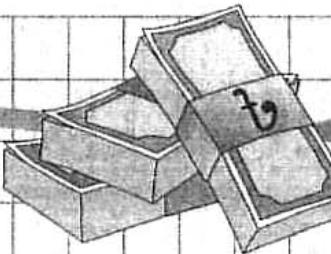


BUDGET 2007 - 2008



12 DHAKA FRIDAY JUNE 8, 2007

Text of FINANCE ADVISER'S speech

The Daily Star

Bismillahir Rahmanir Rahim

Fellow Citizens

Assalam-O-Alaikum

1. At this critical juncture in the history of Bangladesh, I appear before you as Advisor for Finance of the Non-party Caretaker Government in order to present the supplementary budget for FY 2006-07 and the budget proposals for FY 2007-08.

2. You are well aware of the circumstances under which the present Caretaker Government assumed the responsibility of running the administration of the country on 11 January 2007. Since then our patriotic armed forces and other law enforcing agencies, supported by all sections of population have achieved remarkable progress in improving law and order situation and in anti-corruption drive. However, we have to confront manifold challenges. I would like to focus on the economic front where the challenges include maintaining macroeconomic stability, accelerating economic growth, keeping inflation within tolerable limits, removing constraints to private sector-led growth, reduction of poverty, ensuring regional and income equity and ensuring food security.

Economic Scenario

Global Perspective

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3. Never was Bangladesh's economy as closely integrated with the global economy as it is now. This integration is becoming deeper with the passage of time. Therefore, our overall development strategy should be formulated bearing in mind any possible direct or indirect external shocks.

4. Despite oil price hike, the world economy posted 5.4 percent growth in 2006. The forecast is that there will be slight deceleration to 4.9 percent in 2007 and 2008. Accelerated economic growth in China and India and increased domestic demand in several low income countries have propelled this growth.

5. At the same time, South Asian countries are facing inflationary pressures due to oil price hike, increase in price of essential commodities including agricultural produce and higher domestic demand. In the second quarter of the current fiscal year, the inflation rates in India, Pakistan and Sri Lanka were 6.9 percent, 8.1 percent and 19.3 percent respectively. In this context, 6.9 percent inflation in Bangladesh is not abnormal.

Country Perspective

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6. We already lost three valuable months from our economic calendar due to chaotic political conditions in the country. The price of essential imported commodities, including oil, has gone up in the international market. Despite all these negative factors, the resilience of the economy remained intact.

7. Propelled by higher growth in industrial and service sectors, albeit with sluggish growth in agriculture, the overall economic growth in FY 2006-07 has been estimated at 6.5 percent. This trend in growth is expected to be maintained in medium term due to ongoing implementation of economic reform programmes. The growth rate for FY 2007-08 has been projected at 7 percent.

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8. Over the past few years there has been persistent price hike of a number of essential commodities which caused higher inflation. In March 2007, the average inflation stood at 6.9 percent and, on a point to point basis, at 7.4 percent. We are well aware of the impact of inflation that you are persistently experiencing. Since supply of most of these commodities is import-dependent and the price of such commodities soared up international market, the Government could not put a rein on the price rise despite its best efforts. However, we are continuing our sincere endeavour to contain the trend.

9. Concerns have been expressed from some quarters about the possible aggravation in price situation arising from the recent increase of diesel price by 21 percent. However, the weight of sectors affected by diesel including transportation, in our commodity basket is low. It is, therefore, expected that average inflation will hover around 7 percent up to June 2007 and it will settle down to 6.5 percent in next fiscal year.

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10. We have to increase pro-poor development expenditure. In order to do so, there is no option other than to strengthen domestic resource mobilisation efforts. Our revenue to GDP ratio is low compared to most countries of the world; even lower than that of the other countries of South Asia. The ratio not only remained stagnant over the past few years, but it slid downwards, albeit by a few basis points. In recent times, budget deficit has been low, the implementation of the Annual Development Programme (ADP) fell short by about 20 percent due to inadequacy of resources and implementation capacity. Besides, the budgets suffered from lack of transparency due to large block allocations, regional allocation of resources was inequitable.

11. We have pursued a cautious and restrained monetary policy to contain excessive aggregate demand without compromising growth acceleration. The credit expansion to the private sector remains at a satisfactory level.

12. In order to maintain overall macroeconomic stability, avoid adverse impact on private sector and to keep accumulated debt burden at a sustainable level, borrowing from domestic sources including banking system over the last few years was kept in the region of 2 percent of GDP. Although mobilisation of internal and foreign resources could not reach desired levels, we are continuing our efforts to keep borrowing from domestic sources within the limit of 2 percent of GDP.

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13. In the current fiscal year, the performance of our external sector has been impressive. Driven by high export and remittance growth, the foreign exchange reserves has crossed US\$ 4 billion mark. Export and remittance grew by 20 percent and 26 percent respectively. It is expected that the export earnings during the current fiscal year will increase to US\$ 12.5 billion while the remittance flow is expected to reach US\$ 6 billion. Although import was slightly depressed in February, it has been increasing since March and it is expected that import will increase by 20 percent during the current fiscal year.

14. Let me mention here that 65 percent of our imports are investment-related commodities which play a positive role in accelerating economic growth. Exports of Bangladesh are still



PHOTO: PID
Finance Adviser Mirza Azizul Islam delivering budget speech yesterday.

dependent on Readymade (RMG) sector. We have to reduce such overwhelming dependence on RMG by adopting measures to diversify our exports.

Building a Favourable Macro-economic Environment

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15. Experience shows that competitive business environment and macroeconomic stability accelerate pro-poor growth. Macroeconomic stability requires a balance in external trade, a sustainable budget deficit and stable price-level. To ensure all these fundamentals, we need to adopt a prudent and a well-coordinated fiscal and monetary policy along with strong support from the external sector and the capital market.

16. In recent years, despite stable macro-economic environment, the private investment and FDI could not reach the expected level for a variety of reasons. Among these are:

- underdeveloped financial sector
- liquidity problems of the lending banks in the face of differential
- between international fuel price and administered price
- inadequate and irregular supply of electricity and gas
- the colossal loss of Power Development Board (PDB) due to sale of electricity at a rate lower than the production cost and the resultant problem in paying bills to private sector producers
- widespread irregularities and deterioration in law and order situation
- inordinately long turnaround time of ships in Chittagong and Mongla ports coupled with administrative weakness lack of capacity in handling large volumes of merchandise.

We are taking appropriate steps to remove these constraints through specific work-plans.

Governance and Reforms

Inflation

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17. Unbridled inflation not only hurts the people, it also undermines the economic stability and discourages investment. It deters growth and the poor are worst hit. Also it widens income inequality. We are endeavouring our best to rein inflation. Import duty of a number of essential commodities including rice and wheat, has been already withdrawn.

Bangladesh Bank has given directives to the commercial banks to provide credit facilities on softer terms to new importers. We are continuing our efforts to make the markets of agricultural products more competitive. The small number of wholesale markets in Dhaka is not conducive to smooth functioning of markets. The Government has, therefore, taken initiative to establish four whole-sale markets in the four corners of the city.

18. Currently, the National Task Force and the Task Forces at district and upazilla level comprising of government and non-government representatives are regularly reviewing prices of essential commodities.

An inter-ministerial monitoring committee consisting of representatives from different ministries and agencies is engaged in analysing the price situation of essential commodities and making recommendations. These efforts will continue in the next fiscal year as well. We will strengthen Dal-Bhat programme under implementation by BDR to mitigate the sufferings of general consumers, particularly the poor. A legal framework will soon be in place to protect the consumers' rights. A number of commodities will be imported by the Government to increase their supply in the market. Import of rice and wheat will be doubled. There will be additions to Social Safety Net Programmes, incorporating widening of the coverage and the amount of individual grants. I have proposed a significant increase in allocation for research and other activities in agricultural sector to increase agricultural productivity.

Financial sector

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19. In order to strengthen financial sector, three NCBs have been converted into public limited companies. This will enable the NCBs to operate like private commercial banks. The Banking Companies Act, 1991 is being amended to infuse dynamism in the activities of the banking companies, improve loan administration and strengthen Bangladesh Bank's supervisory role. To prevent illegal money transfer and hundi business, the Money Laundering Prevention Act is being made more comprehensive and foolproof.

20. The capital market in Bangladesh is gradually being widened and deepened. The remarkable increase of market capitalisation as well as daily turnover is attracting foreign and local investors. Following the listing of SoEs in the stock exchange, supply of securities in the capital market has increased and opportunity for investment in the capital market

has become wider. In the next fiscal year, the shares of a number of SoEs will be off-loaded in the capital market. The capital market will become deeper following the listing of SoEs under power, telecommunication and energy sectors.

Trade Sector

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21. In order to make the private sector more dynamic and competitive, steps have been taken to continue the tariff advantage for the import of most capital machinery. Overall tariff rates have been scaled down. Stock related laws are being amended. Besides, reforms in insurance laws relating to the supervision of insurance business, protection of interest of the policy holders and expansion of insurance industry are underway.

22. I propose to retain the existing export subsidy structure. We have already released a total of Taka 800 crore allocated for this purpose. There are still arrears payable to the tune of Taka 432 crore. These huge arrears are the result of accumulated shortfalls in allocation in the previous years.

I propose to allocate a total of Taka 1 thousand and 100 crore for payment of subsidies in FY 2007-08.

23. However, we should bear in mind that subsidies for an indefinite period encourage inefficiency, compel the efficient sector to shoulder the burden of additional tax and dissipate the resources which could be otherwise channelled to important sectors of the economy. Subsidy cannot continue for ever in any sector. Therefore, there is no alternative to enhancing efficiency to stay in competition in the international arena.

SoEs Sector

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24. In the past, the pricing of commodities and services produced in the SoEs sector, in particular, oil, electricity and gas, has been unrealistic. The sale price of oil and electricity remained far below the production cost or purchase price. In consequence, BPC and PDB had to incur huge loss.

Eventually, the Government had to take over the burden of accumulated liabilities. These financial liabilities were not reflected in budget in the past. As a result, the public at large used to remain unaware of the negative effect of these quasi-fiscal costs (hidden costs) on the economy.

25. In order to make the quasi-fiscal costs transparent, a total of Taka 1 thousand 500 crore has been allocated in the revised budget of current fiscal year. In the next fiscal year, the government is going to assume the liabilities of BPC to the tune of Taka 7 thousand 523 crore. A provision of Taka 300 crore has been made in the budget of next fiscal year to meet the likely deficit of PDB.

26. It is essential to reduce transaction costs to stay competitive in the international trade. Taking this consideration into account, a range of reform measures have been taken to transform Chittagong Port into an efficient and modern sea port. These have led to reduction of average turnaround of ships from 9 days to 4 days. The shipping costs of consignments have been reduced by 20 percent. Overall, the efficiency level of the port has increased by 40 percent and the costs have been reduced by 30 percent. The construction of New Mooring Container Terminal is on way to completion. A decision has been taken to operate this terminal entirely through private management. The technical and financial feasibility studies of the proposals for building a deep sea port have been completed.

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27. The Mongla Port is critical to economic dynamism in the southwestern part of the country. Unfortunately due to prolonged mismanagement and lack of initiative, its effectiveness has declined. You will be happy to note that following our recent initiatives, fertiliser import through the Mongla port has resumed after a lapse of eight years. The handling cost has fallen by 15 percent. Over 10 acres of land have been freed from illegal occupants. The dredging operation to increase navigability has begun. Required reforms and development programmes will be undertaken to enhance the capacity of the port.

28. Alongside the development of sea ports, we have also taken steps to make our land ports more effective. The Government has already concluded agreements to transfer six land ports to the private sector. Two of such land ports have been made fully operational on a Build, Own and Transfer (BOT) basis.

29. Due to management inefficiency, Bangladesh Biman, the national flag carrier of the country, continues to be laden with loss. Financial and management restructuring is underway to improve its efficiency.

Meanwhile, a decision has been taken to convert Bangladesh Biman into a public limited company. It is expected that Bangladesh Biman will soon emerge as an efficient organisation.

30. Land in our country is very limited and a precious resource. But there is endless delay and harassment surrounding land registration process. There are innumerable land-related suits as well. A new law collating various laws is being framed. Land records are being computerised, directives have issued to reform land registration system.

Industrial Sector

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31. In a populous country like ours, it is extremely essential to stimulate labour-intensive small and medium enterprises (SMEs) requiring less capital. However, the growth of this sector is sluggish due to constraints in access to finance. A decision has been taken to establish an SME Foundation under the Ministry of Industry as a new initiative. An endowment allocation of Taka 100 crore has been proposed in the budget for FY 2007-08 for this Foundation. Bangladesh Small and Cottage Industries Corporation (BSCIC) has also taken initiatives to create a Trust Fund for providing industrial loans to which the Government will allocate Taka 23 crore.

32. The existing Equity Entrepreneurship Fund (EEF) has been split into two funds, namely, Agriculture Equity Entrepreneurship Fund and IT Equity Entrepreneurship Fund and an allocation of Taka 100 crore for each fund has been proposed. Apart from the proposed Agriculture Equity Entrepreneurship Fund, credit support to the tune of Taka 150 crore has been proposed for development of agro-based industries. The proposed credit will be channelled through Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, BASIC Bank and Karma Sangathan Bank.

Law and Order and Legal Framework

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33. An effective legal system is of paramount importance in infusing dynamism in a sound and competitive market economy. You have noticed that the effectiveness of the legal system, like other branches of the executive organ, suffered serious degradation. The joint forces led by the armed forces have been able to rapidly restore law and order in the country.

34. The Caretaker Government has taken toughest stance against corruption. The Anti-corruption Commission has been reconstituted. And the reconstituted Commission has started a fresh journey. This is for the first time in the history of Bangladesh that we have taken initiatives to bring back the money illegally transferred to foreign countries. Already a total of about Taka 350 crore has been brought back and deposited into Government exchequer. The Government has accomplished a long awaited task of signing the UN Convention against Corruption. I sincerely believe that the shameful image of Bangladesh arising from corruption will be wiped out soon.

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35. We have taken steps to constitute an independent prosecution service within the legal system. In order to enhance the capacity of the legal and judicial system, special programmes have been taken up. A number of infrastructural development activities are in progress. We have started developing Computerised Case Management Information System (CMIS) in courts.

36. We have also taken steps to carry out extensive reforms in the police forces. Counter Intelligence Teams are being constituted to combat corruption within the police force. Action is underway to upgrade existing 12 thanas into model Police stations to prevent crimes in Dhaka. Service delivery centres have been set up in model and metropolitan police stations to enhance the quality of police service. Women and Victim Support Centres have been established in Dhaka Metropolis. Steps have been taken to enhance the efficiency of Bangladesh Rifles by introducing special allowances and rewards for border forces and also by increasing the number of check posts.

Budget Management Reforms

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37. The proposed budget has been prepared within the framework of our national poverty reduction strategy, 'Unlocking the Potential: National Strategy for Accelerated Poverty Reduction' (NSAPR). Meanwhile, the duration of the strategy (2004-2007) has been extended to June 2008. The preparation of the next strategy paper has already begun. The NSAPR is being operationalised through budget process.

38. Fourteen ministries including the ministries of health, education and agriculture have been brought under the coverage of Medium Term Budget Framework (MTBF). All ministries will be brought under MTBF coverage in phases. The ministries will enjoy increased autonomy in respect of allocation and uses of resources. This will reduce inordinate delays, indecisions and inefficiency. However, successful implementation of these reforms warrants enhanced capacity of the line ministries and change in outlook and attitude. We are moving towards these ends.

Transparency in Public Expenditure

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39. The desired outcome from budget allocation can only be expected if the budget is implemented properly. To ensure speedy implementation of 10 projects, specific directives have been given regarding appointment of project directors. The Secretaries' Committee has been asked to identify procedural bottlenecks in project implementation and come up with recommendations to address them within two months. All ministries have been instructed to take preparation in advance with respect to tendering and procurement.

40. Continuous monitoring and evaluation is required to enhance economy, efficiency and effectiveness in public spending. A guideline has been prepared for the line ministries to enable them to introduce internal audit/survey to enhance expenditure effectiveness and sufficient allocations have been provided to implement the guideline.

41. In order to make our resource utilisation target-oriented, we have started the process of reducing the number of projects and selecting only the pro-poor and growth enhancing projects for allocation of resources. In the Development budget of FY 2006-07, the block allocations accounted for 16 percent of total allocation. In the proposed Development Budget, this has been reduced to 5 percent. Directives have been given to post the list of priority projects in the IMED website along with information relating to resource allocation and utilisation by sectors and geographical divisions. The budget implementation reports of MTBF ministries will also be posted in the Finance Division website to make them transparent.

At the same time, provision will be made in the Finance Division website www.mof.gov.bd to receive opinions from all quarters.

Public Debt Management

42. Since independence, all our budgets had deficits and the successive governments had to borrow to finance the deficits. It is extremely essential to keep the accumulated debt liability at a sustainable level in order to maintain fiscal discipline and macro-economic stability. More emphasis would be laid on financing through medium and long-term marketable securities like medium-term and long-term treasury bonds. As part of our endeavour to make the participation of the institutional buyers in treasury bond markets easier, amendment to the guidelines for provident funds, insurance funds and the like is on the card.

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43. I would like to share with you a very encouraging piece of information. Recently, the World Bank in its report titled "Ease of Doing Business" ranked Bangladesh above India and Vietnam in the list of countries where conducive environment exists for doing business. I would like to mention unequivocally that Bangladesh's

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