Budget 2009-10: The Long View

JYOTI RAHMAN gives a post-budget analysis of the economy

ON June 11, Mr. A.M.A. Muhith submitted the third Awami League government's first budget. In the weeks since, the budget has been much parsed and analysed. As such, there may not be much in this piece that is particularly novel.[1] A review, nonetheless, is attempted, focussing on three issues.

First discussed are the economic growth projections. Contrary to some commentary that the budget forecasts are "not ambitious enough," 5.5 percent is, on balance, a prudent growth forecast for 2009-10.

Then the fiscal outlook is discussed. While much is said about the implementation of the government's development expenditure targets, implementation of its medium term revenue enhancement measures deserves greater attention.

The final section analyses a few medium term growth issues that are alluded to in the budget. How these issues are resolved will perhaps prove lot more important than any specific measures announced on June 11.

A steady boat

Buffeted by a number of shocks -- political uncertainty, natural disasters, global commodity price spike, and now the global recession -- Bangladesh's economy has proved surprisingly resilient in recent years, and the budget forecasts only a modest easing in growth in 2009-10 (Chart 1).

On a sectoral basis, agriculture is forecast to contribute about 1 percentage point to forecast growth. Agriculture makes up slightly over a fifth of GDP. To contribute 1 percentage point to 5.5 percent growth, agriculture will need to grow by about 4.8 percent in 2009-10.

Let's put this in context. Agriculture is a volatile sector, with annual growth in the past couple of decades ranging from 0.3 percent to 7.4 percent. In the past four years, the sector has grown at an annual rate of 4.3 percent, while it grew at 4.9 percent a year under the second Awami League government.

This suggests that a 4.8 percent growth rate for agriculture may not be unreasonable. Of course, there are risks -- natural disaster being the most obvious one. The forecast explicitly assumes improved agricultural productivity, diversification of crop production, and improved disaster management capacity.

