

## Exigent fiscal measures needed for the economic recovery

The Unnayan Onneshan, an independent multidisciplinary think-tank, states that exigent policies are needed, as policy-induced macroeconomic challenges loom large on the maintenance of decadal average growth rate of six percent in the current year.

“The policy adjustment should be calibrated to the recovery by augmenting aggregate demand through harmonisation of public and private investment. This is best done by addressing structural rather than cyclical constraints,” suggests the organisation’s pre-budget annual publication entitled *“Exigency or Expediency? State of Bangladesh Economy and Development, 2012-2013.”*

The Unnayan Onneshan reveals that the economy is likely to miss the targeted 7.2 percent growth rate in FY 2012-13, which might stand at 5.75 percent, a sliding down for the second consecutive year than that of the preceding year. The forecast is below the decadal average of 6.16 percent. The private investment to GDP has decreased by 0.4 percentage points in FY 2011-12 and the national savings-investment gap has widened from 3.63 percent in FY 2010-11 to 3.95 percent in FY 2011-12.

Besides, the country has pursued non-evidence-based policies prescribed by the International Monetary Fund (IMF) at a cost of its policy sovereignty and the economy has contracted, adds the organisation.

Referring to budget deficit, the Unnayan Onneshan observes that the fiscal policy needs to make a radical shift in the composition of the fiscal deficit from consumption such as paying for rents to quick rental power plants to addressing supply-side bottlenecks through public investment in infrastructure. The increased public infrastructure investment will ensue fiscal multipliers and crowd in private investment, unlike the current consumption based fiscal deficit, which has been crowding out private investment demand. The budget deficit for FY 2012-13 is estimated to be Tk.52068 crore, which may surpass the targeted 5.0 percent of the GDP.

The organisation has proposed for structural reforms in the areas of net, burden, avoidance and evasion of taxes in the backdrop of missed target in revenue collection. The collection, between July-March of the present fiscal year, has experienced a deficit of Tk. 4783 crore, with an actual collection of Tk. 73217 crore against the target of Tk. 78000 crore for this period.

The research organisation identifies four major challenges in the monetary sector: high inflation, high interest rate spread, slow credit growth and slow progress in financial inclusion. Even after adopting a contractionary monetary policy, inflation amounted to 8.00 percent in March 2013, while domestic credit growth recorded a slower growth of 7.03 percent during July-March, FY 2012-13 against 12.88 percent in the corresponding period of FY 2011-12. This is compounded by heightened rise in non-performing loans and misdemeanours in regulatory oversights in the banking sector while capital market continues depressed with erosion in confidence.

As regards the external sector, the Unnayan Onneshan finds that deteriorating terms of trade, negative import growth of capital machinery, missing of export target and increased exposure to high interest bearing short-term foreign borrowing have repercussions on the economy. The collapse of a factory building has also subjected the country’s top export earner, the garment sector, to renewed pressure.

The terms of trade in January 2013 stood at 81.9 percent, which was 13.90 percentage points lower than that of December, 2012. Import of capital machinery has observed a negative growth of 4.79 percent during July-February of 2011-12 over July-February of 2012-13, and the country has missed her export

target for the first seven months of FY 2012-13 by USD 330 million. During July-February of FY 2012-13, external loans have increased by USD 407 million compared to the corresponding period of the previous year.

The Unnayan Onneshan detects that the real sectors have been burdened with a rapidly declining agricultural sector and a relatively slow growing industrial sector. The industrial sector grew at a yearly average of 37 percentage points between FY 1997-98 and FY 2011-12, the agricultural sector declined by 40 percentage points.

The Unnayan Onneshan points out that education and health have not received sufficient budgetary allocations in real terms and the rate of increase in education expenditure has decelerated from 9.98 percent in FY 2011-12 to 6.76 percent in FY 2012-13. Health expenditure has also increased at a decreasing rate in FY 2012-13.

In the labour market, the formal sector has long been shrinking. Total civilian labour force has grown by 23.32 percent between 2002-03 and 2010, whereas the size of the formal sector has decreased by a massive 26.09 percent. Moreover, the problem of disguised unemployment remains as severe as ever, observes the leading think-tank.

The research organization suggests for adopting structural reforms to develop the real economy for generation of decent employment in line with its comparative advantage.