Declining Growth: Mismatches in Fiscal and Monetary Management

Half Yearly Assessment of the Economy of Bangladesh

Bangladesh Economic Update

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1. INTRODUCTION

The Unnayan Onneshan (UO), in its current issue of Bangladesh Economic Update focuses on the overall economic condition of the country at the half way stage of FY 2013-14. The end of this calendar year also marks the completion of the tenure of the current government.

The Unnayan Onneshan (UO), in its current issue of Bangladesh Economic Update focuses on the overall economic condition of the country at the half way stage of FY 2013-14. The end of this calendar year also marks the completion of the tenure of the current government. This issue investigates the sector wise performance of the current fiscal year in light of the targets set in the annual budget, Medium Term Macroeconomic Framework (MTMF) and other national plans, policies and goals. It also attempts to explore the current implementation status of the Annual Development Programme (ADP) and makes projection thereof.

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The economy is likely to experience a decelerating rate of economic growth for the third time in a row. In FY 2010-11, the rate of growth in gross domestic product (GDP) was 6.71 percent, which later declined to 6.23 percent in FY 2011-12, and further fell to 6.03 percent in FY 2012-13.

The Unnayan Onneshan projects that the rate of growth in the present fiscal year (FY 2013-14) is likely to fall below the decadal average of 6 percent due to fiscal and monetary policy management trap, functioned by lack of policy farsightedness coupled with political contestations. The measures proposed in the budget, coupled with a contractionary monetary policy and orthodox exchange-rate management agreed as part of a three-year programme between the government and the International Monetary Fund (IMF) have led to slide in the rate of growth.

As regards the fiscal management, there is a mounting pressure on collection of revenue from the beginning of the fiscal year. In the first quarter of the current fiscal year, tax revenue from sources such as supplementary duty (import) and excise duty has depicted a negative rate of growth at 5.66 percent and 24.03 percent, respectively from those of first quarter of FY 2012-13. Besides, relatively lower rate of growth

The slower rate of revenue collection is likely to reduce public expenditure, especially in infrastructure and social sector as the proposed public investment earmarked in budget for education and health sector has witnessed downward revision during most of the period between fiscal year 2006-07 and fiscal year 2013-14.

has been observed in custom duty and value added tax (VAT) than the rate achieved in the previous fiscal year. Rates of growth of custom duty and VAT are 4.52 and 16.63 in first quarter of FY 2013-14 which was 7.69 and 19.13 in the first quarter of the previous fiscal year. Newspapers report that between July and November in FY 2013-14, the National Board of Revenue (NBR) has collected revenue of Tk. 40,956 crore against the target of Tk 46,924.68 crore, a short of the target by Tk. 5,970 crore and 88.59 per cent of its target.[1] This comes in the background of FY 2012-13 when both NBR and non-NBR authorities have failed to satisfy the target of revenue collection with total shortage of Tk. 40777.5 million.

The slower rate of revenue collection is likely to reduce public expenditure, especially in infrastructure and social sector as the proposed public investment earmarked in budget for education and health sector has witnessed downward revision during most of the period between fiscal year 2006-07 and fiscal year 2013-14. It is also to be noted here that expenditure in social sectors like education and health has been increasing in nominal terms, but the rate of increase has slowed down in the last several years.

The fall in revenue collection also means that the government has to increase its borrowing from both domestic and foreign sources and the former may crowd out private investment. As most of this expenditure goes to support the consumption of the revenue budget, a decrease in tax collection thus would lead to lower public spending in infrastructure and development. Again, to finance this increase in revenue expenditure, the government has to go for further borrowing and thus trapping the country in a vicious circle of spiraling debt and deficit.

Public expenditure in the real sector has already been constrained as the broad agriculture sector has seen Tk. 17,471 crore as allocation in the budget for FY 2013-14, representing a decrease by Tk. 2,371 crore from the revised budget for FY 2012-13. In terms of budgetary allocation, the infrastructure

[1] http://www.samakal.net/2013/12/23/28128 and http://www.newagebd.com/detail.php?date=2013-12-25&nid=77988#.UrsLDmQW3Hk

sector has seen one of the highest increases in recent times because of special allocation for the Padma multipurpose Bridge of Tk. 6,852 crore. The effectiveness of the amount, however, would depend on how the money is capitalised. If the money is used to build new roads, railways, etc, the possibility of a greater fiscal multiplier would be created.

Moreover, the implementation of annual development programme (ADP) has shown mark deterioration in the first half of the current fiscal year

Moreover, the implementation of annual development programme (ADP) has shown mark deterioration in the first half of the current fiscal year. During the first four months of FY 2013-14, total implementation of the ADP has stood at Tk. 227.25 billion, which in actual amount is Tk. 0.68 billion less than the previous fiscal year.

Meanwhile, the savings-investment gap has been on an upward trend because of the contractionary monetary policy and low investment demand arising from poor infrastructure. If the existing policies prevail in future, this gap might be 5.47 and 5.81 percent of the nominal GDP in FY 2013-14 and FY 2014-15 respectively.

The rate of growth of actual disbursement of credit to the private sector in July to September of 2013-14 over July to September of 2012-13 is 10.18 percent, representing a gap of 5.32 percentage points. If the current trend continues, the gap may further widen in September to December, 2013-14. The rate of growth of credit in private sector might decline, if the business as usual situation prevails.

High inflation continues to persist in the current year despite adoption of contractionary monetary policy. The economy has witnessed high inflation which has stood at 7.15 percent (point to point basis considering 2005-2006 base year) in November 2013 against 6.55 percent in November 2012. Additionally, the financial sector is mired with high rate of interest rate and high interest rate spread – the difference between the lending and the deposit rates. The goal of financial inclusion remains rhetorical as the inequality between the rich and the poor as well as between the rural and the urban areas widens.

Finally, the import prices have been rising more rapidly than the export prices of Bangladeshi goods, leading to a deteriorating terms of trade. Capital machinery imports increased in the first quarter of the current fiscal year despite the negative investment climate raised due to political instability. This requires further investigation.

2. GROWTH, SAVINGS AND INVESTMENT

Several policy-induced macroeconomic challenges have severely restricted the maintenance of upward mobility of rate of growth in the recent fiscal years and the continuation of progress in different social sectors. The challenges have partly been the result of lack of farsightedness and creativity in policy making, resulting in fiscal and monetary mismanagement.

2.1 The Scenario of Growth

The government has already reviewed many macroeconomic targets in FY 2014-18 that are set in the Medium Term Macroeconomic Framework (MTMF) due to failure to achieve the earmarked targets in many sectors of the economy in FY 2012-13. As a result, a great mismatch exists between the projection of growth by MTMF which has been revised five times in the regime of current government and actual rate of growth which mainly occurred due to myopic policies taken by the government and some of which were suggested by IMF (Table 1).

Under the five year MTMF FY 2014-18, the annual GDP growth was projected at 7.6 percent in FY 2013-14. But the projection has been revised and set at 7.2 percent in the current fiscal year instead of the 7.6 percent projected by MTMF.

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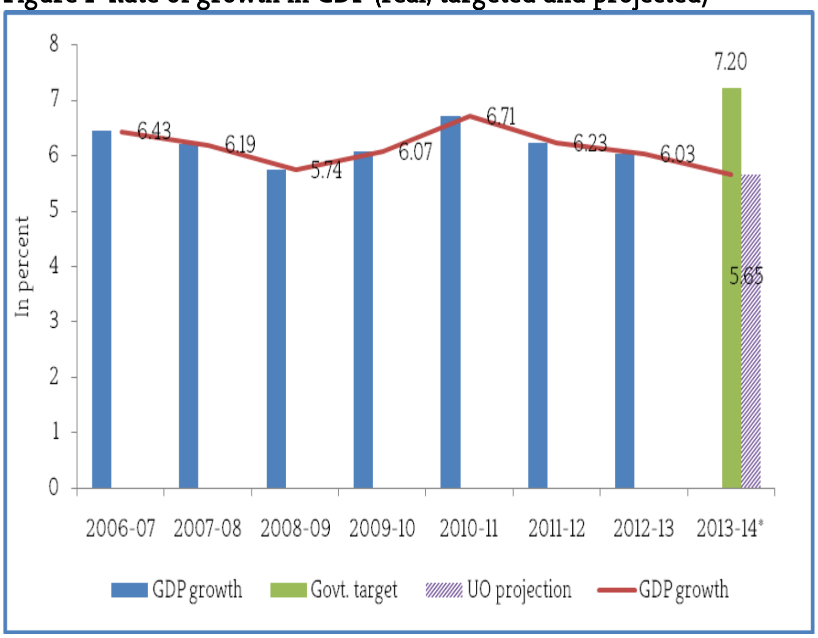
Table 1: Projection of MTMF and actual rate of growth

Component	MTMF	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
GDP Growth	MTMF 08-11	6.5	7.0	7.2					
	MTMF 09-12		5.5	6.0	6.5				
	MTMF 12-16			6.7	7.0	7.2	7.6	8	
	MTMF 13-17				7.0	7.2	7.6	8	
	MTMF 14-18					6.0 (Revised)	7.2	8	8.3
Actual Growth in GDP		5.74	6.07	6.71	6.23	6.03			

Source: Bangladesh Bank and Finance Division, Ministry of Finance, Bangladesh

Considering the movement of important variables in the economy, the Unnayan Onneshan projects that the real growth in the GDP might be 5.65 percent in FY 2013-14. On the other hand, in MTMF FY14-18, the rate of growth in GDP has been projected at 7.2 and 8.0 percent for FY 2013-14 and FY 2014-15 respectively whereas the IMF has projected that the real GDP growth might be 6.1 and 6.7 in 2014 and 2015 respectively.

Figure 1: Rate of growth in GDP (real, targeted and projected)



Source: Various issues of Bangladesh Bureau of Statistics (BBS) 2013 and the Unnayan Onneshan Projection

It is to be noted here that MTMF and IMF have made projections about real growth, CPI inflation, and current balance of account as percentage of GDP. In those documents, the decreasing rate of CPI inflation and current balance of account produces increasing trend of the real growth. It is assumed that due to the policy suggestions of IMF, the above variables are supposed to decline and the real growth to increase. The increased rate of growth, however, has not been materialised particularly due to shortfall in investment demand.

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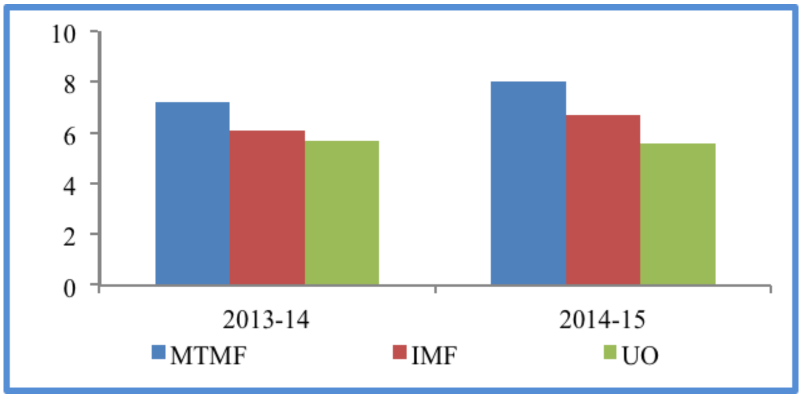
Figure 2: Comparison of real GDP growth projected by IMF, MTMF and UO



Source: Finance Division, Ministry of Finance, Bangladesh, IMF and Authors' projection, 2013

The major reasons of failing to achieve the targeted level of growth of the current fiscal year are the increased gap between savings-investment, mismatch between investment demand and growth of credit to the private sector, poor rate of ADP implementation, failure to achieve the targeted level of revenue, reduction in public spending in physical infrastructure and social sectors. These have been accompanied with political contestations.

2.2 Savings and Investment

The rate of growth in GDP has been constrained as investment has not been increasing at a satisfactory rate, especially by the private sector. The gap between savings and investment has been widening. Moreover, the incremental capital output ratio

(ICOR)[2] has deteriorated continuously in the past few years, indicating that the country has not been able to boost productivity of investment.

2.2.1 Savings-Investment Gap

The gap between savings and investment has increased over time. The government initiatives seem to be ineffective in case of converting the level of saving in to level of investment.

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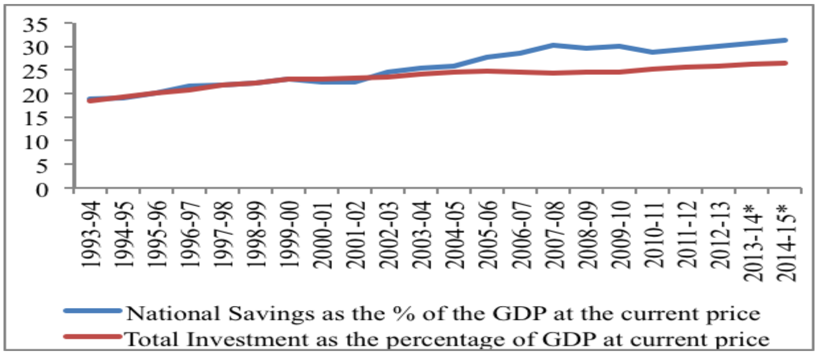
It is clear that the rate of national savings has been approximately constant in the tenure of this government. In case of investment, the government could not achieve the target of MTMF in each revised MTMF. In FY 2012-13 the estimated savings and investment was 26.8 and 25.45 percent respectively.

Considering the business as usual scenario, the national savings might be 32.18 and 32.86 percent of the nominal GDP in FY 2013-14 and FY 2014-15 respectively and total investment might be 26.71 and 27.05 percent of the nominal GDP in FY 2013-14 and FY 2014-15 successively.[3] The savings-investment gap has increased sharply and it will continue further, if the existing policies prevail in future. The saving –investment gap might reach at 5.47 and 5.81 percent of the nominal GDP in FY 2013-14 and FY 2014-15 respectively.

Figure 3: National savings and total investment as percentage of current GDP



Source: Authors' calculation based on various issues of BBS

[2] The ratio of investment to growth according to the traditional Harrod-Domar framework.

[3] The details projection procedure has shown in Appendix: C

The MTMF targets are that in FY 2014-15, there will be no gap between savings and investment and it might be 29.6 percent of the current GDP. The policy responses, to date, however, have not been able to support such ambition.

Table 2: MTMF and actual investment and national Savings

Component	MTMF	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Gross Investment (as percentage of GDP)	MTMF 08-11	24.4	26.3	27					
	MTMF 09-12		23.6	24.3	25.2				
	MTMF 12-16			26.5	28.8	29.6	31.0	32.5	
	MTMF 13-17				25.9	26.6	28.1	29.6	
	MTMF 14-18						28.1	29.6	31.4
Actual Investment		24.18	25.0	24.4	25.9 (e)	26.6 (e)			
Actual National Savings		29.6	30.02	28.78	26.3(e)	26.8 (e)			
National Savings (as percentage of GDP)	MTMF 12-16			28.3	29.8	30.4	31.1	32.8	
	MTMF 13-17				26.3	26.8	28.2	29.6	
	MTMF 14-18						28.2	29.6	31.5

Source: Bangladesh Bank and Finance Division, Ministry of Finance, Bangladesh, 2013

2.2.2 Incremental Capital Output Ratio (ICOR)

The government would require total rate of investment to rise at 32.0 percent of GDP in FY 2013-14 if the ICOR remains constant at the level of the previous year (Table 03). On the other hand, if the investment rate remains constant to the level of FY 2012-13, the productivity of investment has to be enhanced to reduce ICOR to 3.72 to make this growth possible. If the rate of investment observes an increment of 0.8 percent in FY 2013-14, and the ICOR returns to the level of 2011-12, the maximum growth possible in FY 2013-14 would be 6.49 percent. In view of the current condition of the economy, this is, however, not feasible.

Table 3: Incremental capital output ratio

Year	GDP Growth	Investment Share on GDP	ICOR
2001-02	4.42	23.1	5.226
2002-03	5.26	23.4	4.449
2003-04	6.27	24.00	3.828
2004-05	5.96	24.5	4.111
2005-06	6.63	28.7	3.725
2006-07	6.43	24.5	3.810
2007-08	6.19	24.2	3.910
2008-09	5.74	24.4	4.251
2009-10	6.07	24.4	4.0198
2010-11	6.71	25.2	3.756
2011-12	6.23	26.5	4.254
2012-13	6.03	26.8	4.444
2013-14	7.2	32*	4.444*

*Note: * If the ICOR remains constant at the FY 2012-13 level ** If investment remains constant at the FY 2012-13 level* Source: Authors' estimation based upon various data of BBS.

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3. Fiscal Management

The inability to mobilise revenues at a higher rate is affecting the ability of the government to fund critical sectors, particularly physical and socio-economic infrastructures, needed for economic development. The MMTF envisages five percent of the GDP as fiscal deficit.

Table 4: Budget deficit

Component	MTMF	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Budget Deficit (as percentage of GDP)	MTMF 08-11	5	4.4	4					
	MTMF 09-12		5	4.8	4.7				
	MTMF 12-16			4.3	5.0	5	5	5	
	MTMF 13-17				5.1	5	4.7	4.6	
	MTMF 14-18						4.6	4.6	4.5
Actual Budget Deficit		4.1	4.5	4.4	5.1	4.8(R)			

Source: Bangladesh Bank and Finance Division, Ministry of Finance, Bangladesh

3.1 Deficit in Budget

The overall budget deficit for FY 2013-14 is estimated at Tk. 55,032 crore, which is 4.6 percent of GDP. The revised budget for FY 2012-13 has estimated a deficit of Tk. 49,656 crore (4.8 percent of GDP), which was Tk. 55,000 crore (5.0 percent of GDP) in the proposed budget.

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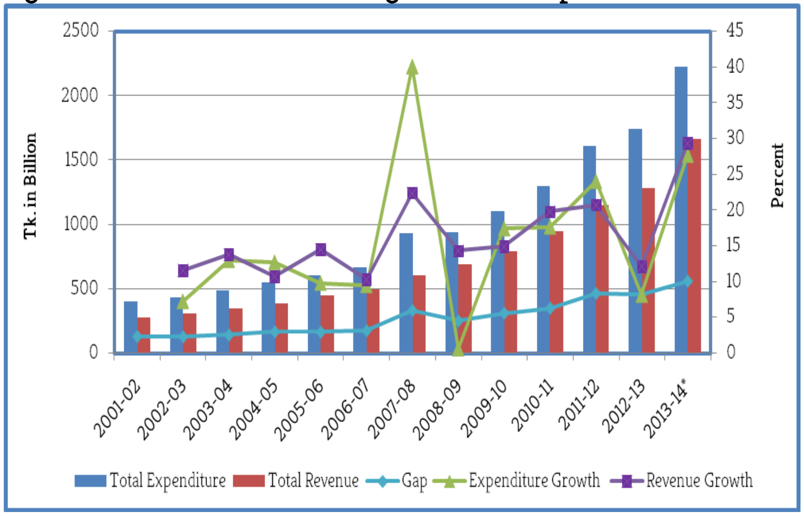
The three fiscal targets related to earning from revenue, expenditure of revenue and deficit in budget have fallen short in FY 2012-13 and the government had to revise these by a significant margin. The targets for collection and expenditure of revenue in FY 2013-14 are set above the trend observed in the last several fiscal years. The National Board of Revenue (NBR) missed the target of revenue collection of Tk. 1,39,670 crore in FY 2012-13. Since the revenue target of the government seems to be ambitious, the government may be forced to cut the expenditure level in FY 2013-14 to keep the deficit of budget within the target.

At the current rate of revenue realisation, gap between targeted and actualised revenue may increase by TK 8.18 billion. The target in the current budget is TK 1674.59 billion.

Figure 4: Revenue collection and government expenditure



*Projection

Source: Authors` Calculation from the data of Ministry of Finance 2013

The present trend of these deficits, however, occurs due to lack of farsightedness of the government. One of the most important reasons of this deficit is subsidised payment of quick rental system which is based on a short run gain at the cost of long run sustainability. Due to this, the deficit does not augment capital formation and hence, fails to contribute to the process of growth. Moreover, the borrowing of government may crowd out private investment. The rising rate of interest due to the contractionary monetary policy has already made the interest rate high and lowered the level of private investment as well. The higher level of rate of interest also forces down the consumption and consequentially reduces growth since the country's economy is highly consumption-based.

3.2 Pressure on Revenue Collection

The government has been struggling to boost up its revenue earning. Total revenue is collected either from tax or from non-tax sources. In total revenue, tax revenue consisted of 80.9 to 83.42 percent between FY 2007-08 and FY 2012-13 and the remaining came from non-tax sources. Of the total tax revenue, nearly 95-96 percent is collected by the NBR.

Several issues have gained importance in recent times. The first concern is the prevalence of narrow tax net, which acts as a hindrance to having a stronger revenue base in the country. The second important issue is those of tax incidence, avoidance and evasion. Although the government is giving emphasis on direct tax i.e. income tax, the revenue collection of the country largely depends on the indirect taxes (e.g. VAT). Thirdly, in FY 2012-13, both NBR and non-NBR have failed to satisfy the target to collect revenue with total shortage of Tk. 40777.5 million.

Finally, in the first quarter of the current fiscal year, tax revenue from some sources has depicted a negative growth. Rate of growth of custom duty and VAT in the first quarter of current fiscal year is lower than that of the corresponding period of previous year.

Finally, in the first quarter of the current fiscal year, tax revenue from some sources has depicted a negative growth. Rate of growth of custom duty and VAT in the first quarter of current fiscal year is lower than that of the corresponding period of previous year. Even, supplementary duty (import), excise duty, and travel tax are negative in the first quarter than that of the same period in the previous year.

Income tax has been determined on five slabs progressively with income level. But when the collection of VAT is considered with direct tax, the higher burden of tax on marginalised group seems apparent. Moreover, certain types of taxes such as the inheritance tax are absent in Bangladesh which could be supportive to enhance the tax base.

Legal taxpayer pays 25 percent in the first year, whereas unrecorded money could be regularised by paying 10 percent in the next year, even enjoying benefits up to 15 percent. This type of privileged treatment reduces the incentive of paying tax and encourages evasion and avoidance.

Table 5: Realisation of target of different sources of revenue

	2012-13 (tk. million)				First Quarter of 2013-14 (July-September)	
Particulars	**Target**	**Realisation**	**Gap Between target and Realisation**	**Percentage Change from previous year**	**Realisation (Tk. million)**	**Percentage Change from corresponding period of 2012-13**
Import Duty	154191.7	133076.8	-21114.9	1.17	33096.2	3.89
VAT (Import)	147137.0	148004.2	867.2	7.31	36946.3	8.88
Supplement (I)	54671.3	42016.9	-12654.4	-3.80	10931.3	-5.66
Export Duty	0.0	298.5	298.5	-23.36	110.0	0.55
Excise Duty	9971.0	7725.2	-2245.8	16.98	393.2	-24.03
VAT (Local)	246280	263641.1	17361.1	19.92	61069.0	21.88
Supplement (L)	147689.9	119852.5	-27837.4	0.51	29119.8	22.83
Turn Over	59.1	37.6	-21.5	7.74	8.4	33.33
Income Tax	353000	365655.9	12655.9	27.62	73161.6	28.29
Travel Tax	9587.5	5838.9	-3748.6	21.38	1434.3	-2.47
Others	02.5	1.3	-1.2	18.18	0.1	-83.33
Total NBR Tax	1122590	1086148.9	-36441.1	14.26	246270.2	17.09

Source: NBR 2013; BB 2013; MoF 2013

3.3 Sources of Borrowing and their Implications

Total public borrowing has been increasing since FY 2009-10, and the government has set its target to borrow at Tk. 48362 crore in the budget for FY 2013-14. This is equal to an increment by Tk. 3986 crore than the amount borrowed in the previous fiscal year. This increasing public borrowing indicates that revenue collection is not increasing adequately.

In FY 2013-14, the government assumes that Tk. 23,729 crore from external sources and Tk. 33,964 crore from domestic sources will finance the deficit. Tk. 25,993 crore will be funded from the banking system, and Tk. 7,971 crore from savings certificates and other non-banking sources.

The government has exceeded its set targets of borrowing from banking sector in the last three fiscal years. Government has crossed the target of borrowing from banking sector in FY 2012-13.

The government has exceeded its set targets of borrowing from banking sector in the last three fiscal years. Government has crossed the target of borrowing from banking sector in FY 2012-13. Borrowing from banking system has increased to Tk. 28500 crore in the revised budget in FY 2012-13 from Tk. 23,000 crore of the proposed budget of the same year. Again, the government has set its target at Tk. 25,993 crore in FY 2013-14 which might cross the target.

The deficit has two clear costs for the economy. First, higher borrowing of government from domestic sources has crowded out the investment in private sector. Second, policy costs are included in the deficit. High public debt hinders the economic growth and affects the economy. It puts upward pressure on real rates of interest, which may crowd out the private investment. The government has been forced to cut expenditure, particularly in social sectors.

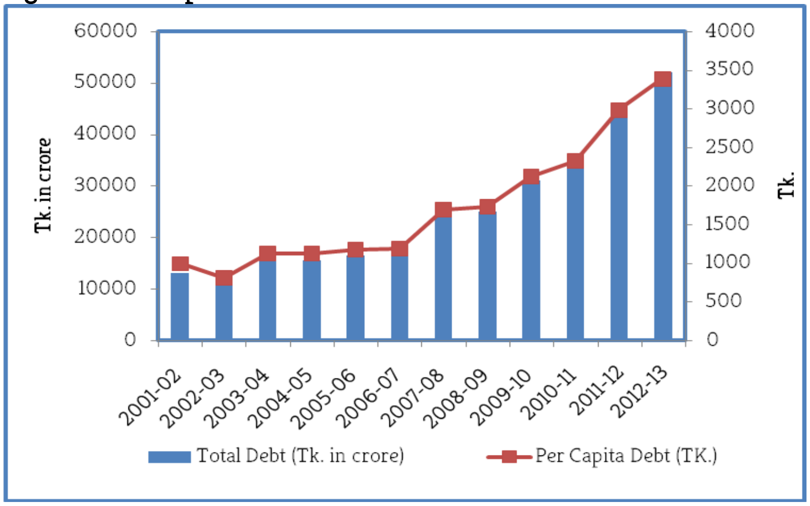
3.4 Debt Burden

Per capita debt burden, which is the sum of per capita domestic debt as well as per capita external debt, has been increasing over the years.

Per capita debt burden, which is the sum of per capita domestic debt as well as per capita external debt, has been increasing over the years. Specially, since FY 2006-07 per capita debt burdens have been showing a sharp increasing trend. In FY 2012-13 and FY 2011-12, per capita debt burden has increased by Tk. 407.65 and Tk. 656.20 respectively. In FY 2012-13, per capita debt burden stood at Tk. 3389.84. Total debt has increased from Tk. 45210 crore in FY 2011-12 to Tk. 52068 crore in FY 2012-13. The ever-rising public debt has been exerting a serious pressure on the macro-economic stability of the country. This debt also puts an upward pressure on the real rate of interest by crowding the private investment out.

In FY 2012-13, the rate of growth in per capita debt burden has decreased compared to previous fiscal year, but this rate is still higher than the rate of growth in per capita GDP in FY 2012-13. In FY 2012-13, the rate of growth in per capita GDP and the rate of growth in per capita debt burden stood at 11.6 percent and 13.7 percent respectively.

Figure 5: Per capita debt burden



Source: Bangladesh Economic Review, 2013

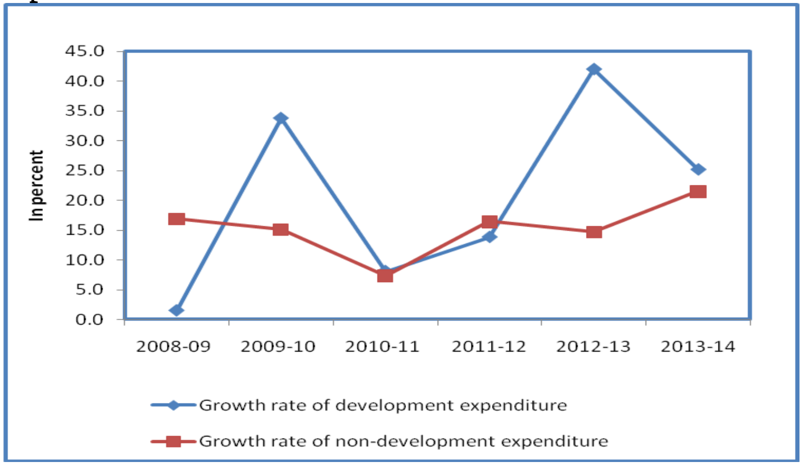
3.5 Development and Non-Development Expenditure

In case of ADP allocation, the agriculture sector received the highest allocation like the previous fiscal year, although its share has fallen from 30.9 percent in FY 2012-13 to 25.4 percent in FY 2013-14.

Of the total public expenditure, target of Tk. 222,491 crore (18.7 percent of GDP) for FY 2013-14, the allocated amount for non-development and other expenditure is Tk. 156,621 crore (13.2 percent of GDP) and ADP expenditure is Tk. 65,870 crore (5.5 percent of GDP). In the previous fiscal year (FY 2012-13), ADP expenditure was Tk. 52,068 crore (5.0 percent of GDP). This proposed ADP was later revised to Tk. 49,656 crore (4.8 percent of GDP).

In case of ADP allocation, the agriculture sector received the highest allocation like the previous fiscal year, although its share has fallen from 30.9 percent in FY 2012-13 to 25.4 percent in FY 2013-14. On the other hand, ADP allocation on the Overall Communication has almost doubled, from Tk. 8,242 crore in FY 2012-13 to Tk. 15,216 crore in FY 2013-14 primarily due to bloc allocation on the Padma Bridge.

Figure 6: Growth rate of development and non-development expenditure



Source: Budget in brief, (from 2009-10 to 2013-14)

The implementation of ADP in the first quarter (July to October) of the FY 2013-14 is only about 15 percent which was 5 percent less than that of previous fiscal year. In the first four months of FY 2013-14, total implementation of the ADP has stood at Tk. 227.25 billion, which in actual amount is Tk. 0.68 billion less than that of the previous fiscal year.

A mismatch is observed between the target of MTMF and its actual changes in case of broad money. Growth in credit has been constrained because of tightening by the monetary policy.

4. MONEY SUPPLY, CREDIT AND INFLATION

A mismatch is observed between the target of MTMF and its actual changes in case of broad money. Growth in credit has been constrained because of tightening by the monetary policy. There has also been lesser investment demand. The asset quality and the risk management situation of the banking sector have also undergone negative changes due to failed policy of liberalisation and deregulation. The inflation rate has also increased in recent months.

4.1 Credit

The target of credit in private sector in the current MPS (Monetary Policy Statement) has been set at 15.5 percent by December 2013. This target is 3.0 percentage points less than the target (18.5 percent) of previous monetary policy statement. The target of MTMF in domestic credit and credit in private sectors were based on contractionary mode.

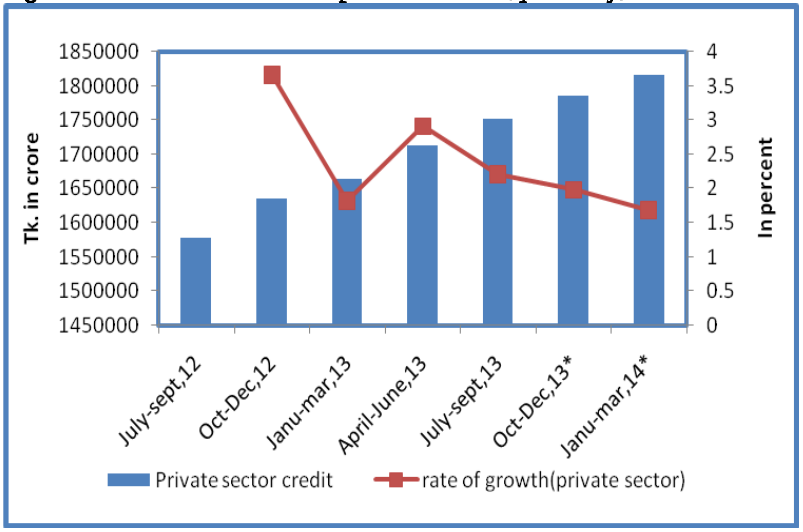
Table 6: Domestic credit, credit in private sector and broad money

Component	MTMF	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Domestic Credit (percentage change)	MTMF 08-11	18	18.2	17.9					
	MTMF 09-12		19.2	18.8	18.4				
	MTMF 12-16			17.7	19.2	19.5	19.5	19.2	
	MTMF 13-17				19.1	18	17.1	16.7	
	MTMF 14-18						17.5	16.8	16.3
Actual change of DC		15.9	17.6	27.42	19.53	18.9 (R)			
Credit in private sector (percentage change)	MTMF 08-11	17	19	19					
	MTMF 09-12		18.3	18.5	18.5				
	MTMF 12-16			18	18	18	18.5	18.5	
	MTMF 13-17				16	16	16	16	
	MTMF 14-18						16	16	16
Actual change		14.6	24.2	25.83	19.72	18.5(R)			
Broad Money (M2) (percentage change)	MTMF 08-11	16.9	15.8	15.3					
	MTMF 09-12		16.3	16.2	16				
	MTMF 12-16			16	15.8	15.8	15.7	15.5	
	MTMF 13-17				17	16	15.5	15.5	
	MTMF 14-18						16	16	16
Actual change		19.2	22.4	21.34	17.39	17.7 (R)			

Source: Bangladesh Bank and Finance Division, Ministry of Finance, Bangladesh, 2013

The rate of growth of actual disbursement of credit to the private sector in July to September of 2013-14 over July to September of 2012-13 are 10.18 percent, representing a gap of 5.32 percentage point. If the current trend continues, the gap may further widen in September to December, 2013-14 and the rate of growth of credit in private sector might decline from 2.21 percent in July-September, 2013 to 1.98 percent in October-December, 2013.

Figure 7: Growth of credit in private sector (quarterly)



Source: Authors' calculation based on monthly economic trend, November 2013 Bangladesh Bank.

It has been observed a negative rate of growth of 43.15 percent in public sector in July-September, 2013-14 over July-September, 2012-13, which also grew at a negative rate of 4.95 percent over July-September, 2011-12.

It has been observed a negative rate of growth of 43.15 percent in public sector in July-September, 2013-14 over July-September, 2012-13, which also grew at a negative rate of 4.95 percent over July-September, 2011-12. Domestic credit recorded an increase of 11.52 percent at the end of September, 2013 against the increase of 17.72 percent in corresponding period of the last year.

Excess of liquidity in the banking sector has been increasing over the months mainly due to a noticeably low level of demand for credit by the private sector. Excess of liquidity of the banking sector reached over Tk. 83000 crore at the end of November 2013 whereas this was Tk. 80000 crore in July, 2013.

4.2 Risk Management

Risk management comprises, amongst others, of capital adequacy, asset quality, non-performing loan, expenditure-income ratio and return on Asset (ROA), return on Equity (ROE) and non-performing loan (NPL). These indicators suggest lack of presence of prudential surveillance on the financial sector and profitability of bank.

First, large-scale scams such as embezzlements by Hall-mark, Bismillah Group denote lack of enforcement of surveillance, regulatory oversight and prudential management.

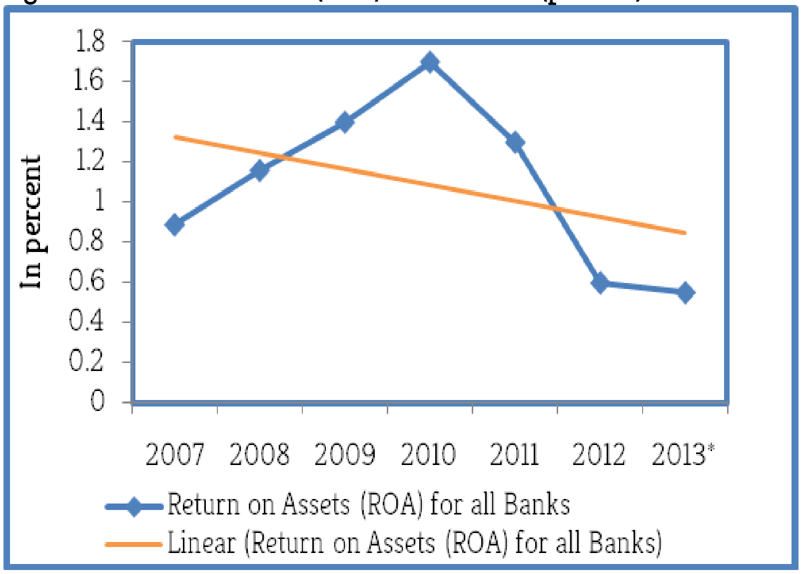
First, large-scale scams such as embezzlements by Hall-mark, Bismillah Group denote lack of enforcement of surveillance, regulatory oversight and prudential management.

Second, shortfall of capital by the four state-owned commercial banks (Sonali, Janata, Agrani and Rupali banks) imposed a condition that government would have to restore capital positions of these banks under the conditions laid down by the IMF. To meet the requirement of the IMF, the finance ministry decided to provide Tk. 4100 crore in the first phase against their capital shortfall of Tk. 8863 crore.

Second, shortfall of capital by the four state-owned commercial banks (Sonali, Janata, Agrani and Rupali banks) imposed a condition that government would have to restore capital positions of these banks under the conditions laid down by the IMF.

Third, return on Assets (ROA) indicates the productivity of the assets i.e. how much income is earned from per unit of assets. According to Basel- accord, ROA should be more than one percent. On the other hand, return on Equity (ROE) is another important measure of earning and profitability determination which indicates net income after tax to total equity. State owned commercial banks (SCBs) have achieved nearly zero percent of ROA over the period of 2007 to 2012. The scenario is much worst in case of Development Financial Institutions (DFIs) while most of the time ROA was less than one percent in 2010 to 2012. In 2012, overall ROA in the banking sector was 0.60 percent. It these trends continue then overall ROA in the banking sector might decrease to 0.55 percent in 2013. Insignificant profit during this period has occurred due to the worst ratio of ROA scenario in SCBs and DFIs. The position of foreign commercial banks (FCBs) was strong over the whole period. The situation of DFIs is not found better due to the operating loss incurred by Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB).

Figure 8: Return on Assets (ROA) for all banks (percent)

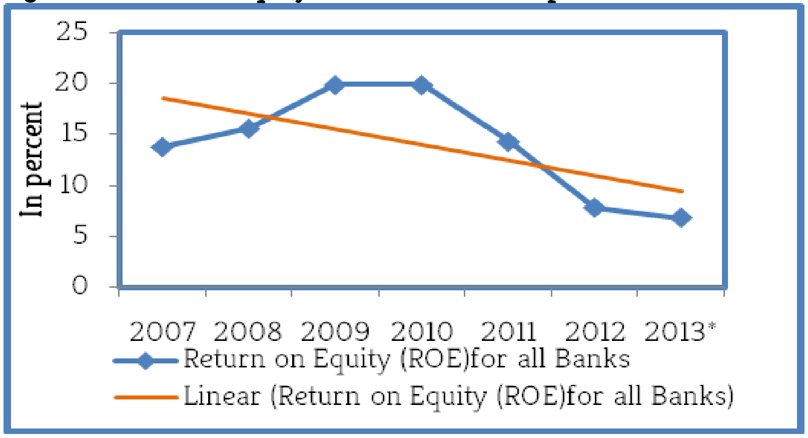


Source: Bangladesh Bank, 2013

Fourth, overall ROE in banking sector was 14.3 percent in 2011 which reduced by 6.5 percentage points in 2012 whereas higher value of ROE is an indication of high productivity of equity. Projection says that if the current trend of ROE in the banking sector persists, the ROE might decrease to 6.80 in 2013. Reduction of ROE ratio in banking sector indicates that profits of shareholders are declining gradually.

In 2010, the position of state owned commercial banks (SCBs) was the worst among the other types of banks and ROE of state owned commercial banks was -11.87 percent. The negative value means huge loss in the business of SCBs. Private commercial banks (PCBs) possessed a progress of 10.17 percent in 2012. On the other hand, foreign commercial banks (FCBs) hold a consistent level of ROE which was 17.29 percent in 2012. DFIs were also in a worse situation y due to huge provision shortfall and net loss.

Figure 9: Return on Equity (ROE) for all banks (percent)



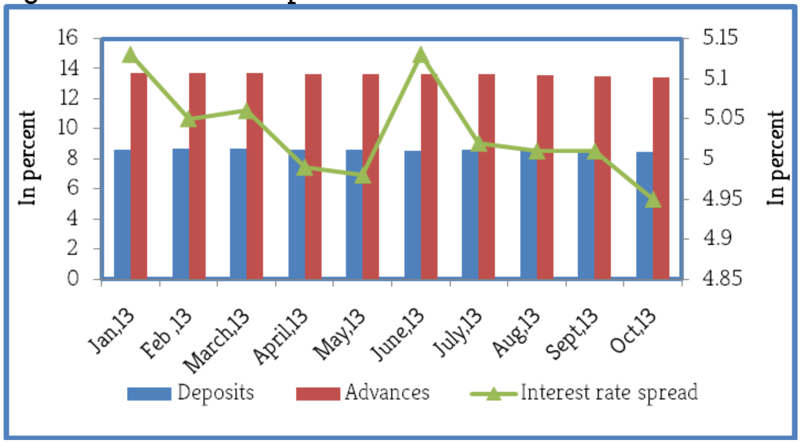
Source: Bangladesh Bank, 2013

4.3 Interest rate spread

Despite promoting financial sector liberalisation, interest rate spread (IRS) has not decreased and lending rate has been remaining high, increasing the cost of capital.

Despite promoting financial sector liberalisation, interest rate spread (IRS) has not decreased and lending rate has been remaining high, increasing the cost of capital. The IRS in Bangladesh is indicative of interactions of the factors such as high costs of intermediation as a consequence of large non performing loan (NPL) and practice of setting higher than competitive deposit interest rates.

Figure 10: Interest rate spread



Source: Major Economic Indicators, November 2013, Bangladesh Bank

4.4 Financial inclusion

Even after following the financial liberalisation for more than decades, wide disparity exists between rural and urban communities in terms of financial inclusion. For example, between February 2008 and December 2012 the percentage of branches of bank in rural areas decreased from 57.94 to 57.20 percent, whereas the share of branches of bank in urban areas increased from 42.06 to 42.80 percent. As of December 2012, 63.97 percent branches of state owned commercial banks were located in rural areas, as opposed to only 38.08 percent branches of private commercial banks. The foreign banks have not established any branch in rural areas.

4.5 Inflation

Bangladesh Bank adopted contractionary monetary policy with the purpose of reducing the inflation. The economy, however, has witnessed high inflation which has stood at 7.15 percent (point to point basis considering 2005-2006 base year) in November 2013 against 6.55 percent in November 2012.

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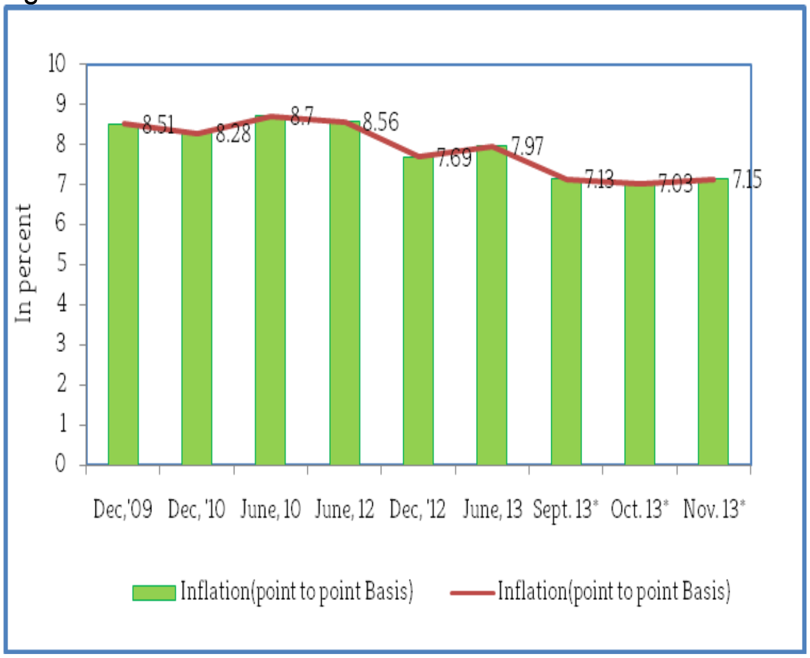
Food inflation rose by 0.45 percentage points in October 2013 from 7.93 percent in September 2013 whereas non-food inflation declined by 0.92 percentage points in October 2013 from 5.94 percent in September 2013. The mounting trend of food inflation as well as non-food inflation has adverse impact on the food intake behaviour sliding down more people into poverty. About 0.04 million people might newly added to the total population living under the poverty line due to one percent increase in the food inflation (Saleh, 2012). It is evident that the incidence of food poverty was 44.33 percent in 2000 and reached to 40.4 percent in 2005 with a rate of reduction of 1.77 percent per year. According to the historical track record, the food poverty might reach at 34.67 percent, 33.23 percent and 27.49 percent in 2013, 2015 and 2015 respectively. Though Bangladesh has achieved a moderate progress in reducing income poverty but the rate of reduction in food poverty is comparatively slower.

Figure 11: Trend of inflation



Source: Selected indicators (up to December 18), Bangladesh Bank, 2013

5. External Balance

The improvement in the balance of payment has been achieved by reducing imports of raw materials and intermediate goods. The deteriorating terms of trade of the last few years continued in the same fashion during the first seven months of the present fiscal year. The amount of foreign aid inflow has remained negligible to the economy.

But in September 2013, the import increased compared to the previous month while export decreased in October 2013, compared to September.

In the first quarter of the FY 2013-14, export increased 21.24 percent compared to the same period of the previous FY 2012-13. On the other hand, import also increased 10.49 percent in the first quarter of the current fiscal year compared to that of the previous FY 2012-13. But in September 2013, the import increased compared to the previous month while export decreased in October 2013, compared to September.

Table 7: Export and import

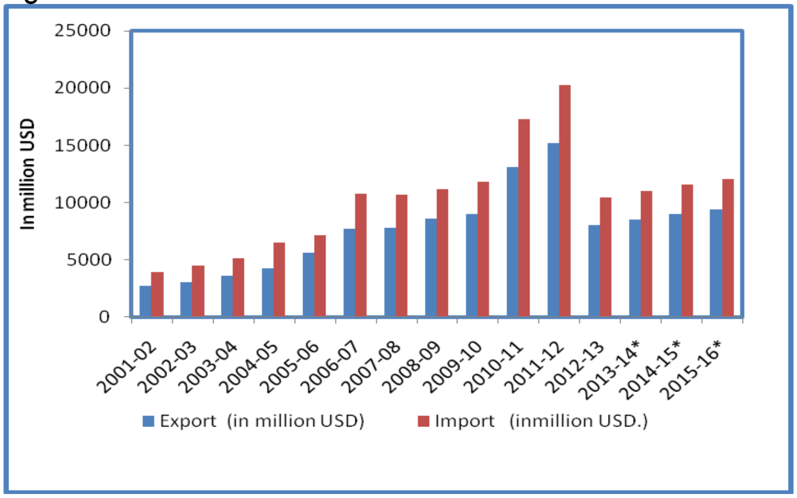
(Export) (In million USD)		2013-14(import) (In million USD)	
Month	Amount	Month	Amount
July-September(2013-14)	7627.97	July- September(2013-14)	9207.4
July-September(2012-13)	6291.45	July- September(2012-13)	8332.90

Source: Major Economic Indicators, November 2013, Bangladesh Bank

5.1 Trade and Current Account Balance

International trade of Bangladesh is comparatively smaller against the size of its population, despite accelerated growth during the last decade. The situation aggravated in FY 2012-13 as both export and import witnessed lower rate of growth than the rate of growth observed in previous FY 2011-12. In FY 2012-13, export and import decreased by 46.87 percent and 48.33 percent respectively than that of FY 2011-12. Moreover, both export and import sector experienced a fall in the rate of growth in FY 2012-13 after observing an increasing trend since FY 2007-08. A business as usual projection for 2013-14 to 2015-16 shows that although export and import might increase, such increase would fail to reach the previous level (Figure 12).

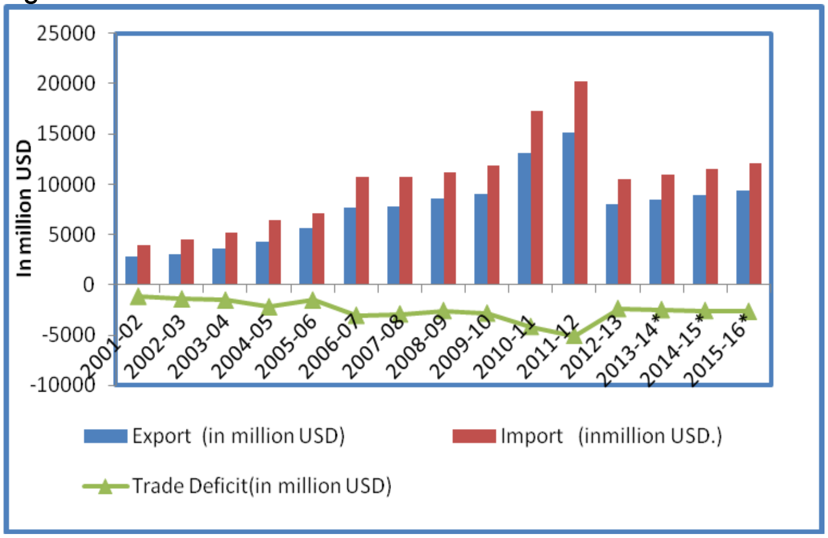
Figure 12: Trends in trade since FY 2001-02



Source: Authors' calculation based on Bangladesh Bank, 2013

Importing more goods than export, the country has been experiencing a negative balance of trade.[4] Trade deficit declined to USD 7010 million in FY 2012-13 from USD 9310 million in FY 2011-12, after increasing over the years to reach at peak in FY 2011-12. The reason behind the decline in trade deficit has been a greater fall in import. If the trend remains as usual, trade deficit might decline to USD 2494.33 million in 2013-14 and to USD 2667.71 million in 2015-16.

Figure 13: Trade deficit



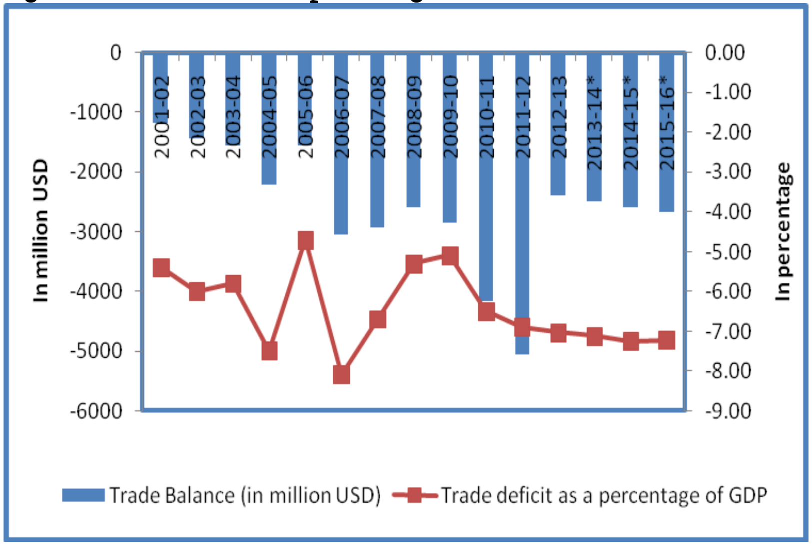
Source: Authors' calculation based on Bangladesh Bank, Bangladesh Bureau of Statistics and Finance Division, 2013

Trade deficit as a percentage of GDP has been increasing, and reached at 8.10 percentage of GDP in FY 2006-07, the highest between FY 2001-02 and FY 2012-13.

Trade deficit as a percentage of GDP has been increasing, and reached at 8.10 percentage of GDP in FY 2006-07, the highest between FY 2001-02 and FY 2012-13. If the current trend continues without major changes, trade deficit as percentage of GDP might increase further to 7.13 percent of GDP in 2013-14, 7.25 percent of GDP in FY 2014-15, and 7.23 percent of GDP in 2015-16 (Figure -3).

[4] The Balance of Trade is the difference between the monetary value of exports and imports in an economy over a certain period. A positive balance is known as a 'trade surplus' if it consists of export more than import. A negative balance is referred to a 'trade deficit' if it consists of import more than export.

Figure 14: Trade deficit as percentage of GDP



Source: Authors' calculation based on Bangladesh Bank, 2013 and Bangladesh Bureau of Statistics and Finance Division, 2013

In contrast, current account of the country recorded in FY 2012-13 showed a surplus of USD 2525 million which was USD 447 million as deficit in FY 2011-12.

In contrast, current account of the country recorded in FY 2012-13 showed a surplus of USD 2525 million which was USD 447 million as deficit in FY 2011-12. Reasons for this huge surplus of current account are the rise in remittances and fall in import payments, which decreased by -48.33 percent in FY 2012-13, compared to previous fiscal year whereas import payments were 17 percent in FY 2011-12.

5.2 Capital Account Balance

Among the different items of capital account, two items mainly assumes prominence for Bangladesh economy: foreign direct investment (FDI) and portfolio investment.

The FDI in the country has usually observed much fluctuation. During July-September 2013, net foreign aid stood at USD 59.84 million where as this was USD 357.16 million in the same period of previous fiscal year. In July 2013, the net foreign aid found negative USD 76.18 million and this was positive USD 156.83 million in July 2012.

Table 8: Net foreign aid inflow

Month	FY 2013-14	FY 2012-13)
	Net foreign aid (In million USD)	Net foreign aid(In million USD)
July	-73.18	156.83
August	61.06	69.39
September	76.04	130.95
July-September	59.85	357.16

Source: Major Economic Indicators, November 2013, Bangladesh Bank

The contribution of portfolio investment in capital market is low. In FY 2012-13, the portfolio investment stood at USD 110 million from USD 198 million in FY 2011-12 after observing a negative rate of growth of 44 percent.

5.3 Capital Machinery Import

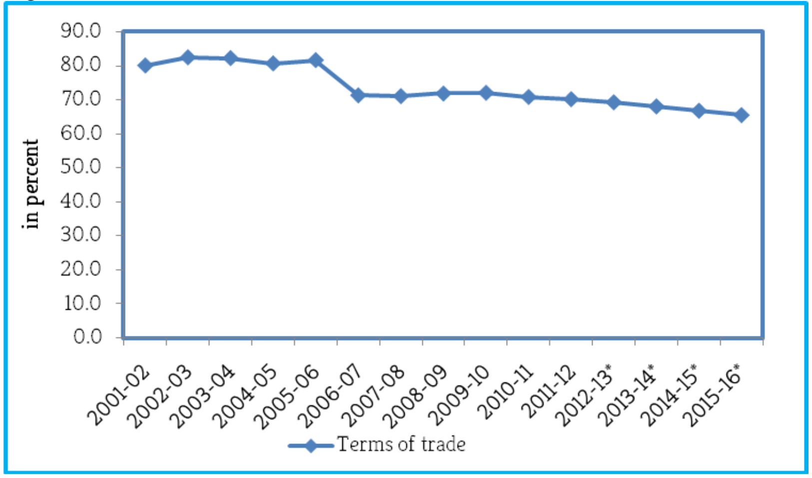
Imports of capital machinery increased in the first quarter of the current fiscal year despite the prevailing investment climate. This requires further investigation while there are pointers for capital flight. During July – September of the current fiscal year, USD566.54 million worth of settlement of letters of credit for capital machinery took place, a year-on-year increase of 15.01 percent. In the previous fiscal year 2012-13, in the same time horizon, it was about USD492.61 million, a drop of about 17.55 percent from FY2011-12.

The deterioration in terms of trade has remained unabated since FY 2005-06. The terms improved to reach its peak of 82.3 percent in FY 2002-03 since FY 2001-02.

5.4 Terms of Trade

The deterioration in terms of trade has remained unabated since FY 2005-06. The terms improved to reach its peak of 82.3 percent in FY 2002-03 since FY 2001-02. This rate, however, was still less than 100 percent, which means that more capital had to go out to pay for the imports. The terms of trade might deteriorate in the upcoming years to reach even at 69.2 percent in FY 2012-13, 68.0 percent in FY 2013-14, if radical policy shifts are not undertaken.

Figure 15: Terms of Trade



Source: Authors' calculation based on Bangladesh Bank, 2013

In this regard, terms of trade in Bangladesh are in unfavourable situation as the country is dependent on export of low value-added products, whereas its import items mainly consist of high value-added products.

Terms of trade are influenced by a number of factors. Among them, the elasticity of demand for exports and imports of a country is a significant one. If the demand for exports of a country is less elastic as compared to its imports, the terms of trade will tend to be favourable as exports can command higher price than imports. Conversely, if the demand for imports is less elastic than that for exports, the terms of trade will be unfavourable. In this regard, terms of trade in Bangladesh are in unfavourable situation as the country is dependent on export of low value-added products, whereas its import items mainly consist of high value-added products.

5.5 Remittance Flow

Remittances mainly from the Middle East are the major sources of foreign exchange earnings. In the first four months of current FY2013-14, remittances decreased to USD 4500.64 million from USD 5012.32 million in the first four months of previous fiscal year. Remittances decreased by 10.21 percent in the first four months compared to the time of the previous FY 2012-13 and it was 24.92 percent .Although, Remittances increased to USD 1230.68 million in October, 2013 from USD 1025.69 million in September 2013. Furthermore, in FY 2012-13, the total amount of remittance increased by USD 1617.71 million to USD 14461.14 million whereas the amount was USD 12843.43 million in FY 2011-12. If remittances through informal channels were taken into account, for which no official data are available, this would be even higher. Thus, Bangladesh has emerged as a major exporter of manpower.

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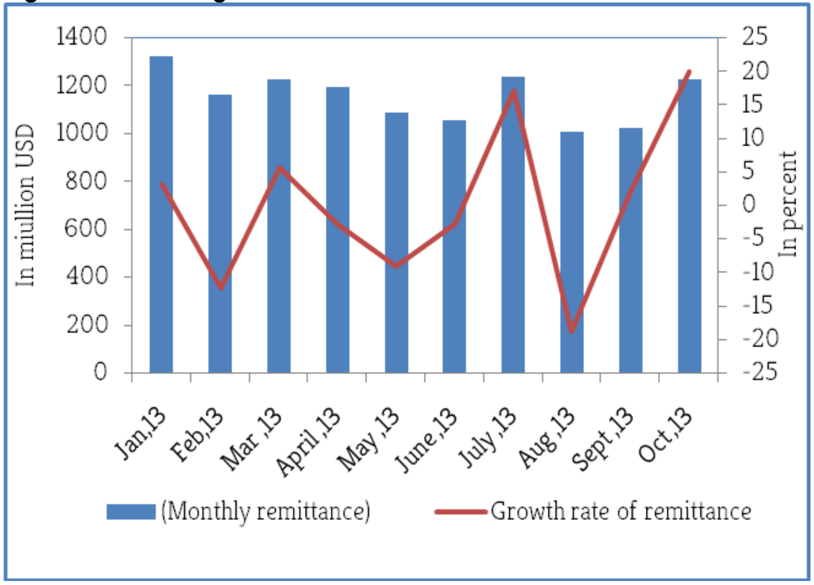
Figure 16: Rate of growth in remittance



Source: Foreign Exchange Policy Department, Bangladesh Bank, 2013

Setting aside the role of remittances in terms of beefing up the foreign exchange reserves of Bangladesh and enhancing its ability to import, remittances received from overseas also play a vital role in strengthening consumption of the rural people.

There are also concerns. For example, the authorities in Malaysia have launched a massive operation from September 1, 2013 against the foreign workers without valid permits. Stringent situations are also observed in countries such as Saudi Arabia, UAE. This may create a negative impact on inflow of remittance.

6. REVENUE MOBILISATION AND REAL SECTOR

As the revenue collection effort of the government has been constrained in recent times, the pressure on the revenue sector is affecting the capacity to increase productivity in the real sector, especially in the agriculture sector.

6.1 Agriculture Sector

For ensuring food security, the necessity of spending more on agricultural research and extension services are need of the hour. Nonetheless, the allocation of funds for research and agricultural extension services in the budget for FY 2013-14 is meager.

The proposed allocation in the budget for FY 2013-14 is Tk. 17,471 crore which represents a decrease by Tk. 2,371 crore from the revised budget for FY 2012-13. In the backdrop of falling rate of growth in agriculture sector (Table 16), question arises that if this amount is sufficient. Moreover, the non-development expenditure dominates the agricultural allocation, which has less to do with future productivity. For ensuring food security, the necessity of spending more on agricultural research and extension services are need of the hour. Nonetheless, the allocation of funds for research and agricultural extension services in the budget for FY 2013-14 is meager.

The amount of subsidy to the agriculture sector is proposed at Tk. 9000 crore, which is Tk. 3000 crore lower than the revised budget for FY 2012-13. Since the price of fuel is on the rise, this subsidy cut would hurt the agricultural production. Finally, agriculture sector lacks specific proposals for FY 2013-14 about how to speed up the slow rate of ADP implementation, which is a long characteristic of this sector.

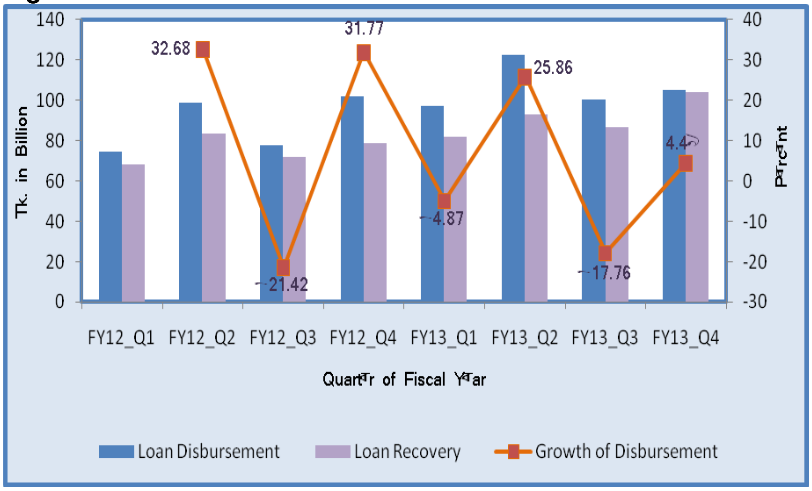
6.2 Industry Sector

However, like the agriculture sector, the challenge for the industry remains whether this allocated amount would be able to sustain the industrial growth, especially when the sector is burdened with multiple problems.

In contrast to agriculture sector, the Industrial and Economic Services sector has received Tk. 3,206 crore in the budget. This equals an increase of Tk. 469 crore from the revised budget of the preceding fiscal year. However, like the agriculture sector, the challenge for the industry remains whether this allocated amount would be able to sustain the industrial growth, especially when the sector is burdened with multiple problems. In particular, the requirement of investment is huge to shift the industrial growth to a more sustainable one. Like the other sectors, the slow rate of ADP implementation is a problem for the industrial sector as well. Actually, status of implementation of the ADP in industry sector is one of the worst.

Additionally, the regular oscillation of disbursement of industrial term loan has been recovered least in the last quarter of FY2013 than the previous quarters. Over the considering period from first quarter of FY2012 to last quarter of FY2013 industrial term loan disbursement followed a regular oscillation from 32.68 percent to 4.49 percent along with periodical negative change. But the last quarter of FY2013 recovered with 4.49 percent increase than previous quarter`s larger fall of 17.76 percent which is the least recovery over the whole period. Recovery of industrial term loan also follows the same direction of disbursement.

Figure 17: Industrial term loan



Source: Bangladesh Bank, September 2013.

6.3 Infrastructure and Power Sector

Government has continued with a deficit budget in FY 2013-14, yet the key issue is that such deficit has not been meant to augment multiplier effects in the economy rather has financed consumption as opposed to pay for infrastructure to remove supply side constraints.

Government has continued with a deficit budget in FY 2013-14, yet the key issue is that such deficit has not been meant to augment multiplier effects in the economy rather has financed consumption as opposed to pay for infrastructure to remove supply side constraints. This continuation of present deficit has its roots in maverick decision to install rental and quick rental power plants at the cost of long run solutions. A part of the deficit is financed by borrowing from the domestic banking sector and this has reduced the banking sector's capacity to make available credit to the private sector. In the wake of less availability of resources due to service debts and subsidy payments, the capacity of government to invest in physical and social infrastructure has also decreased.

Compared to the other sectors, the infrastructure sector (Transport and Communication) and the power sector are more capital centric. The proposed allocation in these two sectors stood at Tk. 20,596 crore and Tk. 11,351.20 crore respectively. These are higher than the allocation in the budget of FY 2012-13 by Tk. 7,358 crore and Tk. 1,358 crore, respectively. Special allocation for the Padma multipurpose Bridge is Tk. 6,852 crore and is included in infrastructure. In terms of budgetary allocation, although the infrastructure sector has seen one of the highest increases in recent times, the effectiveness of this amount, however, would depend on how the money is capitalised. If the money is used to build new roads, railways, etc, the possibility of a greater fiscal multiplier would be created. Moreover, one flaw in the government's infrastructure development plan is its reliance the PPP initiative, which has already failed to produce real results. For example, despite allocating Tk. 30 billion for 16 PPP projects in FY 2011-12, the funds remained unspent.

Public expenditure in education and health has been primarily suffering from two sides at the same time. Expenditure in these sectors is inadequate for achieving the objectives of the government. The rate of utilisation of the funds has also been poor.

7. REVENUE MOBILISATION AND SOCIAL SECTOR

Public expenditure in education and health has been primarily suffering from two sides at the same time. Expenditure in these sectors is inadequate for achieving the objectives of the government. The rate of utilisation of the funds has also been poor.

7.1 Poverty, Inequality and Social Security

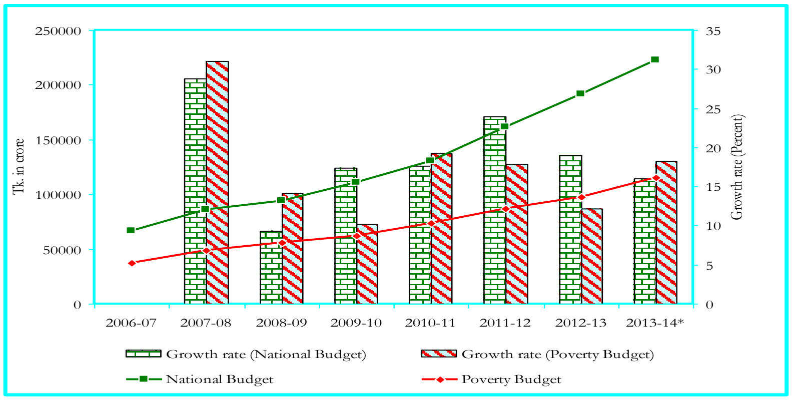
The country has made a substantial progress in reducing poverty over the last few decades, yet the rate of decrease has slowed down in the recent years. Thus the number of population living under the poverty line is still increasing. The rate of decline in poverty in Bangladesh has slowed down in recent years. Poverty reduced by 8.9 percentage points during the five years of 2000-2005 while during the next five years (2005-2010), the total decline was 8.5 percentage points. The slower rate of poverty reduction is the result of inequality, low public expenditure in the recent years, increased trend of unemployment, rural urban differentials and a tendency of increased non-development expenditure over development expenditure.

The main tool that the government uses for a social security purpose for the poor is the provision of social safety net programmes (SSNPs). These SSNPs are mainly delivered on an ad-hoc basis to cope with sudden vulnerabilities. It is observed that reasonable growth rates have led to declines in the percentage of poor but actual numbers of the poor have not declined while expenditures on safety nets have fallen at the same time. Though safety net programmes are important components of the social protection strategy, expenditure on the programmes are fairly low.

Though safety net programmes are important components of the social protection strategy, expenditure on the programmes are fairly low.

The proposed budgetary allocation for the reduction of poverty and social security and welfare in current fiscal year is Tk. 115237 crore and Tk. 12366 crore respectively. Based upon historical track record, in most of the cases, the proposed budgetary allocation has witnessed a negative revision. By calculating weighted mean it might be said that the proposed allocation for social security and welfare would be approximately Tk. 12268 crore as revised allocation (Figure 18 and 19). The current budget shows an expenditure of 51.79 percent in relation to poverty reduction. This allocation as a percentage of total budget is lower than that of the previous year (FY 2012-13) which was 52.68 percent.

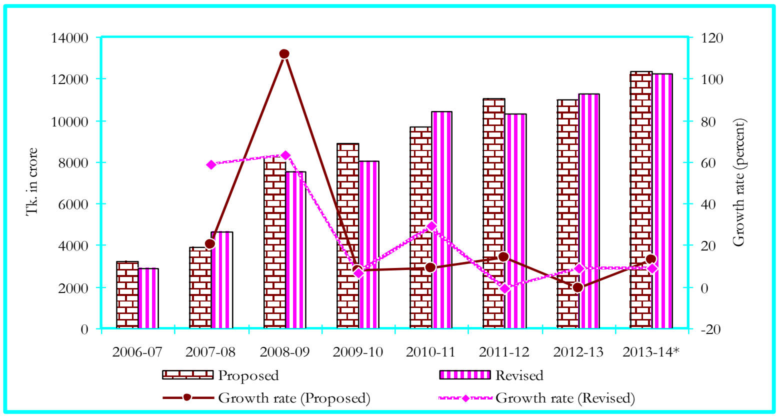
Figure 18: National Budget and Poverty Budget



Source: Finance Division

Note: * indicates Unnayan Onneshan's estimates

Figure 19: Public Investment in Social Security and Welfare



Source: Finance Division
Note: * indicates Unnayan Onneshan's estimates

7.2 Food Poverty and Hunger

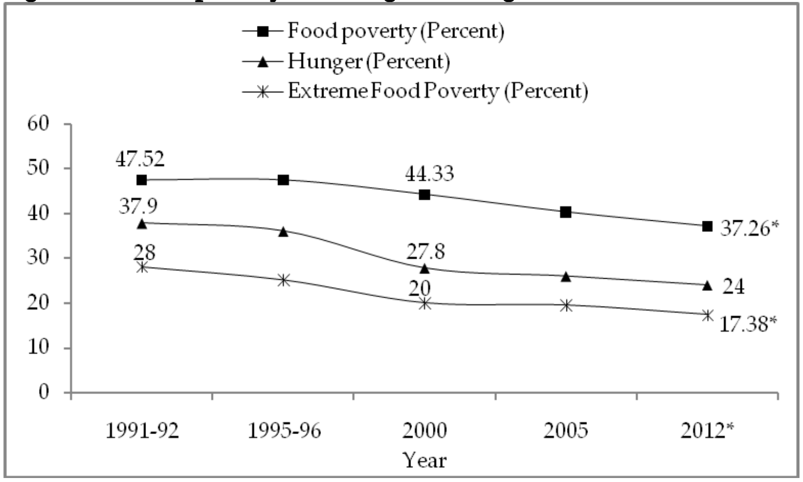
Hunger describes the feeling of discomfort by the signal of the body usually raised for the scarcity of adequate food in the body. The hungry people simply cannot afford to buy enough food, nutritious foods, or cannot afford the farming supplies that need to grow for enough good food of their own. Three different indicators viz undernourishment, child underweight and child mortality, can be used to measure hunger. To reflect the multidimensional nature of hunger in a single measure, the Global Hunger Index (GHI) combines three equally weighted indicators in one index.

$$GHI = \frac{Under\ Nourishment + Child\ Underweight + Child\ Mortality}{3}$$

Not every poor person is hungry, but almost all hungry people are poor. In 1991-92, the percentage of poor people living below the extreme food poverty line was 28 and the percentage for hungry people was 37.9. This same state of affairs has taken place over the period from 1991-91 to 2012 (Figure 2.8). More specially in 2012, the percentage of hungry people was 24, but this percentage would be 37.26 for the poor people who living below the food poverty line. In case of people in extreme food poverty line, it would be 17.38 percent. So, it is difficult to say that only the poor people living below the extreme food poverty line, each of who is not afford to receive the minimum nutritional requirement of 1805 kcal per day, are considered as hungry.

Rather it might be said that almost all poor people living below the extreme food poverty line are hungry, but every poor person living below the food poverty line (less than 2122 kcal per day) is not hungry.

Figure 20: Food poverty and hunger in Bangladesh

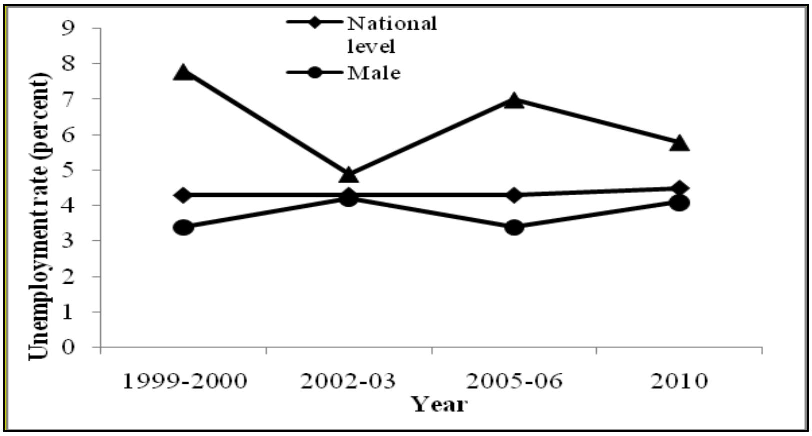


Source: Authors' calculation based on Bangladesh Bureau of Statistics 2003, 2007, 2011 and Global hunger Index 2012

The rate of unemployment increased in Bangladesh during the 10 year-period (1999-2000 to 2010). According to Labour Force Survey, 2010 the rate of unemployment stood at 4.5 percent in 2010 which was 4.3 percent in 1999-2000.

The rate of unemployment increased in Bangladesh during the 10 year-period (1999-2000 to 2010). According to Labour Force Survey, 2010 the rate of unemployment stood at 4.5 percent in 2010 which was 4.3 percent in 1999-2000. Furthermore, the rate of unemployment for female has been decreasing while this rate has been increasing for male in the mentioned period, demonstrating increased propensity of profiteering by employers through maintenance of lower wages to women compared to men. For the female, the rates of unemployment were 7.8 percent and 5.8 percent in 1999-2000 and 2010 respectively, whereas those were 3.4 percent and 4.1 percent for male for the corresponding years (Figure 2.4). Moreover, this rate was significantly higher in urban areas compared to rural areas in 2010. In rural areas, the rate of unemployment was only 4 percent, whereas at urban areas, it was 6.5 percent.

Figure 21: Changes in rate of unemployment in Bangladesh (year wise)



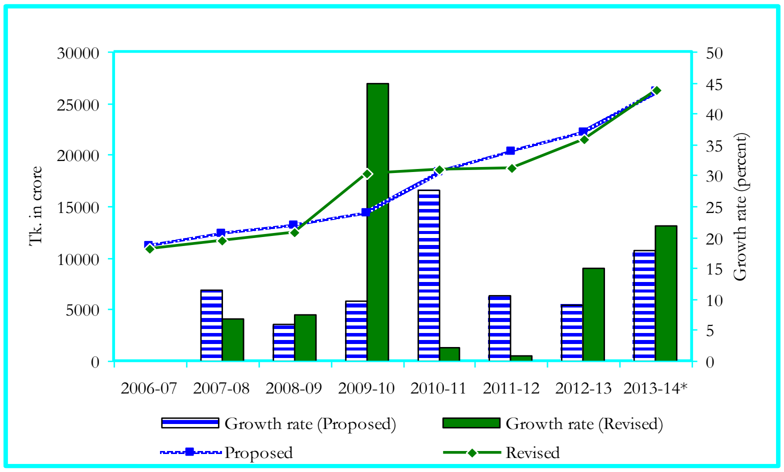
Source: Bangladesh Bureau of Statistics (BBS) 2002, 2004, 2008 and 2011

7.2 Education and Health

However, the rate of growth in education sector has increased but in health sector it has slowed down than that of the last fiscal year (2012-13).

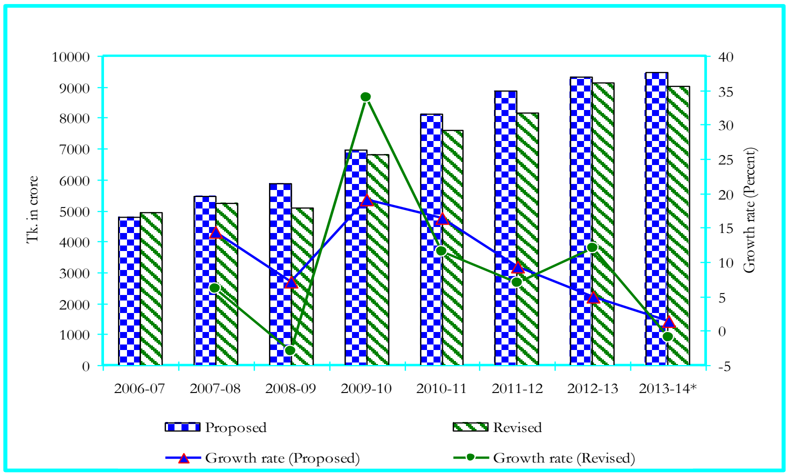
The proposed allocation for education and technology in the budget of FY 2013-14 is Tk. 26093 crore (including development and non-development budget), whereas the proposed budget for the health sector was Tk. 9470 crore (including development and non-development budget). These represent increase of Tk. 3948 crore and Tk. 137 crore for education and technology sector and health sector respectively from the preceding year. However, the rate of growth in education sector has increased but in health sector it has slowed down than that of the last fiscal year (2012-13).

Figure 22: Public Investment in Education and Technology



Source: Finance Division Note: * indicates Unnayan Onneshan's estimates

Figure 23: Public Investment in Health and Family Welfare Sector



Source: Finance Division

Note: * indicates Unnayan Onneshan's estimates

The proposed public investment in education and health sector has negative revision during most of the period between fiscal year 2006-07 and fiscal year 2013-14 (Figure 22 and 23). Through the weighted mean calculation it can be forecast that from the proposed Tk. 26093 crore and Tk. 9470 crore as in FY 2013-14 approximately Tk. 26286 and Tk. 9036 crore may remain as revised allocation for education and health sector.

The policy adjustment to augment economic growth should promote through major changes in economic policies. The policy planning should be formulated keeping medium to long-term time horizon in mind, rather than on ad-hoc basis.

8. CONCLUSIONS

The policy adjustment to augment economic growth should promote through major changes in economic policies. The policy planning should be formulated keeping medium to long-term time horizon in mind, rather than on ad-hoc basis.

The aggregate demand has to be boosted up through the harmonisation of public and private investment. The policy of addressing structural issues could work better here. The fiscal policy needs to take a radical shift in the composition of the fiscal deficit from consumption 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 public consumption based fiscal deficit, which has been crowding out private investment demand. Output and employment gains may progressively move upward as private spending will not be crowded out, either by the upward pressure on interest rates arising from government credit demands or by the fears of eventual monetary accommodation and heightened inflation expectations which may accompany persistent deficits.

There is no alternative to increased revenue mobilisation to improve the fiscal balance of the country.

There is no alternative to increased revenue mobilisation to improve the fiscal balance of the country. First, the thrust of the tax reforms has to shift from the ad hocism to a structural one, comprising the principles of instituting progressive tax structure, avoidance of tax evasion and strengthening institutional capacity. For growth to continue the economy requires increased public expenditure in physical and socio-economic infrastructure. This is particularly required to have a structural shift from agriculture to industry and to service. Moreover, there is a need for an active fiscal policy with subsidies diverted towards the productive capacity and capability enhancing sectors.

Like the fiscal policy, the monetary policy of the country has to be harmonised to ensure a high investment ratio. Even if the central bank is assured that monetary pressure is causing the prices to go up, the central bank has to demonstrate its prudence by not resorting to across the board contraction of money supply rather choose a differential system to maintain the level of investment.

The exchange rate of the country has to be managed in such a way that exchange rate pass-through is kept at a minimal level and any sudden and unexpected ups and downs in the trade balance can be checked.

The exchange rate of the country has to be managed in such a way that exchange rate pass-through is kept at a minimal level and any sudden and unexpected ups and downs in the trade balance can be checked. In addition, the country has a few products for a few countries. An effective export diversification policy has therefore to be implemented through assisted monetary and fiscal measures.

The country requires dealing with post-green revolution challenges, becoming evident in the forms of declined soil fertility, over extraction of ground water, increased requirement for fertilizer. Simultaneously, the sector is plagued with structural factors. For instance, small sizes of agricultural lands due to fragmentation from demographic changes and inheritance have been arresting productivity in the agriculture sector. The solution could be introduction of agrarian reforms, including cooperative farming.

In the industry sector, the rent-seeking tendency has to be curtailed and infant, small and rural industries have to be provided with policy support. New markets have to be created, both within and outside of the country.

A progressive tax system could reduce inequality on the one hand and increase revenue collection on the other.

To fight poverty and inequality, the tax system of the country has to be restructured to make it pro-poor. A progressive tax system could reduce inequality on the one hand and increase revenue collection on the other. In addition, the government should also address the root causes of poverty and inequality: unequal distribution of resources, primitive accumulation and market failures. A broader range of employment generation and capability enhancement activities, especially in rural areas, would also help reduce poverty and inequality.

If exigent, prudent, context specific and creative policies are pursued, the economy would recover to march forward and the country may soon graduate out of its least development status.

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