NATIONAL BUDGET 2007-08

A RAPID ASSESSMENT

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INTRODUCTION

The budget for the fiscal 2007-08 coincides with a heavy down pour in the day of announcement, with a simmering heat wave during its preparation. The budget, economic manifestation of political mandate, lands in by a non-political government, in the backdrop of a chaos created by feuding political parties. It times up with G8 leaders' heads in the sand of poverty, hegemony and protest at seaside summit in Germany. The budget keeps up with the continuity of liberalisation, privatisation and deregulation of successive governments.

The budget trumpets the finance adviser's claim that upcoming fiscal measures would address the problem of poverty reduction with output and employment generation, giving special focus in rural areas. In this regard he defends his argument with increasing budgetary allocation in rural areas. The GDP growth rate has been set at 7% for the upcoming fiscal, which is likely to be an ambitious target if the price spiral continues to upward given that other things remain constant. The finance adviser, who has little to do with inflation (as the monetary authority is key functionary here), has championed to curb inflation at 6.5 per cent for the next fiscal with some sporadic measures like tariff withdrawal on few essential commodities.

Despite the rhetoric, budget for the fiscal 2007-08 would make the macroeconomic problem – fiscal and monetary – worrisome with further income inequality as huge deficit financing from the domestic sources would impose further constraints on monetary authority to fight against inflation. Though withdrawal of tariff on crude edible oil and lentil and continuation of duty free benefit on essential commodities including rice, wheat, onion and pulses would give a temporary respite to the commoners, there is no reason to belief that this measure would lead to a drastic price cut on essentials. Instead, sooner or later this price would be adjusted as the taka against dollar continues to depreciate given the increasing dependency on imported items. On the other hand, low and middle-income group would continue to bear the brunt of government's further dependence on indirect taxation scheme (the assumption is that as the indirect tax is more elastic to GDP than direct tax i.e. if GDP increases revenue from indirect tax increases faster than direct tax) for its revenue collection. Moreover, the apprehension is that the proposed withdrawal of infrastructure development surcharge on finished products and withdrawal of zero duty on capital machineries and increased tariff on industrial raw materials and semi products would lead the domestic industry to death knell as they would lose the competitiveness with the imported finished products.

One of the good sides of the budget is that, unlike the past government, the finance adviser has given due attention to revive the agriculture and rural development sector. Our assumption is that inflation likely to prevail as long as government relies on central bank for its huge deficit financing and the central bank on the other hand continues to follow contractionary monetary policy. If the investment on agriculture brings a good outcome then inflation would be expected to come down, which would give a relief to the central bank to meet the government's deficit financing.

- **Policy Mismatch:** One of the distinguishing features of this year's budget is that government has set a huge deficit, which is 5.6% (excluding grants) or 4.82% (including grants) of the GDP. Of the total deficit Tk25581 crore, some 75.35% of the budget deficit would be financed through domestic borrowing whereas the rest of the amount through external borrowing. On the other hand the central bank has recently reiterated its policy towards tightening money supply. The expansionary budgetary measure in couple with tightening monetary policy is unsustainable for an economy like Bangladesh where investment is much needed for output and employment generation in order to reduce poverty.

- **Fiscal Authority Ride-Over Monetary Authority:** The above indicates that there is a lack of coordination between the fiscal authority and monetary authority. The proposed budget deficit expecting to be financed through domestic borrowing –bank borrowing and selling government bonds, reflects that the fiscal authority dominates the monetary authority. That is the government has imposed constraints on central bank to finance the deficit through creating demand for government bonds and with seignorage, which means that central bank has to create extra money for financing the government budget. As a result, the later would be less powerful to control over targeting inflation at the desired level.

- **Inflation Unlikely to Contain in the Long Run:** As the interest rates are on rising trend, the lending rate increased to 12.71% in May 2007, from 11.01% in June 2004 whereas interest rate on government bonds of 5-year and 10-year increased, respectively to 10.79% (in April, 2007) from 8% (in June 2004) and 12.34% (in May 2007) from 9.77%, it is expected that the interest rate would maintain its upward trend in the coming months as the central bank is perseverance to follow the tightening monetary policy. This has three implications: First, the huge domestic borrowing would lead the government to public indebtedness; secondly, the high interest rate in couple with huge government borrowing from the banking sector which would crowd out private investment, would make the investment for the private entrepreneurs costlier, eventually, lead to a negative impact on output and employment. Thirdly, huge public borrowing means that the government has to repay the amount (principal and interest), requiring additional creation of money.

- The assumption is that this in turn, sooner or later would, result additional inflation. However, the magnitude would depend upon the growth of and size of the economy and the interest rate. If the interest rate of the public borrowing goes faster than the growth of the economy then sooner the economy would be ended up with further inflationary pressure.

Though some exogenous initiatives may tame the inflationary pressure temporarily, the lofty fiscal measures with increasing dependency on bank borrowing would intensify the inflationary problem in the long run. Indeed, the budgetary steps like slash down import duties on essential commodities like rice, pulse etc would give a temporary respite. However, it would be misleading to presume that the measures would substantially reduce the price. Instead, the price would likely to reduce marginally on a temporary basis. This would gradually adjusted as the taka continues to depreciate against dollar as well as with increasing domestic cost of production.

Budget 2007-08: Fiscal Measures

The present Interim Government has proposed a budget amounting Tk 87,137 crore for the fiscal 2007-08, which is 30.07 % higher than the revised budget of last year and 20.95 % higher than the actual budget of the fiscal year (FY) 2006-07 (the revised estimate is shortfall by Tk 2900 crore of the actual budget estimated).

Table 1: Budget of 2006-07 and 2007-08 at a Glance

(In Crore Taka)

Description	Budget 07-08	Revised Budget 2006-07	Percentage change from the revised budget 2006-07
Revenue and Foreign Grant			
Revenue	57301	49472	15.83
Tax Revenue	45838	39247	16.79
Non-tax Revenue	11463	10225	12.11
Foreign Grants	4255	2150	97.91
Expenditure			
Non-development Expenditure	53870	45502	18.39
Development Expenditure	26964	21883	23.22
Non-ADP Employment Genrationand Development Programmes	1558	1577	-1.20
Non- ADP Food for work	588	579	1.55
ADP	26500	21600	22.69
Liability of Bangladesh Petroleum Corporation	7523	0	
Total Expenditure	**87137**	**66836**	**30.37**
Overall Deficit (including Grants)	25581	15214	68.14
as % of GDP	4.82%	3.25%	
Overall Deficit (excluding Grants)	29836	17364	71.83

as % of GDP	5.63%	3.71%	
GDP	530300	467500	

High-Time to Rationalize the Non-development Expenditure:

- It was expected that government would find a way out rationalize the non-development expenditures. However, the proposed budget shows expenditure on non-development purposes has been increased by 18.4% over the current year's expenditure. Of the total outlay, less than one-third has been allocated for development expenditure whilst more than two-third for non-development expenditures. In a resources poor country like Bangladesh where tax-GDP ratio is still poor, such huge non-development expenditure is a luxury.
- As the present government is committed to institutional reforms, it is the high-time government rationalized and rearranged various ministries in order to reduce the burden on state exchequer.

Revenue Arithmetic: Ambitious but Achievable

- The revenue targeted for the fiscal 2007-08 is ambitious. Nevertheless, the government would likely to achieve, if not fully, quite closer to the target if its drive on corruption continues and keep on carrying the reform in revenue department.
- Like past, the revenue buoyancy projected in 2007-08 relies heavily, as usual, on indirect tax especially on the performance of VAT. The budget assumes 15.83% growth in total revenue receipts in FY 2007-08 over the revised budget of the preceding fiscal year. Of this, 80% comes from the tax revenue and 20% from the non-tax revenue. About 24.72% of the total tax revenue is expected to come from direct tax and the rest on indirect taxation like VAT, customs duty, supplementary duty and other taxes.

Growth and Share (%)of Government Revenue

Tax Heads	Share (%) of 2007-08	2006-07 (revised)	2006-07 (original)	% Growth 2007-08/ 2006-07 (Revised)
Gross Revenue	100.00	100.00	100.00	15.83
Total Tax Revenue	80.00	79.33	81.68	16.79
Non-Tax Revenue	20.00	20.67	18.32	12.11
Total Tax Revenue	100.00	100.00	100.00	
VAT	36.24	36.51	35.88	16.13
Import Duty	21.33	22.09	23.10	12.98
Taxes on Income and	24.72	23.81	20.70	21.45

Corporate Profit				
Supplementary Duty	16.35	16.26	18.76	17.60
Other Taxes	1.37	1.33	1.56	-

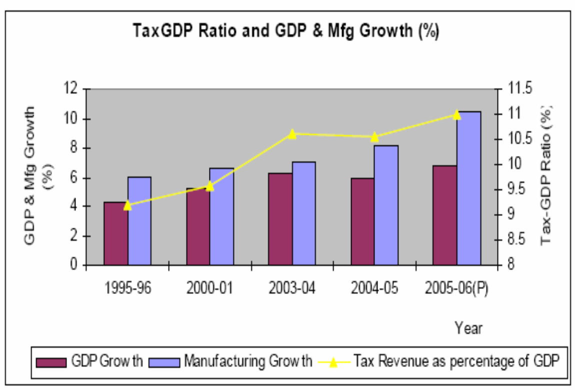
Income Inequality will be Severe:

- Distribution of tax revenues show that earning is more skewed to VAT as it constitutes 36.24% as the government further widened the VAT net. This is followed by the income tax, which accounts for 24.72%. As the government continues to follow the trade liberalization measures, the dependence on customs duty has been reduced to 21.33%.

  There is a policy inconsistency in relation to the objective of growth with equity and government structure of revenue collections. This is because the government's tax structure is regressive in nature, meaning that as GDP increases Indirect tax grows at a faster rate than direct tax, since former is more elastic to GDP than the later. The problem is that in case of indirect tax both rich and poor bear the same tax burden. Given the prevailing nature of income distribution in an inflationary economy the poor have been affected adversely as they pay more tax in proportion to their income compared to that of rich.

Tax Buoyancy

While reviewing the patterns of tax buoyancy (ratio of growth in tax collection to GDP growth), this part attempts to examine the relationship between the tax buoyancy and GDP growth and manufacturing activities. The following figure charts the changes in tax buoyancy against GDP growth and industrial growth



The overall tax buoyancy moved more or less in tandem with the manufacturing performance. It dipped during the period of downturn and shot up again during the recovery period. However, the overall tax buoyancy expected to hit a high of [….] percent in the fiscal 2006-07. What had contributed to such an improvement in tax collection? The trend over time reveals that the performance of indirect taxes (consisting of customs and excise, VAT etc) is very closely related to manufacturing performance - buoyancy in manufacturing tends to improve the VAT, customs and excise duty collection.

The regressive nature of tax system is seen as one of the main reasons why income inequality has been widening over the years. The Gini Co-efficient, a measure of assessment of income inequality, has increased from 0.451 in 2000 to 0.467 in 2005[1].

[1] Household Income & Expenditure Survey, 2005

Though if we assume that the economy would grow at above 7%, it would unlikely to reduce poverty unless there is an effective mechanism of wealth redistribution by redefining the tax structure. There is no denying for the necessity to increase tax revenue, but it should be redefined by decreasing dependency on indirect tax, shifting to direct tax. Besides, it is being expected that government should expedite its reform in tax administration with eliminating all corruption. Because, mere widening tax net would contribute little to the state exchequer unless the major tax evaders remain untracked with the help of corrupted taxmen.

With increasing cost of living, the proposed increase of minimum tax limit would give some respite. Also it is expected that tax rebate facility to the highest taxpayers and introduction of "Universal Self-Assessment Procedure" would encourage the taxpayers. However, the concern of corruption within the tax department would remain a major concern.

Enlarging Long-Term Budget Deficit:

- The budget for the upcoming fiscal is set with a huge budget deficit which is 5.6% of the total GDP, most of which would be financed through domestic and external borrowing, which would only increase government's liability in future to pay the principal and interest.
- A large chunk of the budget i.e.13.5% of the budget Tk79614 crore (excluding BPC liabilities) would go to interest payment. In this regard, the finance adviser argued that the amount would be take as a loan of non-cashable bond and would have any impact on monetary management. However, it cannot avoid the future liabilities.
- Assuming that the government would not be able to increase substantially the tax-GDP ratio overnight and the government would continue to be in a position relying on borrowing –external and internal – to finance the budget deficit in the subsequent years, which would only increase the liability of the government in future to pay principal and interest, implying that huge budget deficit now only would enlarge the long term budget deficit.

Cost of Doing Business to Increase:

- The finance adviser has proposed to enhance tax deductible at source at the rate of 7.5%, instead of 5%, on commission income of stevedoring, C&F, non-resident courier service, marketing insurance and general insurance and surveyor
- Proposed to introduce tax deductible at the rate of 0.25% on all export earnings, to be considered as tax finally paid.
- The proposed measure would increase the cost of doing business especially those to the exporters.
- However, the proposed Tk1, 100 crore-export subsidies would give incentive to the export sector.

Nothing to Cheer-up for the Capital Market As Yet

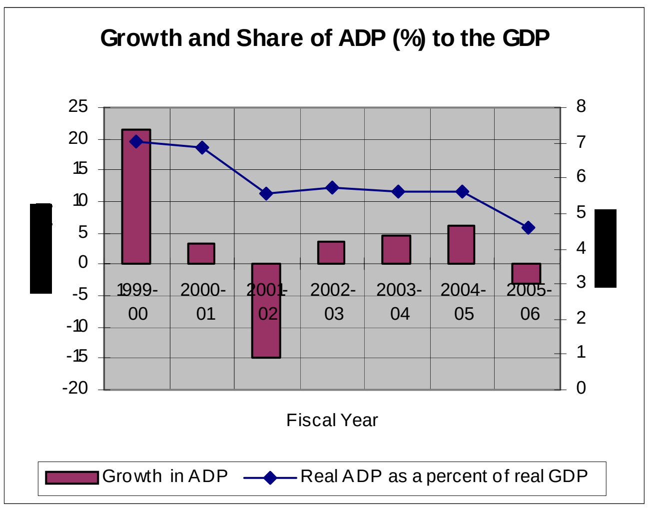
- Though the finance adviser has said that shares of the SoEs will be offloaded in the capital market in the next fiscal, he did not specify about the number of companies, which is likely to be offloaded.
- Widening the gap of corporate tax between listed and non-listed companies remained ignored.
- However, incentive has given to the mobile phone operators to be listed in within the stock markets, as the corporate tax rate would be reduced to 35% from the existing 45% if the companies were converted as public limited companies.
- It is expected that, the market depth would be increased if the mobile phone operators were listed in the stock market.

Proposed Tariff and Para-tariff Measures: Leading Local Industries toward Death Knell:

- When the government is preaching for poverty reduction through employment generation the withdrawal of 4% the Infrastructure Development Surcharge on finished products is unexpected. Many of the finished and luxury goods would cover this. The measures would clearly make the imported finished goods cheaper while the locally manufactured goods costlier, meaning that locally manufactured products, eventually, would lose its competitiveness. which would be comparatively cheaper to import.
- More surprisingly, the finance adviser has announced to increase import duty to 10% and 15% from the existing 5% and 12%, which mostly cover raw materials and semi-finished, which would clearly increase the cost of production.
- Imposition of customs duty at 10% on textile machineries would affect the yet nascent textile industry. Though investment on capital machinery is a fixed investment it would increase the deprecation cost. Moreover, the backward linkage of the woven sector would hit hard as it require huge capital investment on machineries. This would definitely disrupt the value added chain of the garment industry, which accounts for more than 76% of the total export.
- Though newspaper industry would be benefited drastic tariff reduction to 15% from the existing 25% on newsprint paper, the ailing newsprint industry would further lose competitiveness.
- Marginal farmers would be affected further as the cost of irrigation would go due to proposed increase of 10% customs duty on irrigation pumps.
- Proposed indirect tax measures would lead the local industry towards death knell while making the country a domain of traders. The apprehension is that unemployment problem would be worsened further.

Development Expenditure

Ambitious Public Investment depends on Availability of Loans and Grants:
While the objective of the government remains same reducing poverty through output and employment generation, the public investment scenario remains poor in the country. Government expenditure (after inflation adjustment) in proportion to GDP has declined significantly to below 5% in FY 06 from 6.53 in FY 2000 (the ADP for the fiscal year 2006-07cut down massively to Tk19,500 crore from Tk26,000 crore and only 45% has been implemented till April).



This is mainly due to two reasons: firstly, among the many, one of the main conditions for the donors is that it often insists government to contain the budget deficit. Since the tax buoyancy remains problematic as tax-GDP ratio lying below 11%, the government is forced to resort on fiscal austerity measures. Thus the government has to compromise on development programmes, especially, those targeting poor, as there is hardly any scope to cut down the current expenditure. Over the past few years (2000-2006) public investment in agriculture and social sector like health and education in proportion to GDP has not been increased or remain same. Secondly, implementational problem is common phenomena in every year.

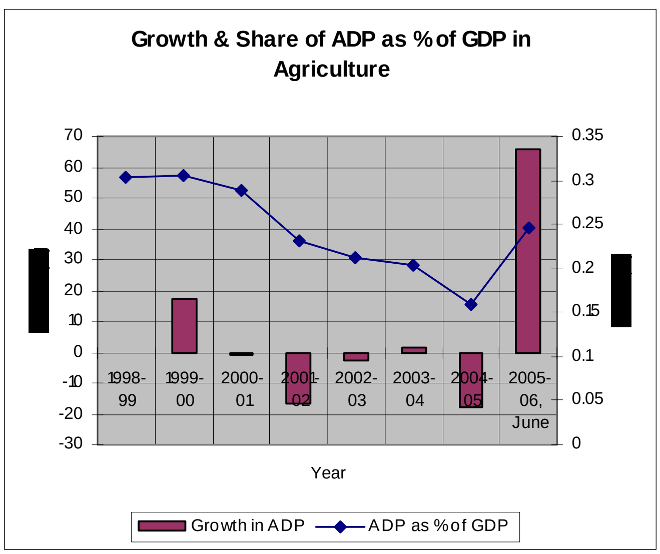
Against this backdrop, this year the finance adviser has proposed Tk26,500 crore for its annual development programme, which is around 5% of the total GDP expected for the fiscal year 2007-08. The target is indeed ambitious. Implementation of the hefty size of ADP would remain a challenge. First of all, the question remains whether the government would get enough funds for the investment, as it has to depend on loans and grants.

Secondly, the implementing agencies have to be efficient since a non-political government is less accountable than a political government.

Agriculture, Rural Infrastructure Development & Institutions, and Water Resources: Essential to Revive after Long Negligence

Agriculture and Rural Development: Gets the Highest Priority

- Over the past few years (2001 to 2005) investment in agriculture did not grow, in fact marked a negative growth as shown in the figure. Also government spending on agriculture in proportion to GDP has slide down to 0.16**%** in fiscal 2005 before raising it to 0.25% in 2006 from 0.31% in 2000 (the growth and share are measured in real terms with base 1995-96=100).
- The poor investment in agriculture is reflected from the poor performance of agriculture during the period. The agriculture sector (excluding fisheries, which grew at 6.92% in fiscal 2000, plunged to a negative growth rate of 0.62% in fiscal 2002. The growth in the subsequent year was not very enthusiastic.



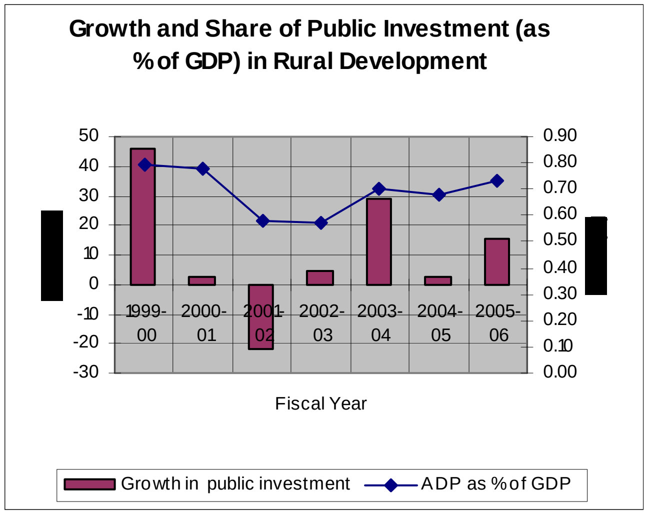
- The finance adviser has proposed to allocate Tk1587 crore for agriculture in the upcoming fiscal, up by 30 per cent from the preceding year.
- The government has also allocated Tk1500 crore as subsidy for fertilizer distribution
- In order to increase agriculture productivity the adviser also proposed Tk350 crore for agriculture research and development.
- Another remarkable feature of this year budget is that the government has introduced a separate allocation worth Tk750 crore for diesel supply to ensure irrigation facility. But it is unclear how government is going to spent this Tk750

crore. If government wants to provide the money for surface water irrigation then it is very insignificant allocation. But most of our surface water source is either dried up or encroached. If it is not so, then govt. has only one major option to use ground water. The level of ground water is alarmingly declining along with fertility of the soil. If we indiscriminately use our ground water it will bring disaster to the country.

- Nevertheless, given the numerous constraints faced by the agriculture sector, for the time being three questions still comes in the way: Firstly, does the allocated budget is sufficient to agriculture? Secondly, how much of the proposed outlay really going to be implemented? Thirdly, would the benefit go to the marginal farmers?

- While the first question is to deal with two concerns, namely, the allocation in real terms (after adjusting inflation) and the latest government policy to further easing the food items, the past experiences are not pleasant as far as the last two questions are concerned. It is conspicuous from the past experiences that ADP is not satisfactory at the implementational level. For example, in the first ten months of the current fiscal, 56% of the ADP in agriculture has been implemented.

  The concern of agricultural subsidy does not rest upon the amount rather on the efficacy of its use as it is often claimed that subsidy does not benefit the real beneficiaries. Because, the benefit of subsidy is going to the large farmer those are cultivating HYV and/or Hybrid as well as to traders' pocket e. g. Fertilizer traders. Those who are marginal farmers or landless they have nothing to get from government. The amount of subsidy is very insufficient. Bangladesh is giving less than 1% subsidy of its agriculture output whereas neighbouring India is giving around 9% subsidy to its agriculture. Besides, the sub sector of agriculture is obscure. Whose who are involved in aquaculture are not getting subsidized rate of electricity for their farm. It is most likely that the present government would be wholly responsible to implement the upcoming budget. While the experience of the political government shows that much of the subsidy was power centric, the present concern is the problem of outreaching marginal farmers. Since the present government is not a political government there might be a lack of political commitment to outreach the small farmers. Also the question of efficiency rises, as the bureaucratic system would be held responsible in subsidy distribution.



- Acknowledging the importance of the rural economy into the mainstream economy, the Finance Adviser, indeed, has stressed to increase budget for rural development. In this regard he has set a target to distribute Tk6,351 crore as agriculture credit at low interest rate through SCBs, NCBs and co-operative bank.
- However, mere credit support would not ensure rural development. There is no specific measure in the budget about skill development of the rural labour force as it is vital to grow non-traditional sector in rural area along with the traditional agriculture sector.
- One major drawback to implement budget allocation for rural development is weak implementation. While political interference was dominating the project selection in the past, corruption and ineffective and inefficient local government remains as major hurdles. Very specific policy statement is highly required how government is planning to spend ensuring accountability and transparency of the existing bureaucratic system since there would be no political government this time during the project implementation period. In addition, local government should strengthen as the main functionary body in order to effective mobilization of the fund.

Physical Infrastructure: Remains Unenthusiastic

There is no denying the fact that an enabling environment is prerequisite to induce private investment. In this regard, the role of the state is to invest in order to ensure the availability of physical infrastructure. Unfortunately, the state of the public investment in physical infrastructure development remains poor over the past few years.

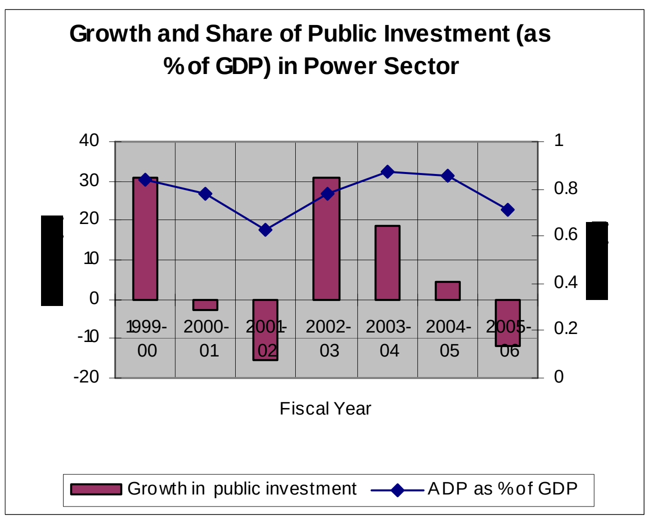
Though in nominal term there has been an increasing trend on investment in physical infrastructure development, in real term (after inflation adjustment) public spending has not been increased enough, in many cases remained stagnant or even negative growth. As a result, the proportionate government expenditure (as a percentage of GDP) on physical infrastructure development has been declining.

As far as physical infrastructure is concerned, the main challenge for the government is to generate power supply for the years ahead.

Power Sector: Shortage of Power Supply Remains a Major Challenge

Bangladesh is one of the lowest per capita consumption of power and coverage of electrification among developing countries. At the beginning of new millennium, its per capita power consumption was 96 kWh, significantly less than levels in other developing countries (e.g. China: 827 kWh; India: 355 kWh; Sri Lanka: 293 kWh and Pakistan: 352 kWh). Despite above facts country's power sector were neglected or treated as source corruption. If we look back to the Kansat incidence we will see that people have to sacrifice lives for demand for electricity. Still at the moment country has the shortage of 1,454 MW electricity (including system loss). As a result, country's power crisis has been ever worsening affecting the normal life in general and the investment climate in particular. Inadequate public investment as well as mismanagement of fund during the past government was responsible for today's downtrodden power sector.

After a negative growth of government real investment on power sector (-2.67% in 2001 and –15.53% in 2002), it increased to 30.88% in fiscal 2003, which slowed down in the subsequent years and marked a negative growth of 11.9% in fiscal 2006. The share as a percentage of GDP (after inflation adjustment) has been hovering between 0.7% and 0.8% during the period under consideration.



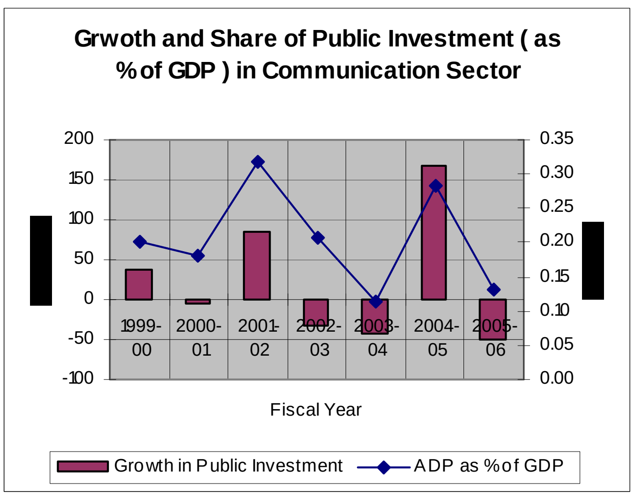
- Against this backdrop, the finance Adviser has announced the proposed development plan for power sector worth Tk3633.17 crore.
- Government has planned to increase power generation over the next three years by 345MW in the first year, 900MW in the second year and 1050MW in the third year.
- It is now to see how efficiently the government uses the fund to mitigate the existing power crisis in the next fiscal. Any failure would only bring a suicidal to

manufacturing sector, which could be threatening to future employment generation and output.

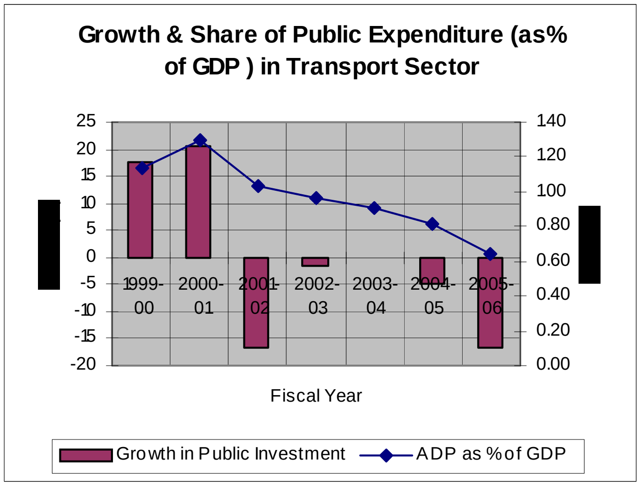
Communication & Transport Sector:

In a growing economy, it is inevitable that government should continue to expand its spending on communication and transport sector. However, during the last few years, growth (after inflation adjustment) and share of public investment have been sliding as shown in the following diagrams. The widespread corruption occurred during the tenure of the last government in coupled with the slowdown of public investment perhaps one of the main reasons for the prevailing deterioration of the quality of the public transport system. Besides, the opening up of the transport sector to the private companies in an unsystematic fashion, in one hand, worsened the overall quality of the transport and communication system, on the other hand, multiplied the traffic congestion thus increasing the sufferings of the commoners.

- Growth of public investment (after inflation adjustment) in communication sector was fluctuating between 2000 and 2006. The share as a percentage of GDP also witnessed a seesaw trend rising 0.32% in 2002 from 0.20% in 2000, again plunged to 0.11% in 2004, followed by 0.28% in 2005 and 0.13% in 2006.



- The growth of government spending in transport sector has been marked a continuous negative growth since fiscal 2002 (20.70 in 2001, -16.85% in 2002, -1.57% in 2003, -0.058% in 2004, -0.058% in 2004, -4.93 in 2005 and –16.56 in 2006). As a result, its share in proportion to total GDP slid downward to 0.64% in 2006 from 1.13% in 2001.
- Widespread corruption in communication sector, deteriorating public investment and opening up of the transport sector in an unsystematic fashion has resulted the poor quality of the public transport system.



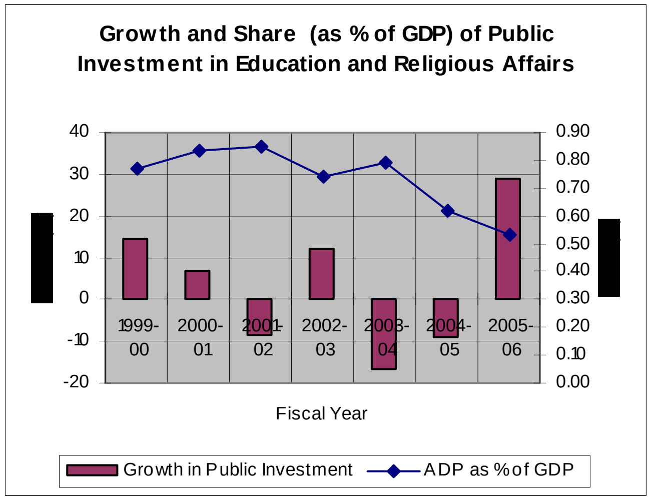
- Against this backdrop, the financed adviser has proposed a budget of Tk3303.74 crore for transport sector and Tk550.59 crore for communication sector.
- It is important to note that of the transport sector, Tk875.59 crore is proposed for railway, and civil aviation. Given that the civil aviation sector is going to be corporatised on the backdrop of huge loss, the public investment would be inadequate.

Public Investment on Human Resource Development Stuck on Complacent over Success:

Bangladesh has achieved some successes in terms of human development index in early 2000. However, it seems that the past government has become complacent with the success, as the budgetary allocation on education and health, the two main indicators for human resource development, has been sliding during the past few years.

Education

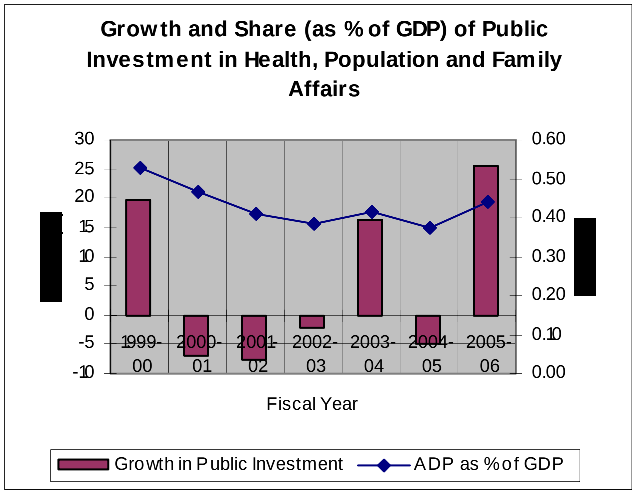
- As the GDP grew over 5% to 6% during the last few years, the proportionate public investment on Education has not been increased in real terms, in fact, in some instances (it was –8.7% in fiscal 2002, and –16.55% and -8.56%, respectively, in 2004 and 2005). As a result its share as percentage of GDP (after inflation adjustment), has declined from 0.85% in fiscal 2001 to 0.64% in fiscal 2006 before falling it to 53% in fiscal 2005.



- The finance adviser has given the education and religious affairs, the third highest priority with 14% of the total ADP in its education development programme for the upcoming fiscal, allocating Tk2995.4 crore.
- It is not clear why the government does keep the budget for education and religious affairs together despite having two separate ministries. It was repeatedly pointed out that allocation for religious affairs couldn't be come under education head. The budgetary allocation under the present head only exaggerates government spending in education. The real allocation in Education sector – the vital for national building – remains under question.

Health

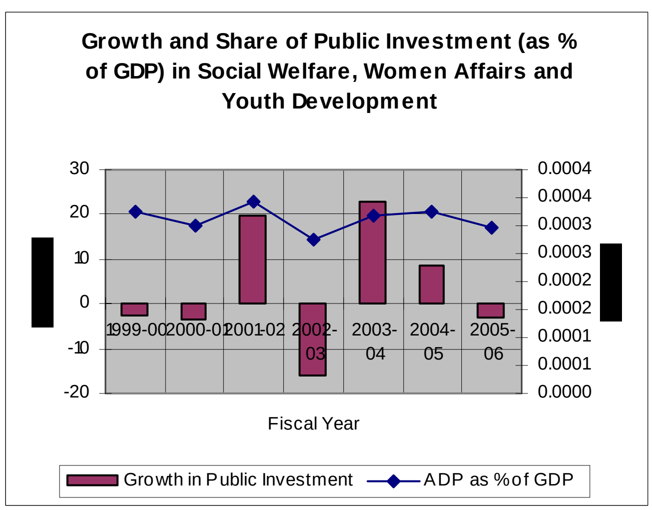
- Public investment on Health and Population and Family Welfare sector has also marked negative growth (in real terms) during most of the period between fiscal 2000 and fiscal 2006 (-6.93% in 2001, -7.66% in 2002, -2.09% in 2003, 16.18% in 2004, -4.97% in 2005 and 25.39% in 2006). Its share in proportion to GDP (after inflation adjustment) declined from 0.53% in fiscal 2000 to 0.37% in fiscal 2005, before raising it to 0.44%.
- The negligence of the public investment reflects the poor quality of the public health system across the country, both in urban and rural areas. The campaign for family planning seems to come under pause due to government's concurrent recurring negligence on health and population sector.



- The finance adviser has proposed Tk2,728.75 crore for the fiscal 2007-08
- Given the prevailing poor quality of the public health system the budgetary allocation is insignificant. However, taking the fact of resource constraints under consideration it is expected that the proposed budget would be implemented properly, at least, partially, to improve the public health care.

Social Welfare, Women Affairs and Youth Development

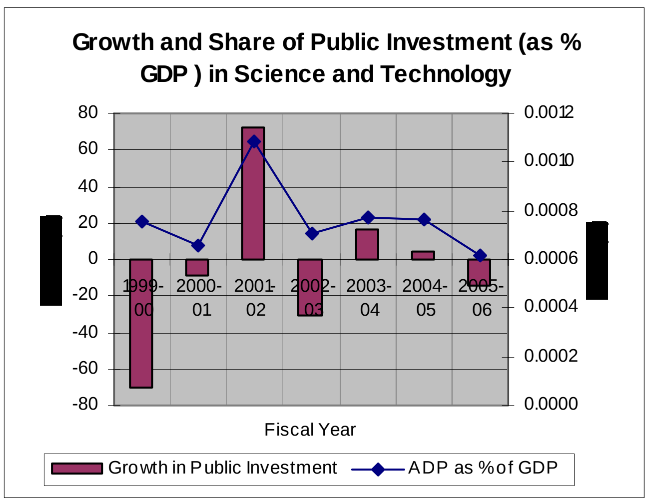
- Growth of public investment Social Welfare, Women Affairs and Youth Development remain dismal. The government spending in real terms was negative which is -16.6% in 2002, -18.68 in 2004 and –8.02 in 2005. The investment in proportion to GDP remains at negligible level, slid to 0.042% in 2006 from 0.073% in fiscal 2000.



- The finance adviser has announced a budget of Tk167.65 crore, which is insignificant as far as gender equity, social welfare and youth development is concerned.
- Government's propagation, not only in the budget but also in other public occasion, for women empowerment seems to be disingenuous as the budgetary allocation does not reflect its real intention.
- Besides, it is not clear why the women affairs kept under the same head of youth development. There should be a separate head for women affairs to reflect the government's intention and policy to bring gender balance and women empowerment.

Science and Information & Communication Technology:

- Though the ICT is regarded as thrust sector for years the public investment remains poor. There was no drastic public investment to develop ICT infrastructure. The growth of public investment in real term was 9% in 2001, -42% in 2002, 45% in 2003, -14% in 2004, -4% in 2005 and 16% in 2006. The proportionate public spending to GDP (after inflation adjustment) slid from 0.033% in 2001 to 0.018% in 2005 before raising it marginally to 0.02%.]



- The public investment on Science and ICT is projected to Tk1,899 crore for the fiscal 2008.
- Step taken to create an IT Equity Entrepreneurship Fund with Tk100 crore
- Though the budget for ICT to be increased it would be inadequate to reduce the digital gap between the rural and urban areas is not clear.. The policy on spending on ICT was basically for urban people not the rural poor. The digital divide will not bring desired results for Bangladesh.
- Moreover, withdrawal of zero duty on computer and telephone accessories would limit use of computer and Internet to a certain class only.

Apprehension is that the sliding trend of public spending on human resource development would not only generate a weak labour force in the economy, but also exaggerate the prevailing unemployment problem with mounting population pressure. Therefore the present government should also give focus on human resource development using the budgetary allocation efficiently so as to form an effective labour force.