

Fiscal exuberance

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It was not expected that a second successive national budget would be proposed by the non-party caretaker government. Nor was it expected that global economic growth would slow down at a time of financial and economic globalisation, and that Bangladesh would face the internal shocks of two floods, a devastating cyclone Sidr, and the external shocks of abnormal increases in world food, oil, and fertiliser prices by way of adverse terms-of-trade effects.

Despite these unprecedented challenges, in the long budget speech of the finance adviser, it was impressive to hear the list of achievements made by the interim government on social development, public-private partnership, and a flurry of new and progressive initiatives.

The three-pronged objectives

of the budget are macroeconomic stability, growth, and poverty reduction. It was interesting to note that the first quarter of the budget speech had nothing to do with the budget per se, and had everything to do with the interim government's achievements during its time in office. OK, this platform was used to sing a few songs ... no harm there. But let's not get overly enthusiastic. Our current fiscal year's ADP implementation performance was the worst in recent memory. The 62 ordinances and policies approved by the interim government will need to be ratified by the parliament, and no one can say which ones will pass the test.

Needless to say, this budget will be half-implemented by this caretaker government and half by the upcoming elected government, which hopefully will not cause a fracture in the implementation stage. For example, some

noted economists have questioned whether the second Poverty Reduction Strategy Paper (PRSP) can be legitimately finalised and implemented by this interim government.

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The external sector position has been made more complicated with a four-tier instead of the prior three-tier tariff structure, and it is unclear whether our 22% weighted average tariff rate -- the highest in South Asia -- has reduced or increased, and what is

the new effective rate of protection.

But first, a word about the structural fault-lines in overall macro-economic management in Bangladesh under which we will always err on the side of deficit bias, orchestrated by the short-termism of the commanding heights.

We have the Ministry of Finance (MOF) directly formulating fiscal policy and half of monetary policy (by way of the cash and debt management committee), while the other half of monetary policy the MOF controls indirectly because the central bank governor directly reports to the finance minister/adviser. In addition, the Planning Ministry cannot duly perform the checks-and-balances function independently because both the finance and planning ministries are headed by the same person, the finance adviser.

An overly expansionary fiscal policy therefore gets accommodated by monetary policy authorities perforce contributing to inflationary trends, crowding-out private sector credit because of increases in borrowing from the banking system, resulting in higher cost of capital for private businesses.

Non-performing loans increase, and the Central Bank then tries to morally persuade the commercial banks to lower interest rate spreads to no avail. With no fiscal responsibility laws in effect, the injudicious use of discretion in fiscal policy thus results in an inexorable rise in public-sector indebtedness.

We then start begging for support from foreign donors. Foreign assistance in the form of "project aid" is proposed at a whopping Tk 12,000 crore in fiscal 2008-09, while total foreign assistance is expected to reach Tk 17,803 crore.

It is appreciated that amid the current political transition in our country, and with the twin internal and external shocks we experience

rienced, the economy has not gone completely off-track, and that the interim government faced competing demands and multifarious challenges in formulating this budget.

The latest economic data show that the economy is gaining traction. The export sector has turned around. Industrial and agricultural loan disbursements have seen impressive growth. The current account surplus was \$390 million during July-March 2007-08. The foreign exchange reserve stood at \$5.3 billion as of May 2008. In this fiscal, real GDP growth will decelerate to 6.2% vs. 6.5% last year. GDP growth is expected to reach 6.5% in FY 2008-09, assuming no recurrence of destabilising political turmoil or exogenous shocks. The capital market deepening process continued with market capitalisation-to-GDP ratio reaching 16.4% in May 2008 vs. 7% in Jan 2007.

There are a number of distinguishing features and reform-oriented policy interventions of the proposed budget, not least of which is the wider consultative process with the private sector. Among the salient features are: reduction in the corporate tax rate by 2.5% points for both listed and non-listed companies; off-loading of shares of state-owned enterprises; establishment of two EPZs; increase in export subsidies; reforms in land administration; strengthening the regulatory framework of the insurance industry; balancing and rightsizing of public-sector workforce; further improvement of sea-port cargo-handling efficiencies; comprehensive debt-service liability management system to track government loan portfolios; setting up of macro-economic wing in the finance division for monitoring budget implementation; gender sensitivity; geographically balanced development approach; Padma Bridge and Mongla Port development; extensive social safety net pro-

grams; fund for climate change; lower taxes on computer items; higher taxes on tobacco; and strengthening tax collection by widening the revenue base.

However, the following proposals ought to be reconsidered. The price of petroleum should be increased so that the additional quasi-fiscal burden of approximately Tk 16,000 crore is eliminated, thus allowing a self-sufficient budget without reliance on foreign assistance (approximately Tk 17,803 crore).

Bangladesh Biman should be privatised. Given the past ADP absorptive capacity of 80%, FY 2008-09 ADP should be curtailed further so that we get to see full implementation of the allocations and an overall budget deficit that is no more than 3% of GDP vs. the 5% proposed in this budget.

Corporate tax rate for publicly listed companies should be reduced by 5% points to 25%, while non-listed companies tax rate should be reduced by 2.5% as proposed.

This will differentially encourage public listing, and increase tax revenue. Tax holiday provisions should be gradually phased out to encourage globally competitive industries.

In addition, the ADP allocation to the broad agricultural sector is as high as 29.7% of the total ADP -- almost twice as much as that for the power and energy sector (allocated 15.7% of total ADP) -- seems misplaced, given the urgency this nation should place on energy self-sufficiency. With only 43% people having access to electricity currently, the new "Energy Master-plan" formulated by the interim government is unacceptable as it aims to provide domestic energy self-sufficiency in 2010, 12 years from now!

The proposed "100 Days Employment Generation" program for approximately 20 lakh people may experience an implementation nightmare because of the difficulty of identifying the specific unemployed or under-

employed individuals country-wide and the need for equitable treatment. Does the government have the targeted unemployment list?

For a developing country aspiring to become a knowledge economy, we must not impose higher costs on imported educational items, printed items, and especially those meant for children's learning. In the "information age," and an increasingly integrated global village, I fail to see any immorality in imported children's books that should justify increase in tariffs.

The budget mentions support for the ICT sector, but nothing about rehabilitating the jute sector, the latter being a high-potential value-adding sector for us. There is nothing on the leather sector either. There is a lot of focus on the SME sector, but insufficient attention paid to enhancing the capacity of the judiciary which is strapped for resources with a million cases pending for processing, and where the Attorney General's office does not even have the budget to get fully air-conditioned!

The Ministry of Law received an allocation of only Tk 373 crore in the proposed budget, while an economically unproductive sector such as the Ministry of Defense received a whopping Tk 6,306 crore. In terms of other ministerial allocations, it seems incongruous and odd that although remittances are keeping our nation financially solvent, the total budgetary allocation to the Ministry of Expatriates' Welfare and Overseas Employment has been reduced by 20% to Tk 46 crore only.

We have talked a lot about inflation, but what is the "true" inflation rate in Bangladesh? It is interesting and instructive to listen to the Bangladesh Bureau of Statistics -- which directly reports to the Planning Commission -- say that point-to-point inflation

has reduced from 11.6% in December 2007 to some 7% in May 2008. I find this data exceedingly hard to credit, given the phenomenal and monotonic increases in the prices of almost everything, and the accompanying hasty erosion in purchasing power that has hit every household, both urban and rural.

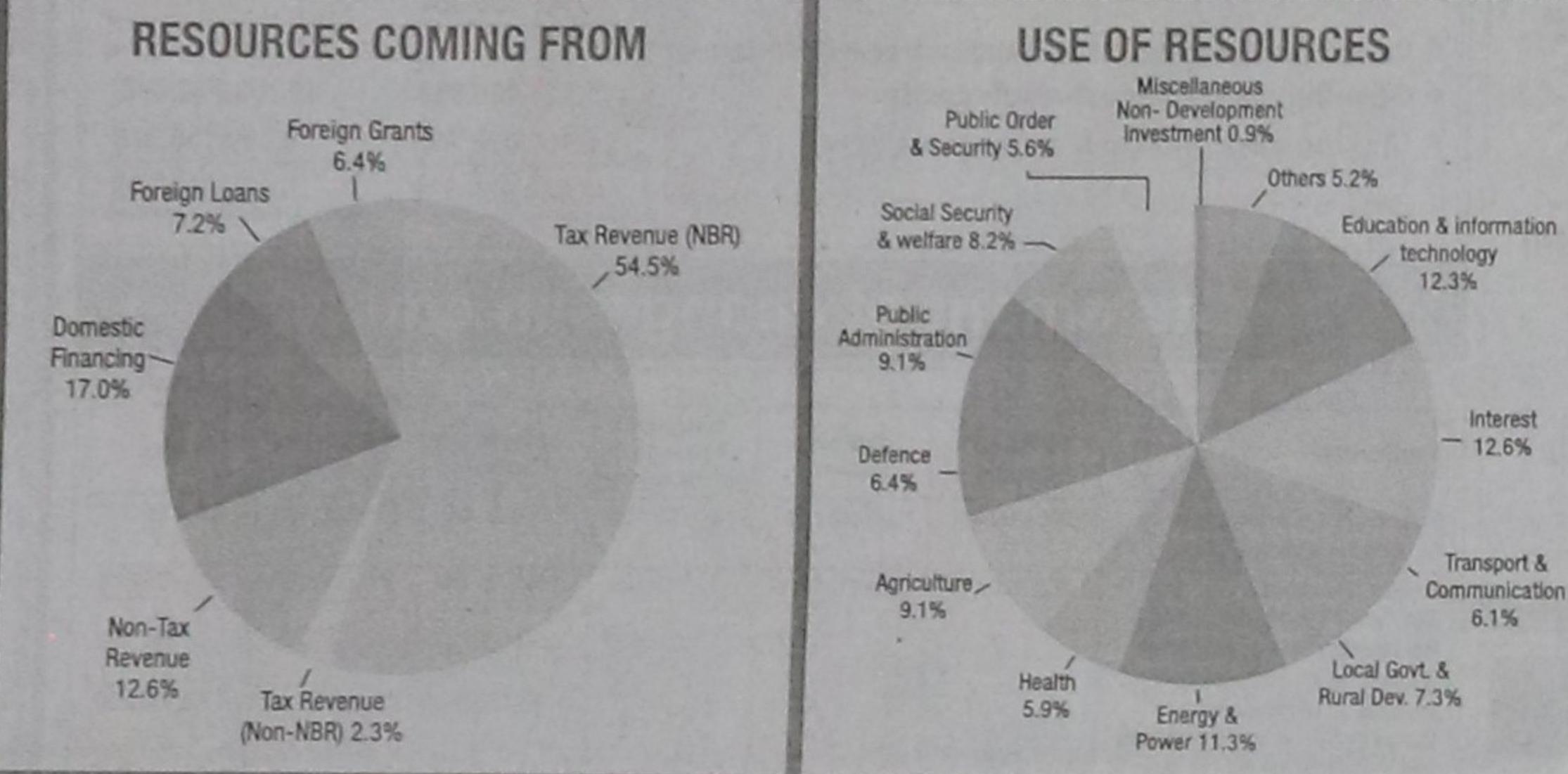
While the proposed 20% dearness allowance for government employees will exert tremendous pressure on the private sector for similar pay hikes resulting in further inflationary pressure, the budget expectations are that average inflation would clock 9% in FY 2008-09.

The 45% debt/GDP ratio planned for FY 2008-09 will be appreciably reduced if we just cut the coat according to our cloth. Fiscal discipline requires governments to maintain fiscal positions that are consistent with macroeconomic stability and sustained economic growth. The role of automatic stabilisers is small in a country such as Bangladesh due to low tax-progressivity and limited reliance on income-related transfers. The fiscal stance should dampen the business cycle. Excessive deficits and rapid debt accumulation by the government can undermine the capacity of Bangladesh Bank (BB) to fulfil its mandates.

The upcoming MPS (Monetary Policy Statement) of BB will be instructive. The fiscal dominance of the proposed budget could lead to high credit spreads on public debt and country risk premium, in the backdrop of an imminent sovereign credit rating for Bangladesh. Limited financial depth, in turn, would tend to magnify the crowding out. In order to promote fiscal discipline in Bangladesh, establishment of fiscal councils may be considered, that have contributed to fiscal discipline in a number of countries.

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Non-Development & Development Budget: 2008-2009 (Tk. 999.62 billion)



Dialogue and its future

There is confusion among the people about the purpose of the dialogue. Most of the people are naturally taking the dialogue as bi-lateral talks between CTG and the parties. Some people are taking the dialogue as preparation for holding of election only. The logic is that the only function of the CTG is holding of a free and fair election, and it should not go beyond that.

G. M. QUADER

THE topic that is being very widely discussed these days is "dialogue." The caretaker government (CTG) has been inviting different stakeholders of the coming national election and future governance for dialogue one at a time.

So far, dialogue has taken place with some political parties and the apex business body, the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI). As far as is known, in addition to political parties, the CTG has expressed its desire to hold dialogue with representatives of civil society and some professional groups, and may also take the views of the general public at some regional points.

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of a free and fair election, and it should not go beyond that.

Another reason for keeping the dialogue limited to the election is that the CTG will not continue beyond election to implement any program, so it is no use talking about or taking any decision in that respect. It is felt by some that it is pointless, and a waste of time, to forward any other demands excepting those related to the election.

The CTG has expressed on different occasions that it would like to have a free and fair election and would like to have cooperation of all concerned for that. But, at the same time, since taking over, the CTG has also been talking about qualitative change in politics and governance. The chief adviser wants to have the dialogue to achieve a national consensus on election and future governance.

The people expect this CTG to not only ensure a free and fair election but also to initiate a qualitative improvement in political culture and good governance.

After taking over, the present CTG thoroughly reshuffled the EC, removing all the allegedly partisan officials. A new draft of the People's Representation Ordinance was prepared in consultation with political parties and civil society members for conducting the election, with provisions for stringent

punishment to discourage use of excessive money or muscle.

Reshuffling was carried out in the administration to remove people with party bias from important election-connected positions. In addition, a massive drive was undertaken against corruption and other crimes with a view to curbing the use of black money and muscle in the next election in addition to improving rule of law in general.

But, the CTG has also carried out some other important reform works, like separation of judiciary from the executive, and formation of human rights commission and local government commission, and initiated right to information act etc. In addition, most of the constitutional bodies were reshuffled for clearing them of partisan appointmentees and making them more effective.

All these actions were taken as per the desire of the people. No question was raised about whether the CTG was going beyond its jurisdiction while executing all the above functions. It was accepted by and large that this CTG was an exceptional one, as it was appointed under unusual circumstance and replaced another CTG. Moreover, there was expectation and wide consensus that this CTG would initiate an improvement in the quality of political culture.

The proposed People's Representation Ordinance, along with its supporting rules for registration of political parties, will require a party to ensure its democratisation and transparency in operation and financial transaction. This has been the wish of the public in general, as it would allow common people to direct political party activities for their own benefit.

The political parties accepted the rules in principle and forwarded some suggestions accordingly. This was the primary step for reform of political parties and, ultimately, of the political culture.

The chief adviser called for the dialogue to discuss other issues in addition to the election, such as future governance of the country and improvement of the political culture. As per CTG, the dialogue was meant to obtain the views of different stakeholders on those issues, and the CTG would act as facilitator to come to a national consensus, which the CA termed "national charter."

An issue could be acceptance of the election result instead of outright rejection without utilising the legal means to get redress of any irregularity. It may be about making the future parliament more effective and getting rid of the tradition of boycotting the parliament. An issue could be how to avoid going for political programs like strikes, blockades etc. which disrupt economic activities.

To be united in making constitutional bodies like Election Commission (EC), Anti-Corruption Commission (ACC), Public Service Commission (PSC) etc. effective and

free from being used to serve party interest. It may be agreed that the bureaucracy would be allowed to function as per service rules without any undue interference in appointment, posting, promotion etc. on party lines.

Is it possible for the political parties to come to a national consensus? If not, will it be possible for the people to impose their desire on them through a democratic process? Past experience indicates otherwise.

From 1991 onwards, the opposition in all the parliaments boycotted the parliament, and the government party always talked about the necessity of attending the parliament. Interestingly, the political parties changed sides regularly like the government of one parliament became the opposition in the next and again in government after that. Their views as regards attending the parliament and boycotting the same also changed regularly.

The ex-opposition, now government, talks about the merit of attending the parliament, and the government, now opposition, talks about how futile it is to attend the parliament.

So, both the major political parties with their allies agreed about the merit of attending parliament and also of not attending the same. The people always wanted their representatives, whether in government or opposition, to attend the parliament and raise issues for

them. But, interestingly, the parties that boycotted the parliament got at least an indirect endorsement of the people, as the boycotting side was always elected to power in the next general election.

Exactly the same is true for political programs of strikes, blockades etc., which are opposed as evil by the government side and are advocated as essential by opposition. The stand changes with change of position from government to opposition and from opposition to government.

The view of the people on this issue is very clear. Almost everybody feels that these programs are harmful as they create disruption in their lives. But, this program also got indirect endorsement of the people as the advocates of this disruptive violent protest won the subsequent elections.

So it may be safely concluded that there has to be a definite paradigm shift in our politics and political culture to achieve national consensus on various issues of future governance. Even if some points are agreed upon, it could be a challenge for the political parties to adhere to them in future. The consciousness of the general public can only impose the required consensus, and their alertness in taking proper action in time can ensure sticking to the same in future.

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How to sell locust beans and seaweed to kids

Vittachi

ONLY IN ASIA

by Nury Vittachi

My wife bought a box of "Fruit By The Foot" strawberry snacks. From the package, one might assume it would contain foot-long (30 cm) snacks made of strawberries.

Wrong. It turned out to contain strips of dyed sugar. Nothing remotely strawberryish was listed on the list of ingredients. However, it did contain locust beans and seaweed.

I imagine that the manufacturer, Betty Crocker, must have come up with the product and then test-marketed it: "Hey, kids, wanna eat a yummy locust bean and seaweed snack?"

Getting the thumbs down, they used classic business strategy known as Call It Something Else and came up with "strawberry."

I asked a nutritionist friend how food companies could get away with this sort of thing. She pointed out that Betty Crocker was American and thus more heavily regulated than Asian food firms.

Until now. This year, most Asian states are making laws about what labels can and cannot say.

Not before time. Some Asian products have labels which are just plain baffling. As my diaries show:

Seen on a pack of Chinese aubergines: "ViolentEggplants."

Seen on a Hong Kong pack of chilled chicken: "Four-Legged Chicken."

Law drafters in Asia are focusing on packaging that makes specific health claims.

One package of Japanese coffee has this on the label: "Black coffee has great features which other coffees have never had: Non-sugar."

A bottle of health tonic from mainland China has this claim: "Known to cure itching, colds, stomachs, brains, and other diseases."

For example, most chocolate products boast about how much cocoa they have. But Nutella, a chocolate hazelnut spread, has a big tick on the label next to the words "only 7.6 percent cocoa."

While researching this topic, I noticed that many food makers use the classic business technique known as Marketing to the Terminally Stupid.

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