



endeavours are, by no means, negligible. In the last few years, despite a number of external and internal shocks, we never deviated from our avowed goals. In just three years, we have doubled the level of internal revenue mobilisation; at the same time, the size of ADP has increased twofold. As a result, the consistent pace of the economy didn't suffer even during the time of the global recession or its recent resurgence. Necessary investments have been ensured in energy, social infrastructure and ICT sectors. We enhanced efficiency by removing all supply constraints by using the approach of planned development. We have been able to sustain the growth rate by simplifying the process of service delivery, expanding targeted social safety net programmes and ensuring time-befitting and prudent macroeconomic management. Simultaneously, we have made considerable progress by establishing social justice through reduction of poverty and inequality. The discernible improvements in our social indicators have enhanced the image of our country as well as the Government in the international arena. The full credit for this achievement exclusively belongs to the hard-working citizens of this country. Their innate resilience against any adversity is our mainstay for realising the Vision.

8. This journey, however, is not smooth at all. We are saddled with innumerable obstacles and the liabilities of past mismanagement. Removing all the obstacles in only three years is not easy. Given this, we have prioritised our challenges and allocated resources accordingly. At the same time, we kept on augmenting our internal and external resource mobilization and adopting appropriate policy strategies. Our efforts are targeted – sustaining macroeconomic stability, boosting public and private investments and moving up the trajectory of high inclusive growth. The budget for the next year that I am presenting today before this august House has been prepared in continuation of the budgets for the previous years. I firmly believe that this budget will take us one step forward in building a happy, prosperous and caring Bangladesh.

## Chapter II Macroeconomy and Global Perspective

### Mr. Speaker

9. Before I present the budget proposals, I would like to focus briefly on the global and internal economic contexts on which the budget for FY 2012-13 has been prepared. Here, in the 4th table appended to the budget speech, I have presented the trend of selected indicators over the last three years.

10. As you know, FY 2008-09 was the year of global recession when we formed our Government. To confront the recession, we successively declared two stimulus packages. As a result, we could keep the negative impact of that recession on the economy of Bangladesh at a minimum level. During this period, the average global growth plummeted (-0.6 percent), export declined (-11 percent) and remittance went down (-6.3 percent). Against this backdrop, our growth remained stable (5.7 percent), export grew (10.3 percent) and remittance went up (22.4 percent).

11. In next couple of years following the recession, global output increased, export and remittance surged. However, in 2012, it was observed that the speed of global recovery was, in reality, less than expected. Although the US economy rebounded to some extent, the growth slowed down due to sovereign debt crisis in the EU countries and the escalating geo-political risk. On the other hand, the growth performance of emerging and developing economies was also low because of slow rate of global growth and restrained monetary policies. In coming years, the dynamics of growth will largely depend on the duration of the second spell of recession and fluctuations of fuel price.

12. According to the latest forecast, the growth of global economy may stand at 3.5 percent in 2012. The developing and emerging economies might grow at 5.7 percent. In pace with the economies of other emerging and developing countries, we have been able to sustain the economic growth in Bangladesh. In FY 2010-11, we achieved a growth rate of 6.7 percent and as per the provisional estimates of BBS, in FY2011-12 the growth will be 6.3 percent. In my opinion, in this estimate BBS did not factor in a number of aspects namely, bumper *Boro* harvest, surge in internal demand from the month of April, our remarkable achievement in power generation and improved ADP implementation. For all these reasons, I am confident that by the end of this month – the closing month of current fiscal year, our GDP growth will stand in the neighbourhood of 7 percent. We have set our growth target at 7.2 percent for FY2012-13 on the basis of our expectations that a satisfactory growth in trade and agriculture sectors will continue as the global economy turns around by 2013, there will be a consistent credit flow to the development sectors and, above all, deficits in power, energy and infrastructure will decrease gradually.

13. In the last three years, we had an export growth of 21.2 percent. In the current fiscal year, up to April 2012, the export growth is 8.4 percent compared to that of the corresponding period of the previous fiscal. The global demand for our exports went down due to low growth in major overseas markets, especially, EU countries. However, we kept on expanding regional trade in tandem with product and market diversification. This will help us in sustaining the export growth in coming years. Besides export, our import increased by 22.2 percent on an average in the last three years. In the current fiscal year, up to April 2012, import grew by 8.7 percent. Although import growth of capital machinery and industrial raw materials decreased during this period, there was an overall growth in those items in the last three years. During this period, import of capital machinery

increased by 20.7 percent and that of industrial raw materials increased by 19.8 percent. Side by side, during this period, we had to increase import of petroleum products to keep it consistent with our development strategies.

14. Remittance grew by 9.8 percent on an average in the last three years. This growth momentum is continuing in current year as well registering 10.4 percent growth during July-April period of the current fiscal year. Up to April this year, manpower export standard stands at 5.66 lakh. In order to increase manpower export and remittance inflow, we are persistent in our efforts to enhance the skill base of our labour force. We are continuing our diplomatic efforts to find new labour markets.

15. In the first half of the current fiscal year, we observed that foreign currency reserve is depleting and the exchange rate of Taka going down. Immediately, we adopted somewhat restrained monetary and fiscal policies. This yielded result and there is a current account surplus of US\$ 455 million up to March of the current fiscal.

16. The exchange rate of Taka against dollar is settling down. On 29 May, 2012 the rate stood at Tk. 81.9. Our foreign exchange reserve stands at US\$ 9.5 billion which is sufficient to foot three month's import bills.

17. The rate of food inflation has decreased since the second quarter of the current fiscal. However, non-food inflation remains at double digits level. After a long time, by the end of April 2012, general inflation came down to single digit level, i.e., 9.9 percent on point to point basis and food inflation to 8.1 percent. We took measures to keep the supply and distribution channels for daily necessities uninterrupted, monitor market on a regular basis and increase productivity in agriculture. As a result, we see a satisfactory and sustained growth in agriculture. This year we have had a bumper '*Boro*' production. The food stock is also at a comfortable level. In addition, by observing austerity in public spending and generating more revenues, we have been successful in keeping budget deficit at a tolerable level. I am hopeful that, as a combined effect of these steps, the inflation situation will ease up further in coming days.

18. We are pursuing a restrained monetary policy to manage aggregate demand. Up to March 2012, the growth of money supply, on year on year basis, stood at 17.6 percent. Private sector credit flow grew by 19.4 percent. We intensified our supervision over the activities of banks to ensure that credits are channeled to the productive sectors; especially to see that industrial term loans and SME loans are used meeting the principles of propriety. Our efforts to control the flow of credits to non-productive sectors are continuing. I hope these steps will create a positive effect in containing inflation.

## Chapter III Budget for FY2011-12: Problems and Corrections

19. Here, I would like to briefly dwell upon the state of economy and on the revised budget of the current fiscal year i.e. FY2011-12. The fiscal situation in FY2009-10 and 2010-11 was broadly stable. Budget deficit was within the tolerable limit. Revenue income increased during this period. We could increase the size of ADP and also the rate of ADP utilisation. I have already tabled two quarterly reports before this august House on current year's fiscal situation. In my second quarterly report, I highlighted the probable revised budget framework for FY2011-12. However, it was done at a point of time in the fiscal year, when the activities of the ministries/divisions/departments were generally gathering pace. I, therefore, expressed my expectations that the picture of income and expenditure would be brighter in the remaining months of the fiscal year. As a sequel to that, I am now presenting a brief account of the proposed revised budget for FY2011-12:

① In the budget for FY2011-12, the target for revenue income was set at Tk. 1,18,385 crore (13.2 percent of GDP). In the revised budget, the target for NBR revenue has been enhanced by Tk. 500 crore while the target for non-NBR revenue collection has been kept unchanged. The revised target for non-tax revenue has been set at Tk. 18,600 crore after slashing down the original target by Tk. 4,000 crore following a decision of the Government to stagger 2G license fee to 3 years from its current duration of 2 years. Consequently, the revised target for total revenue collection stood at Tk. 1,14,885 crore (12.6 percent of GDP). We are hopeful that the current fiscal year's revenue collection will surpass last year's actual collection (almost 0.8 percent of GDP).

② The total public expenditure was estimated at Tk. 1,63,589 crore in the current fiscal year's budget (18.2 percent of GDP). It has now decreased to Tk. 1,61,213 crore (17.6 percent of GDP) after a reduction of Tk. 2,376 crore in the revised budget. In the case of ADP, the allocation has been decreased to Tk. 41,080 crore due to the fact that the utilisation of project aid did not meet the expectation. On the other hand, an amount of Tk. 20,477 crore was allocated in the original budget for subsidy in agriculture, power and energy sectors. In the revised budget, this allocation has been increased to Tk. 30,154 crore after an additional allocation of Tk. 9,677 crore. This additional resource has been provided by reappropriating allocations made against PPP initiatives, investment in shares and equities and by slashing down discretionary expenditure.

③ In the original budget, deficit was estimated at 5.0 percent of GDP. It will now stand at 5.1 percent of GDP with a slight increase from the original budget. Out of this 1.3 percent of GDP will be financed from external sources and the rest 3.8 percent from domestic sources. Again out of this 3.8 percent, 3.2 percent will be financed by borrowing from banking system. In order to maintain overall economic stability, we need to take measures to reduce our dependence on banking sector in financing budget deficit. In doing so, we have enhanced the rate of interest on savings instruments and simplified the investment conditionalities.

④ In my three previous budget speeches, I mentioned that successful implementation of ADP is a big challenge for us. In this regard, the Planning Commission is closely monitoring the progress of project implementation of large 10 ministries. To address the issue, I personally met with all the ministries/divisions on three occasions. We are emphasizing on extensive coordination among ERD, Ministry of Planning, project executing line ministries and development partners. In tandem, we are attaching much importance to the implementation, monitoring and evaluation of foreign aided projects having large allocations. ADP implementation capacity has largely enhanced. While in FY2008-09 actual ADP spending was Tk. 19,438 crore (3.16 percent of GDP), in the current fiscal year it has grown into Tk. 41,080 crore which is 4.49 percent of GDP.

### Mr. Speaker

20. Over the last two years, the price of fertilizer and food in international market has been increasing along with the rise in fuel price. The adverse impact of such price hike on an import-dependent country like ours is quite obvious. I, therefore, cautioned in my last budget speech that we may have to take some hard decisions in tackling the challenges arising from increasing fuel price. I pointed out that we might have to augment revenue income while reducing expenditure on less important items including subsidies. There might even be a need to observe austerity. Moreover, money supply might have to be tightened and exchange rates readjusted. In the first half of current fiscal, we saw a record rise in public expenditure. It was mainly due to the subsidy liabilities of agriculture, energy and power sectors. As an immediate reaction to this situation, government borrowing from the banking system surged with resultant rise in interest rates. This further led to the decline in private sector credit flow to some extent. It also created pressures on foreign currency reserves and made exchange rate unstable. We instantly went for a restrained monetary and fiscal regime. Our priorities were realigned and expenditure rationalised. As a result, since the beginning of the latter half of the year, the momentum in the macroeconomy was restored. I hope we will be able to sustain the economic stability and the growth dynamics in the coming days.

21. Here, I would like to draw your attention to the fact that in theory, investment declines and industrialisation slows down with the rise in interest rates. In the current fiscal, interest rates were pushed a bit upward due to monetary policy tightening and increased government borrowing from the banking system. The Government, therefore, has adopted a policy to keep its bank borrowing to a minimum in the next fiscal year. We, however, believe that generally interest rates should be left to be decided by the market forces so that optimum allocation of resources is ensured. Empirical research reveals that investment-interest rate correlation is not very much significant. When an economy is in the take off stage, there are ample opportunities for earning high returns on investments. As a result, high interest rates are not likely to impede investment.

22. Our subsidy payment is going up due to lack of sufficient price adjustment to match the upward trend of fuel price in the international market. This is intensifying pressure on financial sectors, on government budget and on the macro-economy. In this situation, we have to reduce subsidy, especially fuel subsidy. We have to put a tight rein on expenditure against non-productive sectors as well. Revenue income has to be augmented. Credit flow to non-productive sectors has to be controlled. We have to keep pursuing restrained monetary policy. At the same time, we have to ensure that growth is not adversely affected or private sector investment is not hampered. To that end, we have to create enough fiscal and monetary space. The rate of utilisation of foreign aid has to be increased. We have to find ways on how to get the foreign aid commitments released and quickly utilise the same. The Non Resident Bangladeshis are to be encouraged to invest in Bangladesh. If needed, sovereign bonds may be issued and resources so gathered can be used only on big projects having national priority. Its worth noting that the size of the budget in the normal process will grow each year together with a growth of non-development expenditure. When a nation creates assets, it is essential to operate and maintain them to get return consistently. All expenses incurred for the operation and maintenance of those assets are borne on the non-development budget. As we all know that failure on these two counts often leads to lower utilisation of economy's capacity which eventually may harm the national development.

## Chapter IV FY2012-13 Budget Structure

### Assumptions

#### Mr. Speaker

23. Now I would like to reflect briefly on the overall budget structure of FY 2012-13. The next fiscal year's budget has been prepared based on