital market needs to be consolidated. All transactions in both the stock exchanges of the country have been computerized. A law has been enacted for establishing a central depository system. It is expected that the central depository will start functioning soon. The Trust Act will be amended shortly to permit investment of different types of funds in the capital market. The strengthening of the regulatory authority will boost the confidence of the investors in the capital market.

Mr. Speaker,

20. The most difficult and complex task confronting Bangladesh Government in the twenty first century is poverty alleviation. The recent surveys on poverty indicate that about half of the population is still below poverty line. However, the most encouraging fact is that the percentage of the poor is declining. According to a recent survey of Bangladesh Bureau I propose four slabs of duty rate 5, 15, 25 and 37.5 per cent instead of the existing five duty slabs of 7.5, 15, 25, 30 and 40 per cent. The government may suffer revenue loss for this but people will benefit from the reduced import cost of commodities under 2320 different H S Codes.

of Statistics, the percentage of the poor in rural areas declined from 47.9 percent in April 1996 to 47.6 percent in April 1998; in urban areas from 44.4 to 44.3 percent. The per capita calorie intake in both rural and urban areas has increased in recent years. During the period December 1995 to April 1998, per capita calorie intake has increased from 1885 kilo calorie to 1953 kilo calorie in rural areas; in urban areas from 1895 kilo calorie to 1959 kilo calorie. Despite encouraging trends in certain areas, the percentage of poor in Bangladesh is not at all acceptable.

21. The poor may be apparently similar, but the nature of poverty varies from group to group. There is no single prescription for poverty. The exact solution of poverty depends on its nature. An important strategy of the government in poverty alleviation is not to follow a uniform policy for all poor but to adopt separate programmes for different target groups. Obviously, human resource development is a precondition for poverty alleviation. However, the benefits of human resource development is primarily confined to moderate poor; the ultrapoor may not benefit from such programmes. The ultrapoor cannot participate in the mainstream of economic life without direct assistance from the Government. This is why direct food aid is distributed to the distressed through V.G.D. V.G.F. Food for Works and Test Relief. Since FY 1997-98, pension for the poor senior citizens have been introduced. This programme benefits about 403 thousand distressed people. Surveys indicate that widows and deserted wives constitute a significant portion of the ultrapoor. There is no separate programme for this group. Under instructions from Prime Minister Sheikh Hasina, who is a sincere champion of the destitute, it has been decided to launch a new programme for the distressed widows and deserted wives. I propose to allocate a sum of Tk. 25 crore for this programme in the budget for FY 1999-2000. In pursuit of poverty alleviation, such programmes of direct assistance will be consolidated and expanded.

22. Providing food alone is not sufficient for the poor. There is also an acute shortage of shelters for the poor. Unfortunately, the housing problem of the poor was totally ignored before the

**In order to remove harassment of tax payers, it is proposed that if an owner of a house/apartment pays taxes on his investment at a fixed rate on the basis of measurement, then no question will be asked about source.**

assumption of office by the present government. A project named "Asrayan" has been undertaken on the personal initiative of Prime Minister Sheikh Hasina. Fifty thousand homeless families will be provided accommodation under this project. Furthermore, micro-credit and training will be provided for creating employment for the beneficiary-families. In accordance with the decision announced in the budget of 1997-98, Housing Fund has already been established. The government has already sanctioned Tk. 58 crore as grant for this fund. The Housing Fund has already disbursed Tk. 19 crore for concessional loan for house building for the poor and proposals for further sanction of Tk. 21 crore are under process. It is expected that about twenty thousand houses for the poor will be constructed with grants and loans from Housing Fund within one year. I propose to allocate Tk. 15 crore for Housing Fund in the budget for FY 1999-2000. Furthermore, the Government departments have undertaken ambitious programmes for micro-credits. Twelve ministries administer micro-credit programmes. So far Tk. 2035 crore has been disbursed in these programmes. The rate of recovery is about 96 percent. These programmes primarily cater to the needs of the ultrapoor in the rural areas. They are not suitable for the educated youth who are now jobless and are likely to swell the ranks of the ultrapoor. This is why 'Karma Sangsthan Bank' (Employment Bank) has been established as a statutory public authority with a paid up capital of Tk. 75 crore from the Government. Branches of this bank have already been established in all divisional headquarters. A programme has been drawn up to set up branches of 'Karma Sangsthan Bank' in all district headquarters. Furthermore, the concerned ministries are expanding their programmes for the youth and women.

23. The Government alone cannot solve the complex problems of poverty. The present government therefore welcomes the initiatives of NGOs and civil society in alleviation of poverty. The government has already established 'Palli Karma Shahayak Foundation' with a view to assisting primarily small NGOs. A survey of the World Bank indicates that NGOs have distributed micro-credit to about 8 million people. Micro-credit not only generates employment but also contributes to empowerment of women. Though micro-credit programmes have turned out to be successful, there are some weaknesses in the NGOs as financial institutions. The monitoring of the financial performance of these institutions will have to be intensified for removing these weaknesses. The standard and procedure for such monitoring will be prescribed in consultation with Bangladesh Bank and NGOs.

Mr. Speaker,

24. Neither economic development nor poverty alleviation is feasible in the absence of good governance. The distinguished sociologist Anthony Giddens rightly observed that "democratization of democracy" is a precondition for good

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