Economy faces daunting challenges: CPD

The Centre for Policy Dialogue yesterday published an analytical review of Bangladesh's macroeconomic performance in fiscal 2011-12. The following is the first part of the executive summary.

STAR BUSINESS DESK

THE outgoing fiscal year FY2011-12 turned out to be quite daunting for Bangladesh in the backdrop of a number of national, regional and global economic developments. Some of the challenging issues that dominated the economic horizon were longstanding structural in nature, whereas others stemmed from more immediate circumstances.

Throughout FY12, issues relating to quality of macroeconomic management, particularly questions relating to government borrowing, foreign aid utilisation, implementation of the annual development programme (ADP) and revenue generation figured prominently in the economic discourse.

Extreme volatility in the capital market transmitted shock waves across the economy and society. High level of consumer prices remained a continuing challenge in view of which status of crop production, distribution through safety net programmes and food security concerns dominated the policy radar screen.

The sorry state of infrastructure -- transport and communication as well as gas and electricity supplies -- remained at the centre of attention of policymakers, entrepreneurs and citizens alike. Reluctance of the World Bank to disburse funds for construction of the Padma bridge had resonance and implications beyond the economy.

Along with these, the Indo-Bangla transit controversy and fallouts of the euro zone crisis added new dimensions to the existing policy challenges. New dimensions were added to macroeconomic management with the government contracting a loan under an IMF programme towards the end of the year.

The present review, which is the third and final reading of the state of the economy by the CPD in the current fiscal year, puts its focus on its traditionally defined scope and coverage; however, the report needs to be read as also a product in a continuum.

Admittedly, a stagnating, if not faltering, investment, is holding back the economy from achieving higher levels of economic growth. Arguably, basic objective of all public policy is to generate additional gainful employment opportunities but there is hardly any evidence-based real time picture of this that is available for scrutiny.

The scrutiny of the reform initiatives and policy changes undertaken by the present government -- declared and/or implemented -- has been undertaken to deepen and broaden our understanding of the institutional impediments to accelerating economic growth.

The present exercise also includes a note on the current state of crop production and its implications for food security. Indeed, as the incumbent government completes the third year of its tenure, the current review intends to put its focus on the goalposts of the bigger picture in the economic canvass of the country.

MACROECONOMIC SCENARIO

The Bangladesh Bureau of Statistics (BBS) has recently indicated that the economy will not be able to meet its GDP growth target of 7 percent set for 2011-12. The provisional figure for GDP growth for the current fiscal year was to the tune of only 6.3 percent.

By any count, this is surely a setback for the present government's plan to move the economy towards a higher growth trajectory.

A decomposition of the GDP growth rates of FY11 and FY12 evince that of the 6.3 percent overall growth

FOCUS BANGLA

Crop production is one of the main issues of discussion in the country because of rising consumer prices.

(FY12) only 0.5 percent will be contributed by the agriculture sector to compare, this was 1 percent in FY2010-11.

The fall in agriculture sector's contribution to the GDP was more than the overall decline in the GDP growth (0.4 percent).

Accordingly, it appears that the decline in GDP growth is mostly accounted for by the relatively depressed performance in the agriculture sector growth, more particularly, its crop component.

In contrast, industry sector, backed up by its manufacturing and construction sub-sectors, have improved their contribution to growth. Indeed out of 6.3 percent growth in FY12, 2.8 percent is expected from the industry sector, the highest in recent history.

The service sector's growth contribution is expected to be limited to about 2.9 percent.

The provisional estimate of GDP is to be revised when data for the entire fiscal year will be available. A review of number proxy indicators suggests that manufacturing growth rate may require some downward adjustment.

Since a number of components of the service sector are linked to the performance of the real sectors, the sector's growth may also need some moderation.

Conversely, growth rate of the crop sub-sector may be revised upward taking note of a fuller estimate of Boro production. Combining all these possible changes, it may be reasonably expected that there will be a downward adjustment of the provisional growth rate (6.3 percent) of the GDP for FY12.

Investment, as a share of GDP, has failed to accelerate in the second year of the SFYP in line with expectations. Indeed, private investment as a share of GDP declined in FY12 to 19.1 percent from 19.5 percent in the preceding year.

While the public investment rate has been reported as 6.3 percent of GDP, this estimate on all probability has to be revised downward.

The current estimate of public investment is based on the allocations of the Revised Annual Development Programme (RADP) which, according to CPD estimate, will remain around 11 percent unutilised.

Accordingly, the public investment rate in FY12 may be approximately 5.7 percent of the GDP. This suggests that the aggregate investment rate which is provisionally estimated to be 25.4 percent for FY12, once revised, may out to be to the tune of 24.8 percent of GDP.

This would also imply that in FY12, the investment rates not only experienced stagnation, but also reduction.

According to the mid-term plan, the investment target for FY13 is 29.6 percent of GDP. This would require a rise in investment as a share of GDP to the extent of 4.2 percentage points. Private investment will need to rise significantly to reach 22.7 percent of GDP from this year's 19.1 percent.

In view of the present state of macroeconomic management, this is a difficult proposition. Furthermore, ICOR has increased from 3.7 in FY11 to 4 in FY12.

This would imply that in the absence of faster accumulation of investment, particularly on the part of the private sector, and improved implementation of government investment plan (i.e. ADP), achieving the targeted GDP growth in FY13 (according to SFYP) will remain a far cry.

The GDP target for FY13 has been set at 7.2 percent. Adding an extra 1 percent on the benchmark of FY12, given the investment trends (see later), will require a heroic feat.

Domestic savings (as a share of GDP), which fell in FY11 to 19.3 percent from 20.1 percent in FY10, could not recover in FY12. It is not immediately evident that to what extent this decline in domestic savings is brought about by the changes in government savings, private corporate savings and household savings.

Whatsoever, rising prices of commodities was an important contributing factor affecting the household savings.

PUBLIC FINANCE: WEAKEST LINK

Fiscal management in FY12 was put under serious pressure in view of the soaring revenue expenditure including mounting subsidy demand. Lack of support from foreign and non-bank sources of financing did not help the situation either.

However, a closer look at the actual fiscal developments in FY11 and the targets set for FY12 suggests that the fault line, to a large extent, originated from not so sound targets for FY12 resulting largely from the uncoordinated fiscal planning in relations to other sectors.

Most critically, subsidy projections were totally out of line with the government's plan for the power sector including the establishment of rental power plants and the associated rise in fuel demand.

In this time of high expenditure, the NBR proved once again to be a rare source of comfort. Backed by strong revenue mobilisation thanks to rising import duty, VAT (local) and income tax, the NBR was able to surpass its annual growth target of 15.7 percent during the first three quarters (Jul-Mar) of FY12, posting a growth of 18.1 percent.

If the current growth rate sustains over the last quarter of the current fiscal year, the NBR could exceed its annual revenue mobilisation target of Tk 91,870 crore by about Tk 1,500 crore. Indeed, for the second consecutive year, the NBR revenue target is going to be adjusted upward.

Non-tax revenue component also performed well during July-January period with an impressive 61.8 percent growth, underwritten by collection of spectrum and licence renewal fees from the mobile operators.

But on the other hand, non-NBR tax revenue earnings slowed down quite considerably during the first seven months, posting only 11.1 percent increase compared to July-January period of FY11. It is to be noted here that growth target for non-NBR tax was set at 18.7 percent in the budget for FY12.

However, the overall improvement in revenue mobilisation was not enough to match the significant rise in revenue expenditure. During July-January period of FY12, (augmented) revenue expenditure posted 32.5 percent growth, defying the original growth target of only 12 percent. Major rise in expenditure was observed for acquisition of assets and works, interest payments and subsidies and current transfers.

Subsidies and transfers alone (excluding those to public institutions like BPC, PDB) contributed to about 50 percent of the incremental revenue expenditure during this period. Domestic interest payment, which was an outcome of the high borrowing of the government from the banking system, contributed another 23.7 percent.

Interest payment on account of domestic debt accounted for more than 20 percent of revenue expenditure for the period July-January of FY12. Accumulating public debt is transmitting worrying signs with regard to future debt burden and debt servicing liability. However, as of now, the debt situation has not crossed the critical zone.

A major destabilising feature of the fiscal management in FY12 has been the unforeseen growth in subsidy requirements. Original allocation for subsidy was about Tk 20,447 crore for FY12. As the year progressed, this allocation proved to be way off the mark.

Mounting fuel demand from the rental power plants proved to be too heavy to bear, forcing the government to maintain a large part of the installed capacity unutilised by restraining the flow of fuel to those.

At the same time, several upward adjustments in prices of fuel and electricity had to be made to reduce the subsidy demand. Even then the measures prove to be less than enough as total subsidy demand for the year approached Tk 40,000 crore. This would be equivalent to 4.4 percent of the GDP. A phenomenal increase compared to 2.2 percent in FY11.

With a slight of hand, the government has decided to transfer Tk 10,000 crore of subsidy payments from the current fiscal year to FY13. There was a concern that this could result in an inbuilt instability in the budget for FY13.

The government have also agreed with the IMF to allow full pass-through of international fuel prices in the domestic market by December 2012. This was likely to have adverse impact for cost of doing business, competitiveness and inflationary expectations. Major concern in this regard will be the potential impact on inflation.

TO BE CONTINUED

Call for eco-friendly medicines

GAZI TOWHID AHMED

MEDICINAL waste products may pose serious health hazards if they are disposed of without neutralisation, said an analyst.

"Untreated medicinal waste products may cause air pollution, water pollution and pose serious health hazards to all of us," said Motiar Rahman, general manager of quality assurance for Eskayef Bangladesh Ltd.

Most importantly, many researchers have warned of the potential risks of antibiotic resistance, Rahman said.

Pharmaceutical plants generate a variety of wastes during manufacturing, maintenance and housekeeping operations.

While maintenance and housekeeping activities are more or less similar in all plants, the actual manufacturing process varies widely.

Rahman said the pharmaceutical industry is highly competitive, so some companies are often unwilling to reveal details pertaining to their processes.

Pharmaceutical sales in the domestic market rose 20 percent to Tk 2,293 crore in the three months to March, compared to the same period last year.

The sector recorded Tk 8,788 crore in sales turnover in the 12 months through March, according to the Intercontinental Marketing Services (IMS), a market research company that provides data on markets, especially on the healthcare industry.

AMRAN HOSSAIN

An effluent treatment plant of Eskayef Bangladesh Ltd, which separates wastes from liquid effluent by biological and chemical treatment to ensure eco-friendly water.

At present, the pharmaceutical industry meets 97 percent of the local demand and exports drugs to more than 87 countries, the analysis reveals.

Since the sector is growing at a considerable rate, Rahman insists it is important that the waste products are neutralised.

"Several pharma companies are manufacturing Cephalosporin in dedicated Cephalosporin plant, to ensure patient's safety, to avoid the emergence of bacterial resistance, to protect personnel health and environmental safety and to maintain utmost quality of cephalosporin products," Rahman said.

To protect the environment and mankind, a very few manufacturers are using specialised HEPA (high efficiency particulate air) filter to prevent air pollution.

They are also using sophisticated effluent treatment plant, which sediments liquid wastes by biological and chemical methods to ensure eco-friendly water, he said.

In addition, solid waste is treated by an incinerator to ensure the elimination of medicinal residues, he said.

Therefore, for the sake of patients and the environment all manufacturers should adhere to eco-friendly manufacturing techniques.

This should be a promise to preserve ecological balance and a commitment to national and global legislation on World Environment Day, Rahman said.

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