

THE BUDGET 2000-01 Full text of Finance Minister's speech

Continued from page 5
poverty in Bangladesh.

Mr. Speaker,

18. Economic growth without social justice has no fruit and social justice without economic growth has no root. Therefore, the present Government has initiated wide ranging activities for economic reform simultaneously with expansion of social safety net. For the first time in the history of Bangladesh the present Government has opened up telecommunications, power and physical infrastructure sectors to private investment, especially foreign investment. It may be mentioned here that due to policies pursued by the previous Government aimed at serving party interests, the price of a cellular telephone was over Taka 1 lac; but this has now come down to less than Taka 10,000 as a result of the liberal and welfare oriented policies of the present Government. In 1995-96, foreign investment in physical infrastructure amounted to US\$ 286 million which jumped to US\$ 748 million in 1998-99. Financial sector reforms have been accelerated. The present Government has largely established discipline in the banking sector burdened with huge classified loans of the past. The supervision of Bangladesh Bank over the banking sector has been intensified and strengthened and all out efforts are now in place to eradicate corruption, irregularities and political interference in this sector. Bankruptcy Act has been put in place and separate Money Loan Courts and Bankruptcy Courts have been set up in Dhaka and Chittagong. Steps have been taken to gradually strengthen the Bangladesh Bank by amending Bangladesh Bank Order and Banking Companies Act. Capital Market Development Programme will be shortly completed with the assistance of the Asian Development Bank. Proposals for amending four laws in this regard have been placed before this august House. Moreover, a law has been enacted to establish a Central Depository System and implementation of this system is now at its final stage. A project has been taken up for reforms of the judicial system. The Administrative Reforms Commission will soon submit their report. Furthermore, local government system has been reorganised for "democratisation of democracy" on the basis of the report of the Local Government Commission. Meanwhile, laws relating to Union Parishad have been amended and the newly elected Union Parishads have assumed their offices. Law relating to Upazila Parishad was enacted in 1998. Law pertaining to Zila parishad has meanwhile been placed before this august House. The laws relating to Municipalities and City Corporations have already been amended and elections to Municipalities and Chittagong City Corporation have been successfully completed.

Mr. Speaker,

19. An American statesman rightly said: "An idealist believes the short run does not count. A cynic believes the long run does not matter. A realist believes that what is done or left undone in the short run determines the long run". Whatever have been done or left undone in the field of reforms are both important for the economy. The dividends of implemented reforms have already been received. For example, there has been remarkable increase in foreign investment as a result of reforms in telecommunications, power and gas sectors. Financial sector reforms have generated irresistible public opinion against the loan default culture. The percentage of classified loans in private sector banks stood at 39.5 percent in 1995. It has declined to 26.5 percent in 1999. Furthermore, the assumption of liabilities of state-owned enterprises by the Government will significantly reduce the percentage of classified loan in nationalised commercial banks. The collaborative efforts of the Government and Bangladesh Bank for reducing classified loan will continue. On the contrary, where reforms could not be implemented, the problems became more complex. For example, the experience of the state owned enterprises may be recounted in this connection. Excluding financial institutions, losses of state owned enterprises in the current year have been provisionally estimated at around Taka 3100 crore. The loss of Bangladesh Petroleum Corporation alone amounted to around Taka 1633 crore owing to non-adjustment of local price of petroleum in line with international prices. An analysis of the reasons for loss of other state owned enterprises indicates that the reform initiatives of the previous Government were defective. In fact, reform initiatives of the previous Governments were based on abstract ideas ignoring socio-economic realities of the country. We have reached the conclusion from our experience over the last four years that in order to "globalise" our economy successfully, we will have to "indigenize" our reform process. For example, strategy for privatization by the present Government has undergone significant changes owing to "indigenization" of policies in this area. Previously, industries which were in operation were privatized. This was detrimental to the interests of labour and consequently labour unrest impeded the process of privatization. Three new policies have been initiated in respect of privatization. First, the workers of the industries identified for privatization are paid their dues before the transfer of the undertaking. Second, where possible, the feasibility of transferring ownership to the workers is considered. Finally, where surplus land is available, such lands are sold separately. I am confident that new policies of privatization would accelerate the process of privatization and contribute to reduction of losses in state-owned enterprises.

Mr. Speaker,

20. The skill of the present Government under the dynamic and bold leadership of Prime Minister Sheikh Hasina in handling the challenges of relief and rehabilitation during the devastating flood in 1998 has been lauded both at home and abroad as a remarkable instance of success. I would like to remind this august House that despite flood losses to the tune of 6 percent of GDP resulting from 1998 flood, we had succeeded in largely tiding over the adverse effect of flood on the agriculture sector in the FY 1998-99. Because of uncertainties in export market resulting from flood and the delay in repairing the infrastructure, flood losses were more prolonged in nonagricultural sectors. Particularly growth in industrial sector in FY 1999-2000 will be less than that of 1997-98. Industrial production grew by 8.54 percent in FY 1997-98. Because of floods it plummeted to 3.19 percent in FY 1998-99. Industrial

growth rebounded to 5.5 percent in first seven months in FY 1999-2000. The growth rate of industrial sector in the same period in 1998-99 was only 2.3 percent. With a view to analysing the economic performance in FY 1999-2000, I would like to recount the main trends of money supply and external balance.

21. A moderately expansionary monetary policy has been pursued during last two years with a view to counteracting the recession in some sectors resulting from the flood. During the first nine months of FY 1999-2000, broad money grew by 13.4 percent, the corresponding growth in the previous year was 7.5



President Justice Shahabuddin Ahmed authenticating the proposed budget for the fiscal 2000-01. — PID photo

percent. Cash Reserve Requirement (CRR) of the commercial banks was reduced from 5 to 4 percent. In order to encourage adequate flow of credit, the bank rate of the central bank was reduced from 8 to 7 percent. As a result, domestic credit increased significantly. In March, 1999 domestic credit grew by 13.8 percent compared to the same period in the previous year and private sector credit grew by 11.5 percent. Domestic credit in the corresponding period of last year grew by 10.5 percent. However, the expansionary monetary policy had no discernible impact on the rate of inflation. There has been secular decline in the rate of inflation during last ten months. The rate of inflation at the moment is very satisfactory.

Mr. Speaker,

22. Exports were hit worst by flood in 1998. In FY 1996-97, export grew by 14 percent; in FY 1997-98, by 16.83 percent. Export growth in FY 1998-99 shrank to 2.9 percent in the wake of flood. In the first nine months of the current fiscal year, export growth increased to 8.4 percent. This growth rate is expected to accelerate in the last quarter of the fiscal year. Exports of frozen food, raw jute, readymade garments, leather and chemicals have increased. However export of tea and jute goods declined in the current fiscal year. The net disbursement of foreign aid in the first seven months of the current fiscal year is US\$ 830 million compared to US\$ 770 million in the corresponding period of last fiscal year. According to estimates of Bangladesh Bank, imports grew by 2.5 percent during the period July-January in FY 1999-2000 compared to corresponding period in last fiscal year.

23. The Government is pursuing a two-fold strategy for encouragement of exports. First, Bangladesh Bank determines the exchange rate on the basis of real effective rate of exchange, calculated on daily basis with a view to protecting the competitiveness of Bangladeshi exports. The exchange rate vis-a-vis the US dollar was changed twice so far in the current fiscal year. Taka was devalued by 4.9 percent against US dollar and by 3.22 percent against pound sterling during the current fiscal year. This has stimulated exports and encouraged remittance by expatriate citizens. During the period July-April in FY 1998-99, remittance stood at US\$ 1380 million. The corresponding figure in the current fiscal year is US\$ 1558 million. Remittances by expatriate citizens during this period grew by 12.8 percent. Secondly, subsidy and other assistance have been given to selected export items. In FY 1999-2000, a sum of Taka 631 crore was allocated for different types of assistance and subsidy for readymade garments, manufactured leather products and jute goods, artificial flower, quilt etc. Similar facilities will continue in FY 2000-2001. I propose to allocate Taka 632 crore in FY 2000-2001 for such facilities.

Mr. Speaker,

24. A review of economic activities of last four years clearly suggests that high growth rate in a stable macroeconomic framework has been achieved. Particularly, we have unlocked the immense potentialities of the agriculture sector. A social safety-network has been institutionalised for the first time in the history of Bangladesh. However, we must not be complacent about the past, we must prepare ourselves for the new challenges of the future. The distinguished American industrialist Henry Ford rightly said, "Anyone keeps learning stays young, the greatest thing in life is to keep your mind young". We must consolidate in areas where we have already succeeded. Simultaneously, we must take initiatives in areas where measures are necessary. Before discussing the budget, I would like to discuss a few new initiatives of the Government.

25. In different phases of human history, natural resource and physical capital were the engines of growth. Knowledge is the determinant of growth in the 21st century. A new horizon for development has been opened for countries deficient in natural resources and physical capital. However, the benefits of knowledge-based growth will not automatically accrue to developing countries like Bangladesh. We must take concrete measures for ensuring transition to knowledge-based economy. With this end in view, we have taken few significant measures for promotion of information technology. In FY 1998-99, all customs duty and taxes on computer and spare parts exclusively used in computers were withdrawn. Necessary telecommunication facilities were offered for the development

of software industry. However, the benefits of these measures are yet to materialise fully. One major obstacle to development of information technology is that we do not have adequate training facilities to create well-qualified programmers. In the budget for FY 2000-2001, I propose to make a lump allocation of Taka 15 crore with a view to encouraging additional facilities for training programmers of international standard. Educational institutions or training institutions in both public and private sectors are eligible for such assistance. A special committee will scrutinize the applications for grants. If necessary, additional allocation for this purpose will be considered in the future.

In the revised budget of FY 1999-2000, the allocation for oil, gas and natural resources sector was Taka 609 crore. This allocation has been proposed to be raised to Taka 655 crore in the budget for FY 2000-2001.

Mr. Speaker,

26. On the face of it, investment in industrial sector in Bangladesh is highly satisfactory. According to estimates of Bangladesh Bank, total disbursement of industrial credit in first six months of FY 1999-2000 is about Taka 5856 crore which is 38.8 percent higher than that of the corresponding period of the previous year. Taka 5158.7 crore was disbursed for working capital and Taka 697.4 crore as term-lending - which grew respectively by 42.7 percent and 15.4 percent over the corresponding period in last fiscal year. Latest statistics indicate that total disbursement of industrial loan during first nine months (July-March) of the current fiscal year stands at Taka 8,508 crore of which Taka 1,158 crore was provided as term loan. The main problem of industrial investment is not the quantity. The main deficiency is the concentration of industrial investment in a few sectors. Particularly, investment in two promising sectors is not at all satisfactory; these two sectors are software and agro-processing and food industry. One reason is that these sectors are still considered to be risky. With a view to promoting investment in these two sectors, I propose to allocate Taka 100 crore for establishing an Equity Development Fund in the Bangladesh Bank. This fund will be managed by the Board of Directors of Bangladesh Bank under the stewardship of its Governor. This fund will invest in financially viable software, food processing and agro-processing industries. However, the maximum investment from this fund will be limited to 25 percent of the equity. Hopefully, this measure will contribute to new investment in these sectors.

27. The efficacy of state owned banks has been circumscribed by bad and substandard loans resulting from mismanagement in the past. On the one hand, the taxpayers have to bear the burden of the deadweight of the losses of these institutions; on the other hand, the borrowers have to pay interest in excess of what would have been the equilibrium rate. In order to tide over the crisis of state-owned enterprises, the Government has decided to pay up the debts of state-owned enterprises which have already been laid off. I propose to issue interest earning bonds to the tune of Taka 1800 crore to the nationalized commercial banks. Considering this financial package into account, the nationalized banks have decided to reduce interest in those thrust sectors where investment is limited. They have also decided to introduce rebates ranging from 5 to 10 percent for borrowers for timely repayment of loans. The details of such measures will be announced by each nationalized bank separately.

Mr. Speaker,

28. Jibananda Das, the poet, once proudly wrote, "I have witnessed the charm of Bengal; I do not, therefore, wander through the world in search of natural beauty". The beautiful Bengal of Jibananda with its blue shade of Hijal, Banyan and Tamal trees has faded away; a large number of species of birds, animals, trees and flowers has disappeared. Environmental degradation has not only dimmed the natural beauty of this country, it has also posed a serious threat to life of its citizens. Particularly, environment pollution problem in urban areas has become all the more acute. The stark realities of environmental pollution in Dhaka reminds one of the dire predictions of an ecologist: "Should we allow environmental deterioration to continue, man's fate may be worse than extinction". This problem has been compounded by poverty. The harmful wastes originating from slums with subhuman conditions have got enmeshed with mechanical pollution. The Government has already undertaken a number of measures for mitigation of pollution. This complex problem cannot, however, be solved by the Government alone; the civil society and people of all walks of life must come forward to solve this problem. The problem is not one of lack of financial or technical resources. There is an acute dearth of appropriate institutions. In many cases, small pilot projects will have to be undertaken to identify appropriate solutions. With a view to encouraging innovative projects for resettlement of the inhabitants in backward zones of urban areas, I propose to earmark an allocation of Taka 15 crore in the budget for FY 2000-2001. Special grants will be given from this allocation to appropriate government and non-government agencies for undertaking innovative projects for slum rehabilitation and protection of environment in the urban areas.

Mr. Speaker,

29. I would like to present now the salient features of the

revised budget for FY 1999-2000. Total revenue in this fiscal year was originally estimated at Taka 24,151 crore of which the target for taxes administered by National Board of Revenue was Taka 17,500 crore and the target for other taxes and non-tax sources was fixed at Taka 6,651 crore. Owing to the delay in implementing compulsory pre-shipment inspection, sluggish growth in imports and industrial sector and lower than expected inflation, the target for NBR has been refixed at Taka 16,000 crore. The state-owned enterprises will not succeed in achieving their targets because of non-adjustment of administered prices despite price hike in the international market and decline in productivity. The target for miscellaneous taxes and non-tax revenue has been refixed at Taka 5,345 crore. There will, therefore, be a shortfall of Taka 2,806 crore in revenue receipts. It may be mentioned that similar shortfall in revenue receipts was also evident in other South Asian countries. There was a shortfall of four percent in revenue receipts in India in FY 1999-2000.

30. Expenditure on account of interest increased from Taka 2,805 crore in the original budget to Taka 3,554 crore in the revised budget owing to increased borrowing from banking system and devaluation of taka. Despite austerity in other areas, the estimates for revenue budget had to be refixed at Taka 18,444 crore to provide for additional expenditure on account of interest. The total outlay for Annual Development Programme has been raised from Taka 15,500 crore to Taka 16,500 crore to complete the rehabilitation of infrastructure damaged by flood. Despite an increase in foreign aid, these revisions will cause, in the revised budget, a deficit of Taka 3,934 crore which will have to be financed through borrowing from the banking system. The fiscal deficit in the budget for FY 1998-99 was estimated at 5.3 percent of the GDP (on the basis of new GDP estimates), it is estimated to edge up to about 5.8 percent of the GDP in the revised budget for FY 1999-2000. It may be mentioned here that the fiscal deficit in India (on the basis of combined deficit of the central and state governments) varied between 6.2 percent and 10 percent of GDP during the period 1994-95 to 1999-2000. Despite such deficits, India succeeded in attaining growth in a stable macro framework. In the 1990s, budget deficit in Italy was around 10 percent of GDP. In Japan it now stands at about 8 percent of GDP.

31. The experience of financial management in Bangladesh during last two years suggests that harmful effects of bank borrowing are limited. There is no direct correlation between government borrowing and inflation in Bangladesh. On the contrary, inflation rate in Bangladesh has been continuously falling during last ten months despite a surge in government borrowing. Secondly, as yet there has been no crowding out of private sector credit owing to expansion of government credit. In mid-April, commercial banks in Bangladesh had excess liquidity to the tune of 6.3 percent of their deposits despite an increase in government borrowing. Furthermore, credit to private sector increased by 11.5 percent during first nine months of the fiscal year. Thirdly, as the distinguished economist Robert Eisner rightly pointed out, the manner in which Government uses its borrowing determines whether it could be harmful or beneficial. If borrowed money is invested in economically sound projects, benefits are likely to outweigh the costs. As the bank borrowing is used for financing Annual Development Programme, such borrowing is likely to be conducive to growth in Bangladesh. Commenting on budget deficit, the Economist (May 20-26, 2000) in a recent report rightly pointed out, "Sometimes it should be boosting public investment instead. If a budget surplus is achieved by starving, say, education or public infrastructure of funds, this would actually reduce future growth".

Mr. Speaker,

32. Total revenue receipts for FY 2000-2001 have been estimated at Taka 24,198 crore. This target is 13.3 percent higher than that of the revised budget for the current year. Total revenue expenditure for FY 2000-2001 has been estimated at Taka 19,633 crore. This is 6.4 percent higher than the revised estimates. The main reason for this increase in revenue expenditure is the increase of interest cost on domestic and foreign loans. The allocation for interest in the revised budget of FY 1999-2000 is Taka 3,554 crore and Taka 3,748 crore in the budget for FY 2000-2001. If additional expenditure on account of increase in interest are excluded, the revised revenue budget, compared to original budget, would have decreased by 105 crore and revenue expenditure in FY 2000-2001 would have increased by only 5 percent. It may be recalled here that the distinction between revenue and development budget is gradually becoming blurred. First, the Government has to borrow for financing development projects. However, the interest on borrowing, which now stands at about 19 percent of revenue budget, has to be provided from revenue budget itself. This contributes to gradual increase in the size of the revenue budget. Expenditure in all social sectors is also gradually increasing. There is no qualitative difference between allocations for social sectors in revenue and development budgets. In 1990-91, the share of social sectors in revenue budget was 13 percent. In FY 2000-2001 the share of social sectors such as education, health, etc. stands at about 24 percent. Furthermore, staff of completed projects have to be transferred to revenue budget. The allocations for maintenance of the completed development projects are also going up in the revenue budget. At least 50 percent of revenue expenditure directly originate from development expenditure. The artificial distinction between development and revenue budget is gradually disappearing and in the near future two budgets will have to be integrated to ensure efficient utilization of resources. It may be recalled here that development partners in the last Bangladesh Development Forum held in Paris recommended the elimination of artificial demarcation between revenue and development budgets.

33. Taking into account the needs of development, the Annual Development Programme (ADP) for FY 2000-2001 has been fixed at Taka 17,500 crore. The size of the ADP is 13 percent higher compared to ADP for FY 1999-2000. About 50.2 percent of the resources will be provided by domestic sources and 49.8 percent from foreign sources. However, domestic resources for ADP cannot be provided from revenue surplus alone. In FY 2000-2001 also, bank borrowing to the tune of Taka 3,514 crore will be necessary for financing the proposed ADP. However, the overall fiscal deficit would stand at about 5.9 percent of GDP.

Continued on page 7