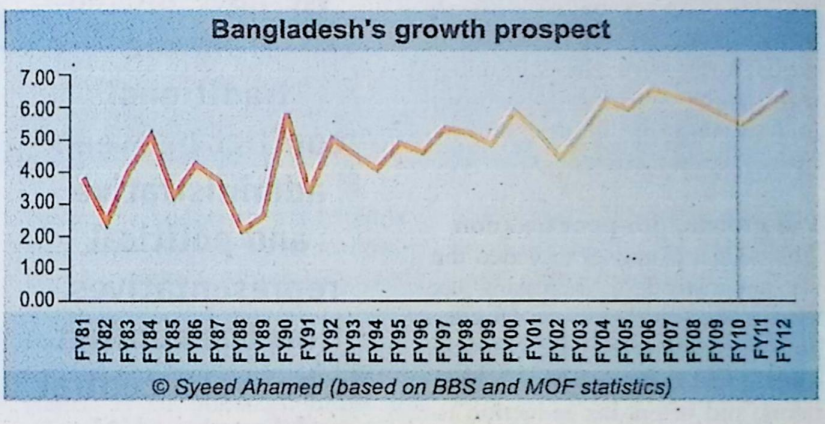
The good growth recovery

Bangladesh's GDP growth slowed down by 0.31 of a percentage point during FY2009 (from 6.19 percent achieved during FY2008) owing to multiple disruptions, political uncertainties and consequential low public investment, as well as the global recession. While the global recession seems to be bottoming out, its delayed impact may continue to hurt Bangladesh's growth prospects during the coming quarters. Keeping in mind the slowing down of demand in our exporting markets, performance of neighbouring economies, and projections of ADB-IMF, any growth figure over 5.5 percent in FY2010 would suggest a resistance to further slip and a 6 percent growth would mean a good resurgence. Hence, while the growth target for FY2010 -- set at 5.5 to 6 percent -- may appear unadventurous, attaining this target will be quite an adventure itself.

To achieve this growth target, the government's forecast of investment efficiency, measured by incremental capital-output ratio (ICOR), may seem odd. It is predicted that the ICOR will increase in 2010, meaning more investment will be required to achieve a similar level of production. There are possibly two explanations behind this projected drop in investment efficiency -- the recession-recovery dynamics, and the lagged response of rural investment.

During a recession, private sector is typically reluctant to invest and government often adopts expansionary fiscal stance to revive GDP growth. As a result, the 'projected' ICOR appears low in the context of a modest GDP target. Once the proposed stimulus package and public investment programmes are put into effect, the private sector will recover and the actual investment efficiency will look better in the backdrop of a moderate growth attainment and revised (downward) public investment figures.

The budget allocations, which shifted focus from urban-industrialisation to economic devolution and rural development, may reduce the investment efficiency in the short-run as rural development shows a delayed (but sustained) response to investment. A study on China's economic growth between 1978 and 2000 (Journal of Asian Economics, 14, 2003) shows that in the long run, investment efficiency can be reaped through rural industrialisation and proliferation of small firms in non-state sector. The current budget seems to have addressed this stance. Hence, an annual fall in projected ICOR can be ignored if economic devolution can be ensured and a reasonable growth is achieved during the current fiscal year.



Economic devolution

The budget, in allocation and in principle, has aimed to promote 'economic devolution' by advancing the local bodies to set and administer their own economic goals. Development of the regulatory framework is already under preparation as the Upazila Parishad Act has been passed in the parliament, the Pourashava Act is awaiting parliamentary approval, the Union Parishad Act has secured cabinet approval, and the City Corporation Act has been tabled. The finance minister has promised to introduce a district level budget for FY2011, initially for one district in each division. Ministries and divisions have been asked to create a Budget and Planning Wing or Branch within their organisational structure for faster approval and effective monitoring of projects.

On the expenditure side, subsidy for fertiliser and agricultural inputs has been reduced by 37.7 percent from last year's revised budget. Since the price of different fertilisers declined by 30 to 70 percent in the world market over the past several months, the proposed subsidy seems reasonable for the new fiscal year. To facilitate multiple crop production and to expand the cultivable land by improving drainage system in the haor areas, Tk 4000 crore has been allocated. In addition, Tk 280 crore and Tk 185 crore have been allocated for development of high yielding variety seeds and for agricultural research and agricultural rehabilitation assistance. The budget has recapitalised the micro credit institutions (Krishi Banks and Karmashanghstan Bank), increased the fund for housing and SME, and has allocated Tk. 3,575 crore to invest in the construction and reconstruction of roads and bridges under LGED.

While the proposed decentralisation of police administration seems pertinent, the setting up of a Public Representative Board to oversee