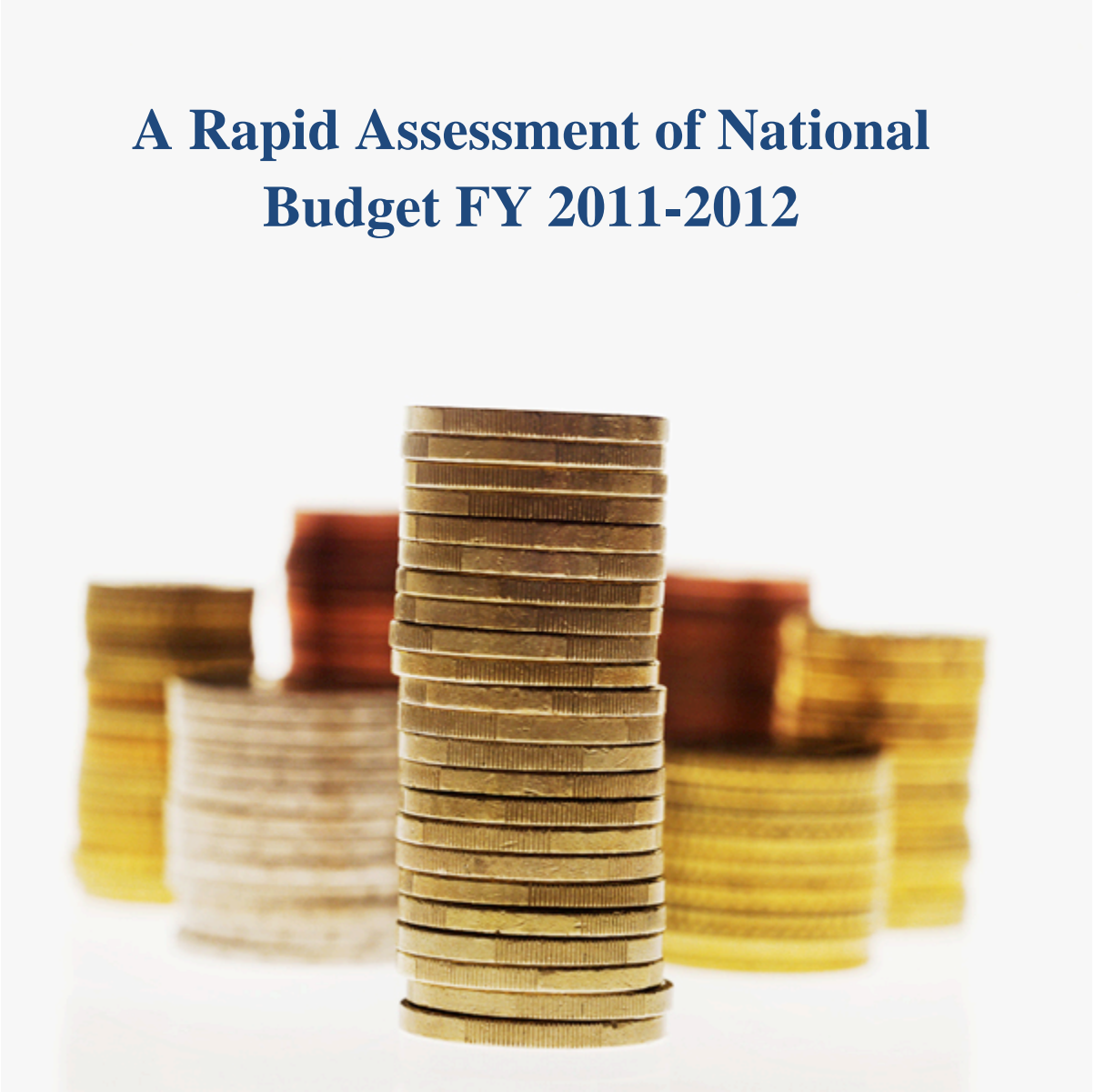


Macroeconomic Mazes in the Middle

A Rapid Assessment of National Budget FY 2011-2012



A Rapid Assessment of National Budget 2011-12
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The Rapid Assessment of National Budget FY 2011-2012 is an output of the Economic Policy Unit of the Unnayan Onneshan, a multidisciplinary research centre based in Dhaka, Bangladesh. The report is prepared by a team, under the guidance of **Rashed Al Mahmud Titumir**. The team comprises **Faiz Ahmed Chowdhury, Jayanta Kumar Basak, K. M. Mustafizur Rahman, Afsana Hossain, Mamun Chowdhury, A. Z. M. Saleh and Fawzia Rafique Laboni**.

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1. INTRODUCTION

The national budget of FY2011-12 has been announced at the midpoint of the present government's five years tenure, marred by challenges to maintain the balances and the achievement of the targets for which it was voted to power. The current situation of macroeconomic balances, particularly triggered by volatility of prices and contractionary monetary policies, may be further pressurised by the possibility of fiscal squeeze. These developments of maintaining the balances may put the government on the edge of achieving the target of growth, recovery from sluggish improvement in poverty alleviation and the reversing the rising trend of inequality.

The investment scenario is yet to take the desired path, particularly being underpinned by high interest rate, low FDI inflow, acute power crisis, poor governance, and political instability. The inflationary pressure has been mounting at an escalating rate mostly through food inflation in the country. Furthermore, higher trade deficit and the stagnated remittance inflow are putting pressure on the balance of payment situation.

The fiscal space squeeze has emerged by growing burden of subsidy requirements especially to the power and energy sector driven by the government to finance the private generators and the global fuel price hike. The constriction of fiscal space might make it difficult for the government to seek resort to stimulant required for revamping the economy.

In addition to that, IMF's loan with inapt conditionality might create severe pressure on the overall macroeconomic stability as well as attaining the targeted growth trajectory.

The government might face extraordinary challenges to reach the growth target as quoted in the budget document of FY2011-12 due to the lack of supporting base in the overall economy of Bangladesh.

The fiscal space squeeze and IMF's conditions for accessing one billion dollar loan to Bangladesh might also pave the way for increasing different types of inequality; such as - geographical inequality, income inequality and social inequality in the country.

Moreover, macroeconomic correlates will be further strained due to the mounting public debt. The cost of public debt has turned out to be a major concern attributing to the rise in interest rate and a depreciating exchange rate. The government is facing difficulty in debt financing caused by the squeezing of fiscal space. It is necessary to mention here that if debt financing is to be met by borrowing from the central bank, it would create inflationary pressure; on the other hand, if it is met by borrowing from the commercial banks, there is a possibility of crowding out the private investment. Therefore, debt financing and its management is a critical issue for the present government that needs to be dealt deftly.

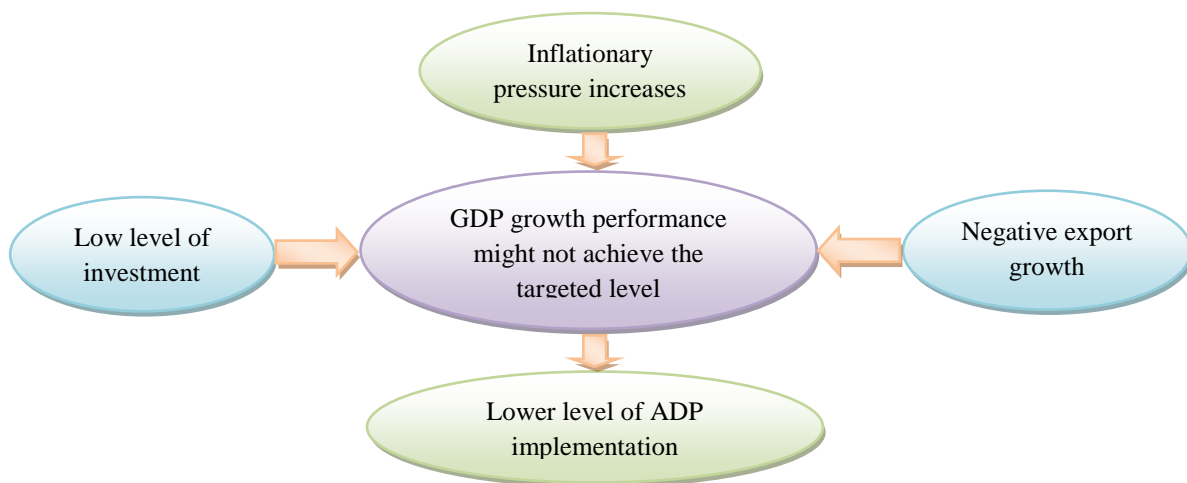
In the budget of FY2011-12, the government’s fiscal strategy should have emphasised the need for maintaining the overall macroeconomic stability as well as fiscal sustainability. Moreover, the government ought to boost the investment through infrastructural development in order to achieve the targeted growth as well as to eradicate poverty and inequality.

2. MACROECONOMIC DEVELOPMENTS

2.1 GDP Growth

The government in its election manifesto pledged to increase the GDP growth to 8% by 2013 and 10% by the year 2017. In the budget of 2011-12, the government has targeted 7 percent GDP growth rate. It took two decades for Bangladesh to achieve 6 percent GDP growth rate from 4 percent. Now the government aims to achieve another 2 percent growth rate within five years without any major changes in policy which seems to be improbable considering the previous growth path.

Figure 1: GDP growth scenario in Bangladesh



2.2 Savings – Investment

In the budgetary framework of FY2011-12, the finance minister has targeted the investment GDP ratio to be 26.27 percent. The expected progress will be achieved through ADP implementation, expediting private sector investment and making external sector competitive through a stable exchange rate. The government has also set target to achieve 8 percent growth by 2013 which requires uplifting investment from 24.99 percent to 32 percent as a share of GDP by 2013.

Achieving this targeted rate of investment by the FY13 is a challenging task for the government as the investment hovers around 25 percent. An annual growth of investment has to be 2.55 percent in order to achieve the targeted rate of 32 percent as a share of GDP by 2013. Meanwhile, Bangladesh needs 1.27 percent investment as a share of GDP to meet the targeted rate of 26.27 percent in the upcoming years which seems to be a daunting task for the

government as the public investment is declining by 0.26 percent each year and also the private investment is not showing a positive trend to meet the targeted rate.

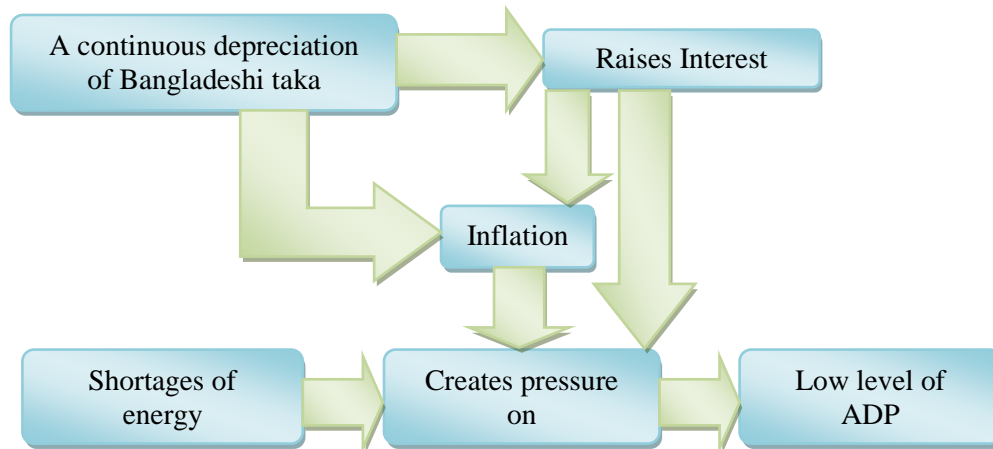
Table 1: Investment as a share of GDP

Fiscal Year	Total Investment as a share of GDP	Public Investment as a share of GDP	Private Investment as a share of GDP
2001-02	23.15	6.37	16.78
2002-03	23.41	6.2	17.21
2003-04	24.02	6.19	17.83
2004-05	24.53	6.21	18.32
2005-06	24.65	6	18.65
2006-07	24.46	5.45	19.02
2007-08	24.21	4.95	19.25
2008-09	24.18	4.7	19.67
2009-10	24.41	4.62	19.74
2010-11	24.73	5.28	19.46

Source: Bangladesh Economic Review

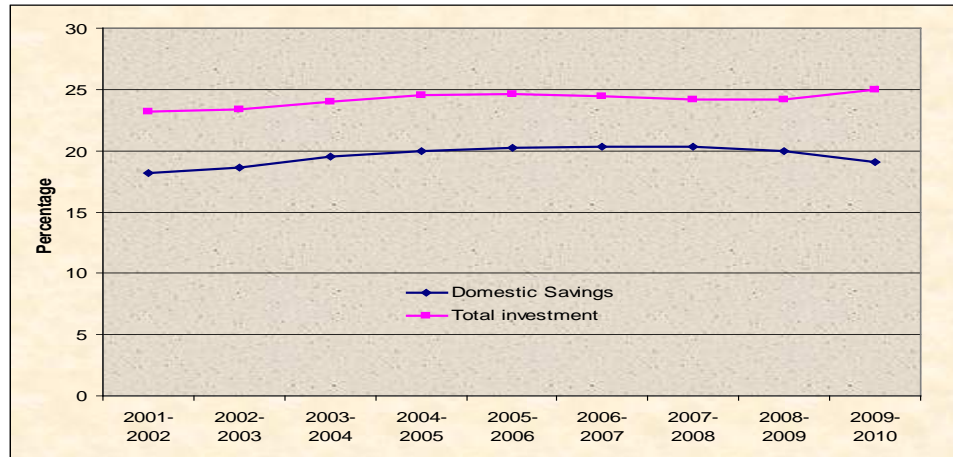
In FY2011-12, the government might face difficulties to attain the targeted level of investment if the volatility in exchange rate continues in the upcoming years. An incessant depreciation of Bangladeshi Taka is crafting a serious pressure on interest rate to amplify. Since the sensitivity of investment with respect to interest rate is high in Bangladesh, it might face a vast decline in the level of investment as the interest rate is rising. In order to achieve the targeted level of investment, Bangladesh Bank should immediately intervene in the foreign exchange market in an effort to stabilize the exchange rate.

Figure 2: Major hurdles for the government in FY2011-12 to achieve the targeted level of investment



In FY2011-12, the rising trend of interest rate might be a major hurdle for the government to accelerate investment. Despite the rise in lending interest rate, the deposit interest rate remains fixed which caused a severe decrease in savings that leads to a decline in the overall level of investment.

Figure 3: Comparative Analysis between Domestic Savings and total Investment



Source: Bangladesh Economic Review and Bangladesh Bank

Available data indicates that domestic savings-GDP ratio decreased from 20.1 percent in FY09 to 19.8 percent in FY10 and investment-GDP ratio increased from 24.3 percent in FY09 to 25.0 percent in FY10 (Chart 1.1). The domestic savings-investment gap as a percentage of GDP increased from 4.3 percent in FY09 to 5.97 percent in FY10. However, national savings-GDP ratio was recorded at 28.8 percent in FY10 for a glut inflow of net factor income from abroad which is yet to be utilized.

Table 2: ADP Utilization: Proposed VS Revised

Fiscal years	Proposed ADP	Revised ADP	Implemented	Implementation As % of RADP	Implementation As % of PADP	RADP as a % of PADP
1991-92	7500	7150	6024	84.3	80.32	95.33
1992-93	8650	8121	6550	80.7	75.72	93.88
1993-94	9750	9600	8983	93.6	92.13	98.46
1994-95	11000	11150	10303	92.4	93.66	101.36
1995-96	12130	10447	10016	86.0	82.57	86.12
1996-97	12500	11700	11041	94.0	88.32	93.60
1997-98	12800	12200	11037	90.5	86.22	95.31
1998-99	13600	14000	12509	89.4	91.97	102.94
1999-00	15500	16500	15471	93.8	99.81	106.45
2000-01	17500	18200	16200	89.2	92.57	104.00
2001-02	19000	16000	14090	88.1	74.15	84.21
2002-03	19200	17100	15434	90.0	80.38	89.06
2003-04	20300	19000	16796	89.0	82.73	93.59
2004-05	22000	20500	18771	91.6	85.32	93.18
2005-06	24500	21500	19473	91.0	79.48	87.75
2006-07	26000	21600	17917	83.0	68.91	83.07
2007-08	26500	22500	18450	83.8	69.62	84.90
2008-09	25600	23000	19700	86.0	76.95	89.84
2009-10	30500	28500	25917.5	91	85	93.44
2010-11	38500	35830	17509	48.9	45.47	93.06
2011-12	46000					

Source: Ministry of Finance

RADP: Revised Annual Development Program. PADP: Proposed Annual Development Program

According to a report by the Implementation, Monitoring and Evaluations Division (IMED) of the Ministry of planning, in the first nine months of the FY 2010-11, only 50 percent of the revised ADP was implemented. On average, the proposed ADP expenditure has been reduced by 7.82 percent in the revised allocation and 81.2 percent is implemented of the proposed allocation and the highest implementation takes place in the last three months of every fiscal year. During the FY 2010-11 only 48.9 percent has been implemented

Thus, poor infrastructure, shortages in supply of power and energy, low FDI inflow, skyrocketing inflation and high interest rate will create obstruction for the government to attain the targeted level of investment and growth rate by the year 2013.

2.3 Budget Deficit

Bangladesh has been facing an increasing budget deficit over the last few years. The emerging new political and economic changes combined with an increase in the budget deficit prompting greater reliance on higher cost from domestic and external borrowing.

The rate of revenue assortment in FY 2010-11 is 0.4 percent higher than that of FY 2009-10. The revenue expenditure in FY 2010-11 was Tk. 129876 crore which is 16.49 percent of the GDP. In FY2010-11, the total expenditure for development sector was Tk. 35830 crore which is 4.9 percent of total GDP.

In FY2010-11, the overall budget deficit was Tk. 38688 crore which is 4.4 percent of GDP. The budget deficit in FY2010-11 is 0.1 percent lower than the previous year.

Table 3: Comparison between the expenditure on development and non-development sector

Fiscal Year	Expenditure on development sector (ADP)	Expenditure on non-development sector
2007-08	22500	64637
2008-09	23000	71170
2009-10	28500	85319
2010-11	35830	97000

Source: Bangladesh Economic Review, and Ministry of Finance

The allocation in non-development sector has increased by 29 percent whereas the expenditure in development sector rose only by 2.2 percent from FY2007-08 to FY2008-09. The various expenditure heads such as deficit financing, rising trend of government subsidy are the key factors contributing largely to amplify the expenditure.

The fiscal policy of the government continues to endeavor to narrow the gap between expenditure and income in order to offset the budget deficit or to maintain it to a tolerable level. Over the past few years, the overall budget deficit registered an increasing trend which put a serious pressure on the total debt of the country.

An interesting aspect relating to deficit is that actual deficit is lower than the proposals made in the budget. This is due to the fact that the successive governments propose higher budget to increase the aggregate demand assuming that it will lead to higher output and higher rate of

growth. Deficit lessens as the government reduces the size in the revised budget due to implementation failures.

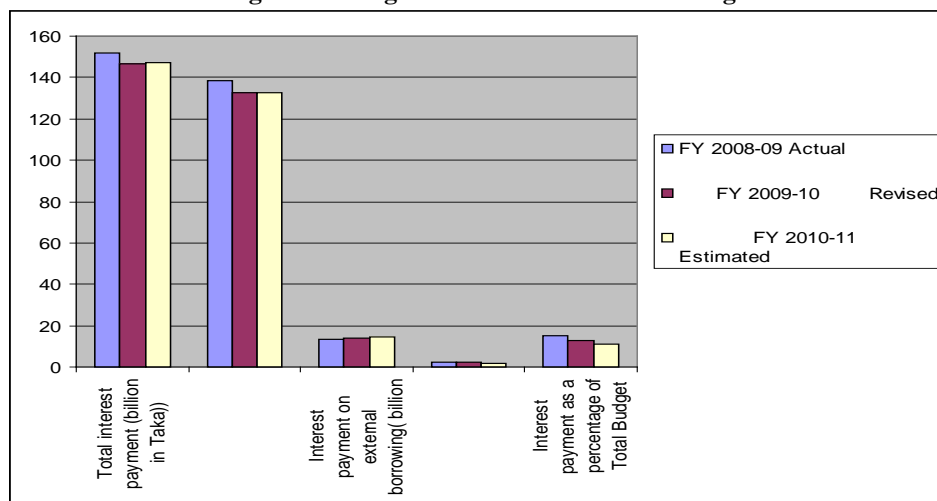
Table 4: Budget deficit and Government borrowing as a percentage of GDP

Time period	Budget deficit	Internal Debt	External Debt
FY 2008-09	3.9	3.1	0.8
FY 2009-10	4.5	2.5	2.0
FY201011	4.4	4.4	1.3
FY2011-12 (proposed)	5.0	3.0	2.0

Source: Finance Division, ERD and Bangladesh Bank

The emerging new political and economic changes combined with an increase in the budget deficit prompting the government to rely on domestic and external borrowing. During the period from FY2010 to FY2011, the level of financing to cover the budget deficit increased from 4.5 percent to 5 percent as a share of GDP. The statistics suggests that the domestic borrowing has increased from 2.5 percent to 32.5 percent as a share of GDP from the FY2009-10 to FY 2010-11.

Figure 4: Budget deficit and deficit financing



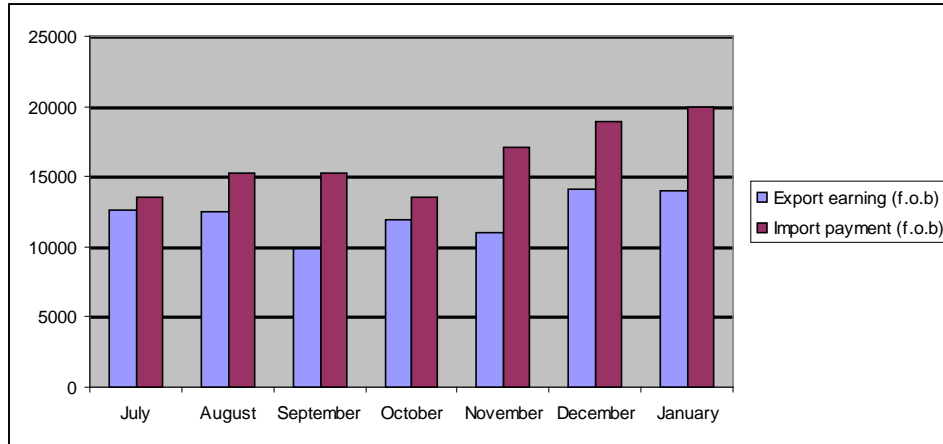
Source: Finance Division, ERD and Bangladesh Bank

The total interest payment of the government has increased by Tk. 0.6 billion from FY2009-10 to FY2010-11 intended for financing in budget deficit. Another important feature of this debt burden is that continuous borrowing has increased from internal sources than that of external sources. During FY 2010-11, the total interest payment in domestic borrowing was estimated Tk. 132.7 billion whereas the interest payment in external borrowing was only Tk. 14.4 billion in the same period. Since the greater portion of debt financing has been managed from the domestic sources, it might create severe pressure on inflation and interest rate. The deficit financing will have to be made in a non-inflationary manner. In this context the government will be better off to use non-bank borrowing window of domestic financing.

2.4 Trade Balance

The overall trade balance of the country is showing a negative growth as the capital inflow through export is outshined by the elevated import cost during FY 2010-11. A continuous depreciation of national currency has largely contributed to accelerate the import cost which caused to worsen the trade balance. This deteriorating trend in trade balance will continue in the upcoming years if prevailing problems of the macro-economy exists.

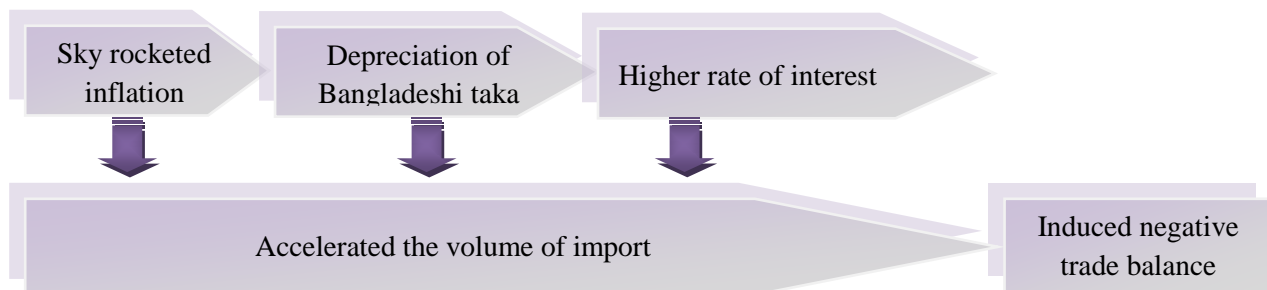
Figure 5: Monthly Comparison of Export and Import during July-January in FY 2010-11



Source: Bangladesh Bank

Reducing the trade deficit was one of the major agenda in the budget speech of 2010-11. The statistics suggests that the trade deficit increased by 521 percent during the first quarter in FY 2010-11 compared to 394 percent during the same period in FY2009-10. This rising trend of trade deficit has continued by 205 percent in the second quarter of the current fiscal year. The worsening trade balance is showing a differing result to the commitment of Finance minister.

Figure 6: Four major macro-economic problems might be painstaking for the government in FY 2011-12 for revamping the sustained trade balance



Bangladesh might face record double digit inflation in the forthcoming fiscal year. The continuous jacking up of the cost of bundle of domestic goods and services might tend to accelerate the volume of imports. In addition, the volatility in exchange rate is worsening the overall trade balance. Furthermore, high interest rate, continuous fiscal space squeeze, and the shortages of energy and power supply are creating serious pressure on the trade balance.

In an effort to uplift the trade balance performance and to avoid the recurrence of adverse impact of the global economic downturn, Bangladesh needs to seek for potential export markets in developing nations other than the traditional countries. Bangladesh's export to the developing countries accounts for around 10 percent of the total Least developed countries (LDC) export which is far less than the average 45 percent export of other LDCs to the developing nations (DCCI conference on Bangladesh 2030).

Table 5: Product wise export (% of total export)

Products	FY 2008-2009	FY 2009-10	2010-11(July-January)
Woven garments	38.02	37.11	35.99
Knitwear	41.34	40.01	41.63
Frozen Foods	2.92	2.73	3.08
Jute Products	1.73	4.86	3.51
Leather	1.13	1.40	1.23
Raw jute	0.95	1.50	1.76
Chemical products	1.80	1.92	0.43
Tea	0.08	1.26	0.01
Other	12.0	9.21	12.34

Source: Export Promotion Bureau (EPB)

For the sustained growth in the export sector it is important to diversify the export sector. Almost 80 percent of the total export of Bangladesh largely depends on the export of woven garments and knitwear. This is because the export market of Bangladesh is highly centralized in the markets of U.S.A and European Union (EU) countries. With a view to diversify the export sector, the budget did not propose any tangible measure relating to jute, frozen food, leather, and medicine and ship industry. In order to make the RMG sector more competitive, there should have been incentives to create more value addition. Establishing of backward linkage industries should have been given priority considering its importance.

The export of small vessels to some EU countries and other destinations reflect an opportunity as the demand for Bangladeshi ships is increasing. The export earning of Bangladesh can be enhanced if Bangladesh can grab such opportunities.

Table 6: Country wise Export (% of total export)

Countries	FY 2008-09	FY 2009-10
European Union	52.3	52.3
American Region	33.3	33.3
Asian Region	8.8	8.8
Middle East Region	2.5	2.5
African Region	0.6	0.6
Oceania Region	0.3	0.3
East European Region	0.3	0.3
Others	1.8	1.8

Source: Export Promotion Bureau (EPB)

Another problem of Bangladeshi export sector is that export markets are concentrated in some specific countries which include U.S.A, U.K, and Germany making it more susceptible to any global economic or political upheaval. It has been observed that European Union and American region consist of almost 85 percent of the total Bangladeshi export while the rest of the world

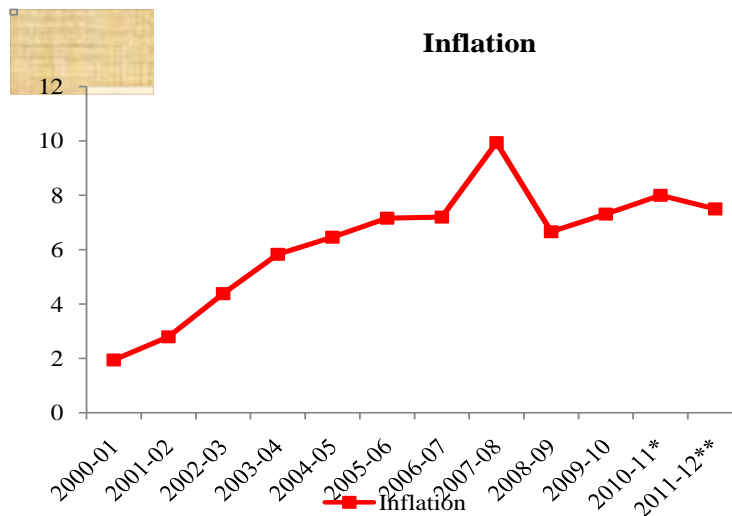
receive only 15 percent of Bangladeshi export. Thus, Bangladeshi export performance is solely dependent on the markets of U.S.A and EU countries.

Bangladesh needs to diversify its export market immediately in order to lessen the dependency on some particular economy as well as for a sustainable export growth. Bangladesh can explore the markets of Italy, Japan, Turkey, Malaysia, and Germany where lies a potential market for Bangladeshi knitwear, woven, leather goods, medicine, shrimp and ship industry. But in the budget of 2011-12, there seem no specific policy options to secure the potential markets.

2.5 Inflation

The increasing inflationary trend that began to show up since the second quarter of FY 2009-10 continued throughout FY 2009-10 and FY 2010-11. The government has targeted to limit inflation rate to 7.5 percent in the fiscal year 2011-12. In FY2010-11, the government has targeted to contain inflation rate to 6.5 percent but in reality it was 8 percent. However, Unnayan Onneshan has projected that inflation rate in FY 2011-2012 might touch double digit.

Figure 7: Inflation Scenario in Bangladesh



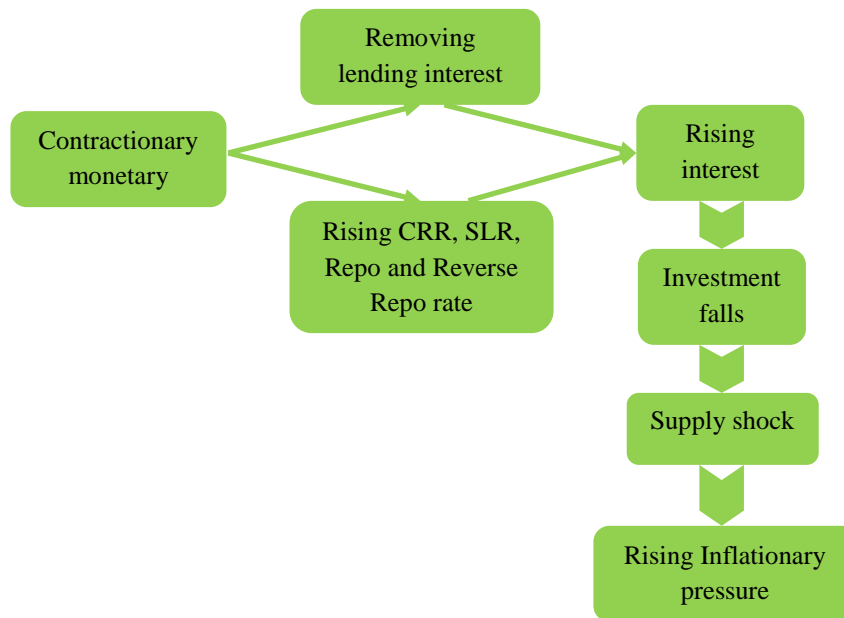
Source: * indicates provisional 2011
 ** Authors' calculation based on Bangladesh Bank data.

2.5.1 Impact of wrong monetary policy

Bangladesh Bank has attempted to control the monetary aggregates by using different policy tools which have not been effective in controlling inflation. Bangladesh Bank fell short to identify the real phenomenon of Bangladesh's inflationary situation. Bangladesh Bank pursued a tight monetary policy assuming that the country is facing inflation, which is demand pull in nature. In reality, inflation takes place in Bangladesh due to supply shock and push in cost. To control supply shock inflation, augmenting the level of production can be an effective step along with other necessary measures. On the other hand, tight monetary policies in demand pull

inflation might create a reverse effect by soaring up inflation further and increasing the balance of payment pressure.

The objective of the monetary policy is to influence the performance of the economy which is supposed to be reflected in inflation, economic growth and level of employment. The tools used by the Bangladesh Bank to control the money supply are discount rate, Required Reserve Ratio and open market operation as advised by IMF. Adopting a tight monetary policy would reduce the availability of credit to the commercial bank and its ultimate effect will be the reduction of credit availability to the people which would cause an increase in interest rate.



It has been demonstrated that contractionary monetary policy of Bangladesh bank increased the interest rate that would ultimately reduce the volume of investment. Thus, the reduction of investment would cause a negative impact on the level of production which might increase the supply shortage of output and soars up inflation in Bangladesh.

2.5.2 Sources of inflation

Inflationary pressure in Bangladesh is originated largely from supply side shocks through several key factors such as high food price in the world market, supply shortage, increasing negative trade balance, continuous currency depreciation in Bangladesh.

The inflationary situation in Bangladesh is on the rising trend, especially since August 2009, primarily owing to the soaring increase in food prices. The food price hike has accelerated the general inflation rate in the country. If the food price level rises at an existing rate of 1.31 percent per month and if adequate anti-inflationary measures are not taken, the overall general inflation might touch a ‘double digit figure’. The current rate of rise in inflationary pressure suggests that the rate of general inflation might reach to 12.84 percent in June 2011.

Table 7: quarterly comparison between World food prices and Bangladesh food prices, inflation rate and exchange rate

Time Period	World Food Price Index	Bangladesh Food Price Index	Bangladesh General inflation rate	Exchange rate
Jan.- March	-7%	-0.06%	-0.21%	0.072%
April-June	-1.2%	2.41%	0.16%	0.14%
July-Sept.	12.79%	4.22%	0.35	0.34%
Oct.-Dec.	8.78%	1.14%	1.42%	0.099%
Jan.-Mar.	0%	1.68%	1.45%	1.26%

Source: FAO World food Price index Report 2011 and Bangladesh Bank

Should there be a double digit inflation, this would pose a severe threat to the macro-economic stability in the country. Bangladesh has already experienced a double-digit food inflation rate on point-to-point basis since July 2007. The soaring prices of essential commodities, especially, food prices could hurt the poor and worsen equity. Persistent high inflation may unleash forces that jeopardize macroeconomic stability and economic growth. Last year, the International Monetary Fund (IMF) also warned Bangladesh that excess liquidity and resurgent international commodity and food prices might push inflation to double-digit levels by year-end.

3. REAL SECTOR DEVELOPMENTS

3.1 Agriculture

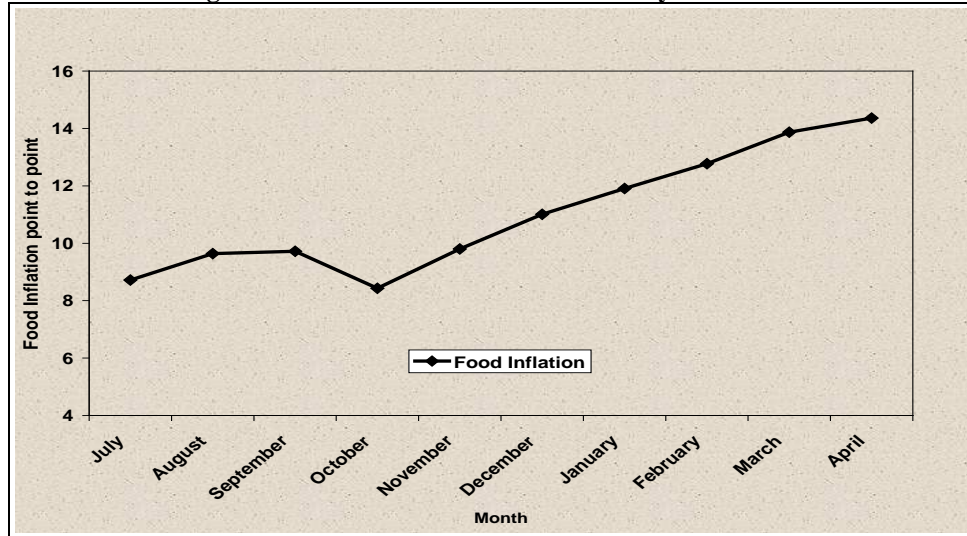
Agriculture is one of the most dominant economic activities in Bangladesh and regarded as the lifeline of the economy of the country. In the Election Manifesto of Bangladesh Awami League-2008, Budget speech FY 2009-10 and FY 2010-11, food security was the major issue and following this, the present government has declared the budget for the FY 2011-12.

However, food security is in a severely threatened due to food price hike in the recent years. To achieve food security, the present government should keep the food price to the access level of consumer which is one of the major challenges. In addition, more than 20 percent rice and wheat production must be increased to attain food sufficiency within 2013; consequently food price should be controlled with increasing production cost. In recent few months (July 2010 to April 2011), food inflation rate follows an increasing trend and in April 2011, it is 14.36. From the analysis of the current production cost in agriculture sector after increase of labour wage, fertiliser and fuel price (66.67 percent increased urea fertiliser and 4.55 percent increased fuel) it is found that food price will increase within the next few months and it will continue throughout the whole year.

ADP allocation in agriculture, rural development, rural institutions and water resources is Tk. 8511.25 crore (rural development and rural institutions Taka 4402.85 crore and agriculture and water resources Taka 4109 crore) which is 18.5 percent to the total ADP, whereas it was 21.2 percent in the FY 2010-11. **Therefore, ADP allocation has been decreased (2.7 percent) in this sector regarding total ADP.** However, for agriculture, ADP allocation has increased compared to the last FY 2010-11. Addition, there is a question has been raised about its implementation. The revised and future implementation of ADP allocation has been predicted by taking the weighted average of the past trends. From the analysis of the last 5 years data, it is

found that percentage of implementation to proposed budget is 56.30 and the implementation to revised budget is 63.32.

Figure 8: Food inflation rate in the Fiscal year 2010-11

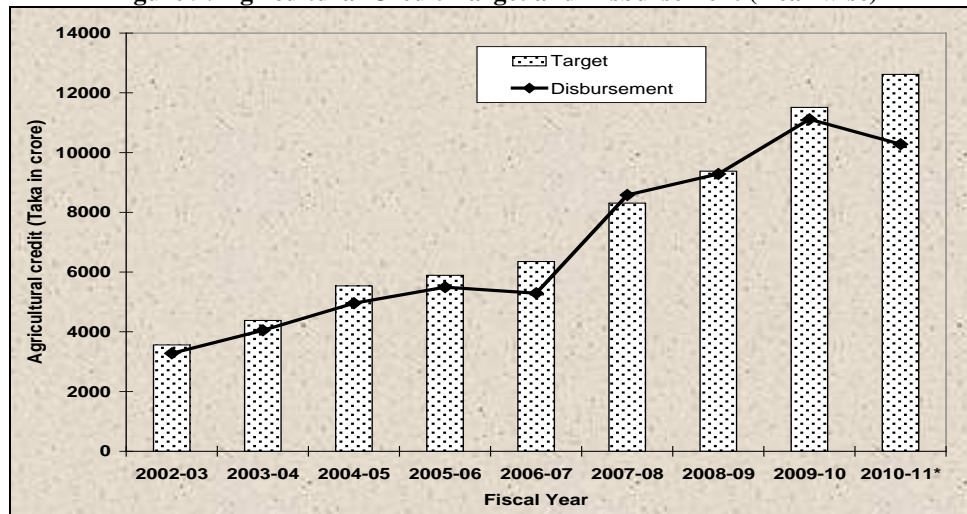


Source: Bangladesh Bank, 2011

In FY 2011-12, more than 85 percentage of its total allocation has been proposed for the non- development sector Ministry of Agriculture and 52 percentage for Ministry of Fishery and Animal Resources. Maximum allocation has gone to the non-development sectors and small amount has been allocated to the development sector which is one of the major constraints for development. Raising productivity and profitability, reducing instability, and increasing resource-use efficiency, it is essential to increase the allocation in development side.

Subsidy in agricultural sector has declined by 21.05 percent compared to the last year’s revised budget (FY 2010-11). In FY 2010-11 revised budget, the total allocation for agricultural subsidy was Tk. 5700 crore while the current budget proposes Tk. 4500 crore.

Figure 9: Agricultural Credit Target and Disbursement (Year wise)



Source: Authors’ calculation based on Bangladesh Economic Review, 2010 (*: up to April month, 2010-11)

Government has targeted to distribute credit to the tune of Tk. 13800 crore for the FY 2011-12. From the analysis of the last 8 years' data, it is found that more than 6 percent (6.32 percent) might not be distributed. Accordingly, estimation is that **the credit disbursement may not be more than Tk. 12928 crore.**

Target for production and distribution of high yielding seed through BADC is 1,54,213 MT which is 17.78 percent to the last FY 2010-11. Beside, Finance Minister in his budget speech 2010-11 declared that we will form an additional 600 'Farmers Marketing Group' and 6200 'Farmers Club' and establish 4 agro-products processing centers. These are right steps which will need to be appropriately implemented and gradually expanded.

In FY 2011-12, no new fund has been allocated for irrigation project in the Southern and South-western region, whereas Tk. 300 crore was allocated to expand irrigation facilities in FY 2010-11 for these regions. Moreover, maximum locations in Northern region (one of the most rice growing regions in Bangladesh) are drought prone where irrigation management is going to create a huge problem for both dry and winter season. Therefore, new irrigation management project will also be needed for the northern part.

In the last year budget speech Finance Minister declared *“we have taken an initiative to introduce an Agriculture Insurance scheme to provide the small and medium farmers with crop price support in the event of crop failure due to natural disasters”*. But there was no guideline about the landless farmers who are the most sufferers. Besides, there was no fund allocated for the Insurance Scheme. Likewise in 2010-11, no fund has been allocated for the current FY 2011-12. Since, there is no allocation, there is a concern that it may not be implemented in future.

In National Budget 2011-12, it is also emphasized to use 'Guti' (granular) urea and leaf colour chart to introduce austerity in the use of urea and to use of organic manure. **However, for the use of leaf colour chart and Guti urea and the distribution of organic fertilisers, no fund has been allocated in the budget.** Therefore, a question has automatically risen how the total process will succeed.

Moreover, irrigation application is depended on the groundwater source. Groundwater application increased many times to augment production, at the same time causing salinity of soil to increase and consequently declining soil fertility. On the other hand, soil fertility is decreasing due to the use of huge amount of chemical fertilisers, which is not at par with sustainable conception of agriculture. Therefore, proper attention should have to be given for sustainable agriculture practices and sufficient fund must be allocated to enhance sustainable agricultural practices.

3.2 Industry

The present government's aim is to increase the contribution of industrial sector in GDP from 29.95% (FY 2009-10) to 40% by the year 2021. To achieve this goal, a sustainable growth in industrial sector is needed. The industrial growth and labour force absorption depend on scope of creating new industries, increased efficiency and production of the industries as well as quality

and value addition of the intermediate products. But the growth rate of the manufacturing sector shows a declining trend. Besides, the disbursement of industrial term loan is also showing a declining trend.

Table 8: Growth rate of manufacturing sector

Fiscal year	Small and cottage industry	Medium and Large industry
2002-03	7.20%	6.60%
2003-04	7.45%	6.95%
2004-05	7.93%	8.30%
2005-06	9.21%	11.41%
2006-07	9.69%	9.74%
2007-08	7.10%	7.26%
2009-10	6.90%	6.85%
2010-11	7.34%	10.41%

Source: Bangladesh Economic Review

Industry contributed 29.9 percent of GDP and growth rate slowed down from 6.5 percent in FY09 to 6.0 percent in FY10. The growth in industry was led by strong growth in mining and quarrying, power, gas, water supply and construction sub-sector. The deceleration of growth of this sector was mainly due to global financial crisis that adversely affected export-oriented industries. Production in domestic market-oriented industries expanded to offset the lower value-added in export industries.

Credit financing facilities to SMEs contributed to the maintenance of satisfactory industrial growth. The growth in mining and quarrying sub-sector increased by 10.1 percent in FY10 compared to 9.8 percent in FY09. Manufacturing sub-sector registered a lower growth of 5.7 percent in FY10 compared to 6.7 percent growth in FY09.

Growth was pronounced in both the large and medium, and small scale-manufacturing sub-sectors, which grew by 5.5 percent and 6.3 percent respectively in FY10 compared to 6.6 percent and 6.9 percent growth respectively in FY09. Small scale manufacturing sub-sector contributed about 29.0 percent for the total output of the manufacturing sector. The production of small scale manufacturing industry mostly depends on indigenous raw materials and is generally immune to external shocks. Within this sub-sector food, beverages, tobacco, leather and apparel metal products, machinery, chemicals, rubber, plastic, basic metal industries, nonmetallic products, paper, printing, and publishing etc. showed substantial growth in FY10.

Production of both large and medium scale manufacturing industries, particularly jute, cotton, wearing apparel, leather, chemicals, petroleum, rubber production, food, beverages, tobacco, fabricated metal products, nonmetallic products, paper and paper products, wood products etc. showed moderate growth up to third quarter of FY10.

Quantum Index of Industrial Production (QIIP) which has been estimated for computing value added of large and medium scale industries showed a growth of 6.5 percent during FY10 over the previous year. In spite of the global economic meltdown, ready-made garments (RMG) exports

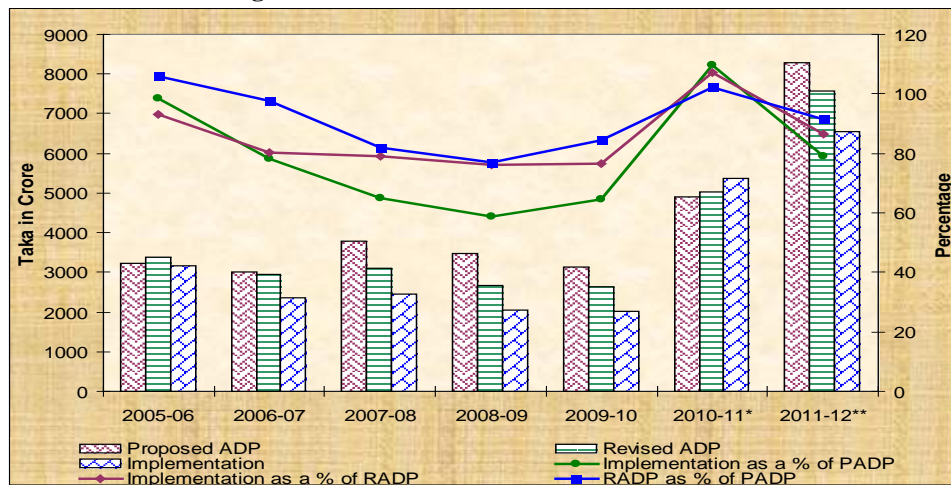
increased by 1.20 percent and the non-RMG exports registered 15.2 percent growth during FY10.

Non-RMG exported items that experienced decline in growth were tea, frozen food, and chemicals. Products experiencing positive growth in the last fiscal year included raw jute, jute goods, leather and engineering products. Growth of the construction sub-sector increased at 5.9 percent during FY10. Growth in power, gas and water supply sub-sector increased to 6.9 percent in FY10 compared to 5.9 percent recorded in FY09. It may be noted that the large unmet demand for power continued in FY10, affecting the growth potential of a number of activities in both urban and rural areas.

3.3 Power

Prioritizing the power and energy sector the government has proposed to allocate Tk. 8311 crore (development and non-development combined) for FY 2011-2012. This allocation is 15 percent higher than the revised budget of the last fiscal year (2010-11). The proposed public investment in power sector has marked negative revision during most of the period between fiscal year 2005-06 and fiscal year 2010-11 (shown in the figure) because the data of previous years shows that on an average 91.48% of proposed ADP remains as revised ADP. Among these years only two years (2005-06 & 2010-11) show the higher revised allocation than the proposed allocation. Through the weighted mean calculation it can be predicted that the **proposed ADP allocation of Tk. 8286.47 crore may approximately remain Tk. 7580.46 crore as revised ADP of which Tk. 6546.3 crore might be implemented.** It is such a vital sector, where 100 percent implementation of allocated money must be needed otherwise the dream of the government may remain elusive.

Figure 10: Public Investment in Power Sector



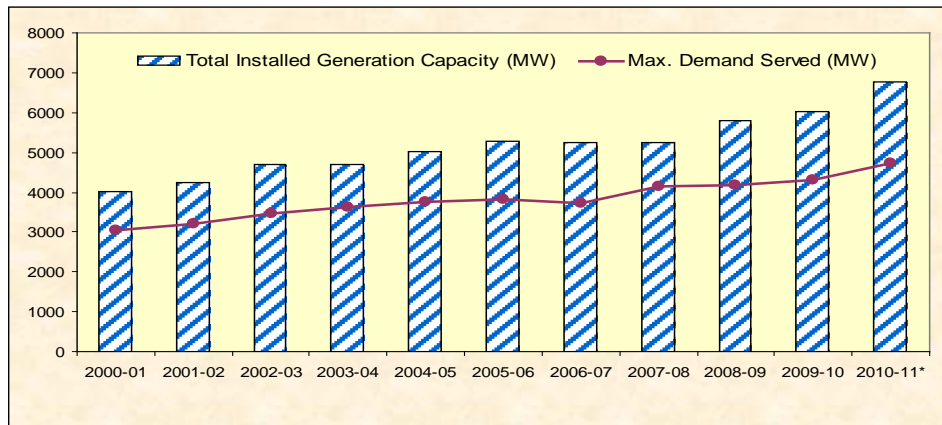
Source: IMED

* indicates implementation up to May 2011, ** indicates proposed allocation

Actual demand of power could not be met for the last few years due to shortage of available generation capacity. In the public sector, a good number of generation units have become old and has been operating at a much-reduced capacity. As a result, their reliability and productivity are

also poor. Besides, due to shortage of gas supply some power plants are unable to utilize their actual generation capacity. The present total installed capacity is 6760 MW of which 6208 MW (March, 2011) is the actual generation capability. For net generation system loss and some other reasons like gas shortage, maintenance, rehabilitation, over hauling, aged power plants etc., on an average 3981.5 MW of electricity (based on generation query of BPDB) has been generated in the last year against the demand of 5000 MW to 5500 MW. The maximum generation of 4724 MW in 2010-11 (up to April, 2011) therefore, could not address the power crisis in the country. Due to rental power plants with high per unit cost, the government has to bear huge cost per year for buying electricity from the private sectors. The ongoing rate of sales electricity by PDB is Tk. 2.65 per kilo watt hour whereas the government has to pay Tk. 11.01 per unit of electricity (if the plants are diesel fired) or Tk. 5.01 per unit (if it is furnace oil based) as subsidy. The amount might be almost Tk. 5000 crore per year. The government planned to provide 2157 MW of electricity in this fiscal year, if these units are furnace oil based, then the government will have to provide (2157000 kilo watt/hour* 5.01 extra amount only for the production cost excluding operating and distribution cost. In the fiscal year the government proposed Tk. 3000 crore as subsidy which is Tk. 1000 lower than the previous year (2010-11). So the government has to increase the rate of electricity per unit. This may create extra pressure and may influence inflation. So, the government must be creative in this regard. The installed capacity and maximum generation are shown in the figure 5.

Figure 11: Total installed capacity and maximum generation of power



Sources: Bangladesh Economic Review; Power Division

* Indicates maximum demand served up to April 2011.

There is a serious gas crisis exists today, which has automatically resulted in causing the power crisis as well. Due to the shortage of gas, the other primary fuel for generation of power, coal, offers safer and cheaper prospects. However, the debate about the method of mining coal makes the problem thorny. In this budget there are no specific steps about the coal policy. In addition, the time that would be inevitably needed to exploit and use Bangladesh's plentiful coal deposits will create an unacceptable time-gap in solving the power crisis with desirable speed.

4. SOCIAL SECTOR DEVELOPMENTS

4.1 Social Security

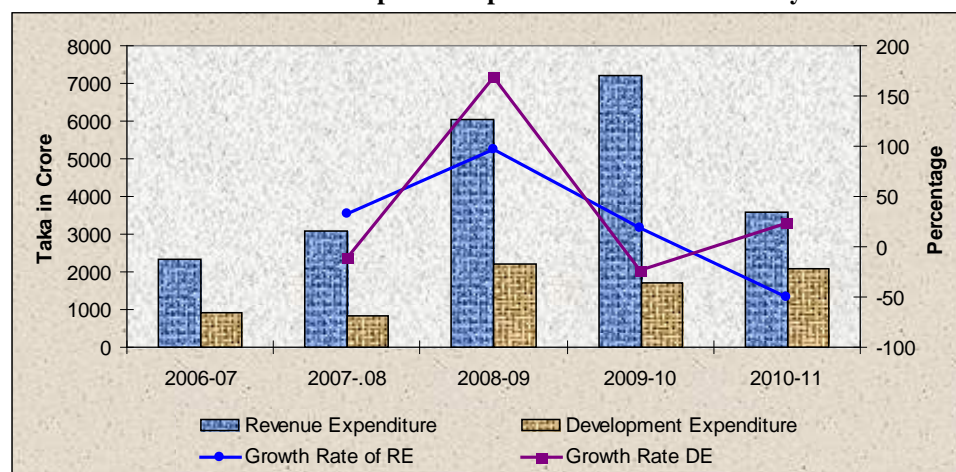
The Constitution of Bangladesh in its clause 15(d) clearly declares to introduce the Social Security Programme. The Constitution spells 'the right to social security that is to say, to public assistance in cases of undeserved want arising from unemployment, illness or disablement, or suffered by widows or orphans or in old age or in other such cases "In spite of constitutional obligation no government had come forward to implement this constitutional commitment. The present government's election manifesto pledged that the number of poor people will be reduced to 45 million from 65 million by 2013 and will further come down to 22 million in 2021.

Social Security may be conceptualized as: ‘the protection which society provides for its members through a series of public measures against the economic and social distress which otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death; the provision of medical care; and the provision of subsidies for families with children’ (ILO, 1999).

Over the years governments have proposed budgets for social security and welfare sectors. Continuing this government has proposed Tk. 22556.05 crore for the FY 2011-12 for the social protection and empowerment. If the trend is examined it can be seen that the gap between development expenditure and revenue expenditure are radically increased, if growth rate is considered, between FY 2006-07 and FY 2010-11, **the growth of revenue expenditure of social security and welfare sector is 24.29%, whereas, the growth rate of development expenditure is 39.91%.**

The growth of revenue expenditure was highest in FY 2008-09, which was 96.40% at the same time the growth rate of development expenditure also highest which was 169.0 %. The growth rate of development expenditure was negative during 2006-07 and 2007-08; which was -53.76 % and -10.39%, respectively. From the available data it can be inferred that the budgets were proposed to reduce social vulnerability of people in the short run negating structural development that would improve social security of the poor in the long-run.

Table 12: Revenue and Development Expenditure in Social Security and Welfare

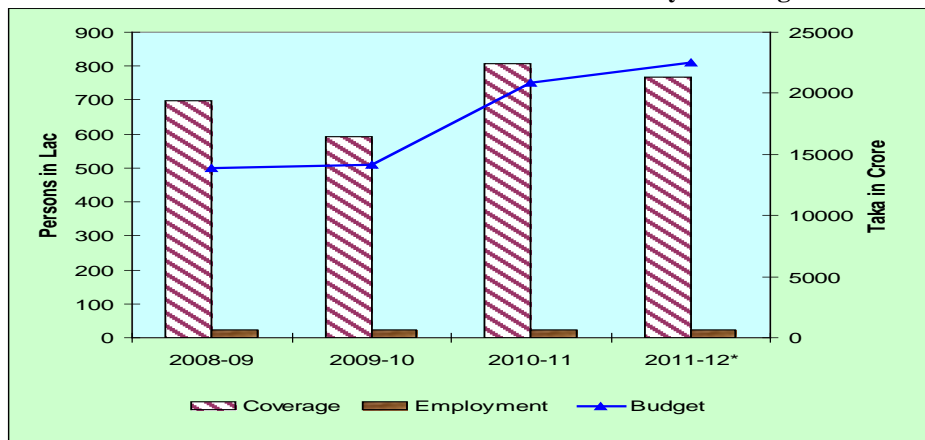


Source: Finance Division

Government has initiated different safety net programmes for improving social security and to protect the poor. In order to do so, there are cash transfer programmes, social empowerment programmes, food security programmes and micro credit programmes. In case of employment generation, during the first phase, employment has been generated for about 6, 00000 people in 16 districts. In the second phase, government has planned to create employment opportunities for about 17, 00000 people in 64 districts across the country. However, the government has proposed to create employment for about 22.97 lac people in the current fiscal year (FY 2011-12). In the fiscal year 2011-12 the government has proposed to cover 768.17 lac people under social safety net programmes, which is 39.86 lac lower than the revised target of the fiscal year 2010-2011. The government proposed an increased amount of allocation for the fiscal year 2011-12, which is Tk. 1662.53 crore higher than the revised allocation of the last fiscal year 2010-11.

Furthermore, the inflation rate is on the rise (10.67%), while food inflation recorded at 14.36% (April 2011). Therefore, the high inflation rate is bound to have a deteriorating effect on the food and social security situation. Moreover, the government has predicted the inflation rate to be 7.5% for the FY 2011-12 and hence the allowance and coverage of the cash transfer programmes should have been revised and increased considering the inflation.

Table 13: Cash Transfer Scenario under Social Safety Net Programmes



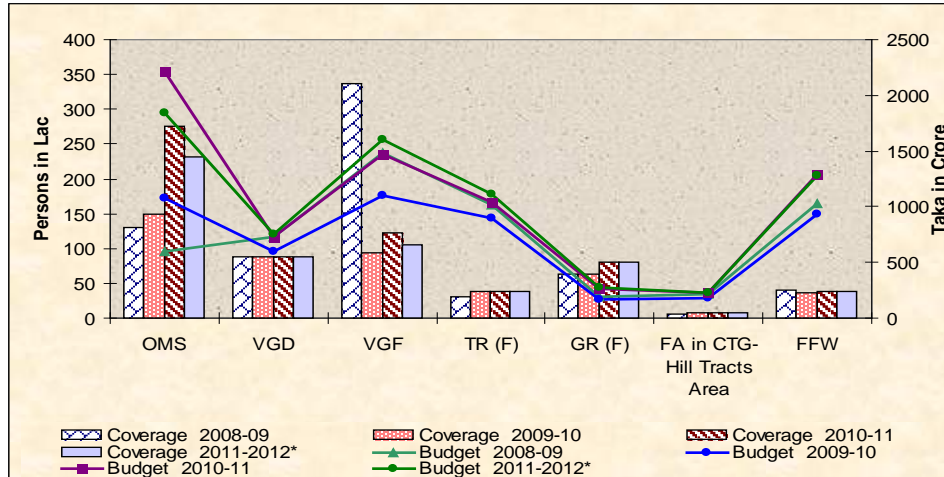
Source: Finance Division
 * indicates proposed

A lot of programmes are shown to have been undertaken by the government to provide food security of the population. Though the programmes are expanding the un-sustainability or ineffectiveness of the programmes are depicted by the small coverage of population. To improve food security situation, the government proposed Tk. 7102.57 crore for the fiscal year 2011-12 but, it is Tk. 129.55 crore lower than the revised allocation of the previous fiscal year (2010-2011).

The programmes that are undertaken to ensure social security excludes some of the fundamental issues such as issues of violence against women, the problem of floating people, child labour, etc. Therefore, if all the circumstances are considered, the safety net programmes are not likely to bring any sustained enhancement of social security if effective measures are not undertaken to

create employment opportunities, hold back the rising inflation rate, increasing public expenditure through demand based allocation, etc.

Table 14: Food Security Programmes: Social Protection (Up to 24/3/2010)



Source: Finance Division
* indicates proposed

The prevailing scenario of poverty, safety net programmes and the government spending carried out regionally would lead to a recommendation for proper planning to be carried out at regional level (e.g. district level planning) and sufficient monitoring of the expenditure carried out locally. In this regard it would be crucial for the government to carry on with survey on poverty at regional level in frequent intervals and identify the groups who are in need of specified government services.

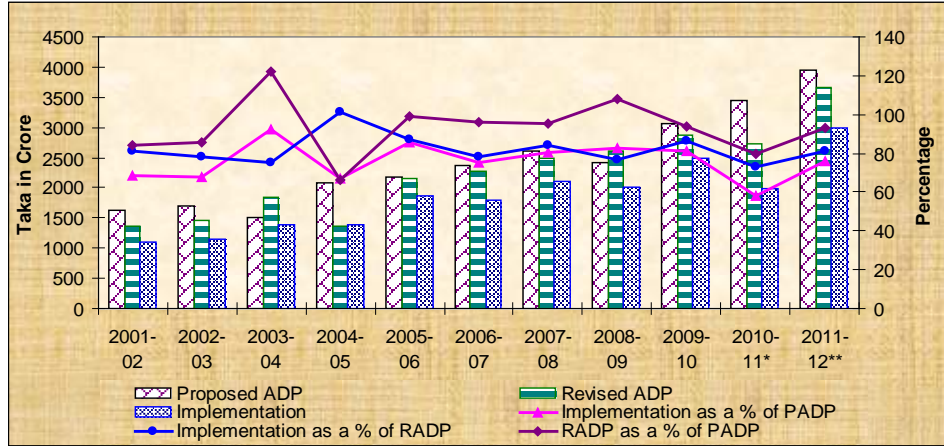
The existing cash and food transfer programmes may reduce starvation rate of limited number of people in some specific times but for improving social security situation (in its comprehensive sense) more specific measures addressing long term vulnerability must be taken. Moreover, the problem of limited scale and population coverage of SSNPs may initiate problems of leakage and misallocation, which may go undetected because of inadequate monitoring of programmes. The government has claimed to take steps to develop a database on the beneficiaries of the Social Safety Net Programmes. However, specific measures are yet to be undertaken.

4.2 Health

The proposed budgetary allocation in the fiscal year 2011-12 in health sector is Tk. 8889 crore (including development and non-development budget), which is 5.43% of the total budget. The allocation has increased by Tk. 760 crore than the last fiscal year. The proposed public investment in health, population and family welfare sector has marked negative revision during most of the period between FY2001-02 and FY2010-11 (as shown in the figure) since the data of previous years shows that on average 92.98% of proposed ADP remains as revised ADP. Among these years only two years (2003-04 & 2008-09) show the increasing revised allocation than the proposed allocation. Through the weighted mean calculation **it can be predicted that from the**

proposed Tk. 3942 crore as ADP allocation in 2011-12 approximately Tk. 3662.1 crore might remain as revised ADP of which Tk. 2981.1 crore might be implemented.

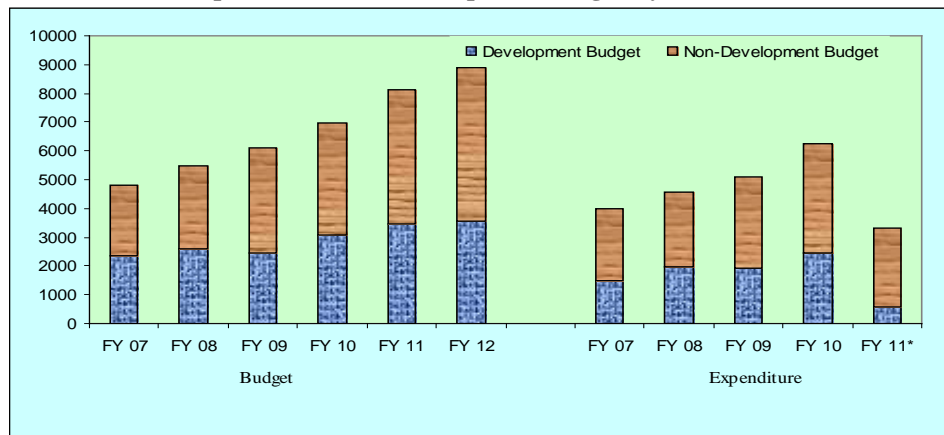
Figure 15: Public Investment in Health and Family Welfare Sector



Source: **Authors' calculation based IMED data
* Implementation up to May 2011

It has been observed that the development budget is increasing slower than the non-development budget. The negligence in public investment reflects the poor quality of the public health system across the country, both in urban and rural areas. The proposed Tk. 8889 crore for 150,535,492 people is too little in comparison to the needs because **the per capita allocation in healthcare is merely Tk. 590 in a year. That means the daily allocation for healthcare is Tk. 1.62. This rate is not favourable for attaining the MDG goals as well as Vision-2021 targets of the present government.** During the last five years, there was a significant gap not only between development and non-development budget allocation and also expenditure as well. In order to achieve the government's pledge of ensuring quality health services for all, public investment in development sectors needs to be increased.

Table 16: Development and non-development budgetary scenario in health sector



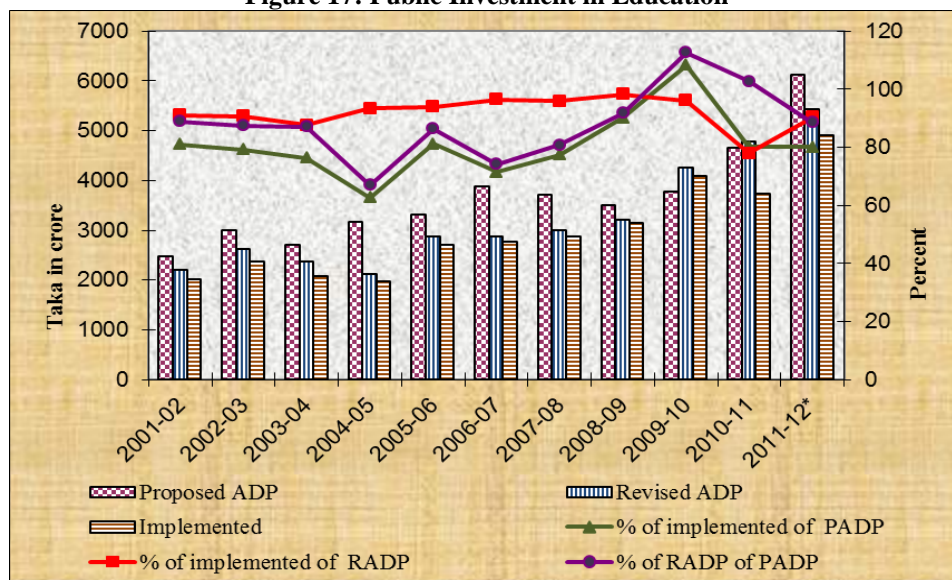
Source: Finance Division
* Up to February, 1011

If the government can appropriately allocate the committed amount (from 7% to 12%) of national budget in the health sector then the better health indicator could be ensured. However, the government is not able to complete those initiatives that are taken in the last budget and it is seemed from the Budget Speech of FY 2011-12 that most of the initiatives of the current budget are continuation of incompleteness of last budget (2011-12). There is no specific new step for the rural population, who has less access to the health facilities than the urban population. Hence, it might be difficult to ensure health facilities to all and reduce rural-urban inequality in health facilities of the country.

4.3 Education

With a vision to attain cent percent net enrollment at primary level by 2011, 100 percent adult literacy by 2017 and make degree level education free by 2013 by following the guidelines of the National Education Policy 2010, **the finance minister has proposed an allocation of TK. 19,837 crore in the budget for FY 2011-12, development and non-development combined, for the Ministry of Education and Ministry of Primary and Mass education. This allocation is 12.13 percent of the national budget of FY 2011-12 and 9.31 percent higher than the revised budget of FY 2010-11.** It is a matter of fact that the overall allocation in education sector in FY 2010-11 could not pave the path for achieving the targets due to poor implementation status. Therefore, it is highly recommended that proper implantation of proposed ADP of BDT 6125.67 crore for education and religion (28.12 percent higher than the proposed ADP of FY 2010-11) in the next fiscal year can smoothen the way of achieving the targets of the government. **From the calculation of weighted average of the data of the past few years, it is observed that 88.61 percent of the proposed ADP is revised and 81.16 percent is implemented over the years.**

Figure 17: Public Investment in Education



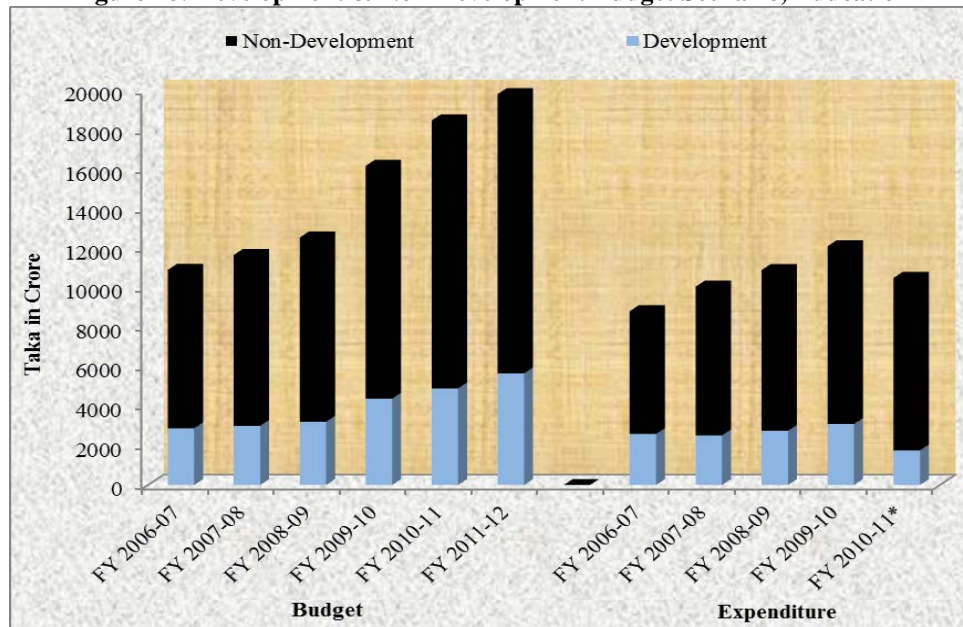
Source: Authors' calculation based on IMED and Finance Division, GoB (June 2011)

* Implementation for FY 2010-11 is up to May 2011

For establishing knowledge based and technology dependent digital Bangladesh and achieving the targets of Education for All (EFA), Millennium Development Goal (MDG), National Plan of Action II (NPA-II), National Education Policy (NEP) and the election manifesto of the Awami League, the current government has taken many initiatives. Under the Ministry of Primary and Mass Education (MoPME) and Ministry of Education, the government has taken 93 projects most of which are yet to be continued in FY 2011-12 which indicates the level of inefficiency in implementing the ADP.

Under the business as usual scenario, the education budget, both development and non-development, has increased over the years but the expenditure statistics is that much unsatisfactory. The development budget for FY 2010-11 is Tk. 5657 crore while non-development allocation is BDT 14149 crore. However, till February 2011, development expenditure is only Tk. 1756.4 crore and non-development expenditure amounts Tk. 8736.9 crore.

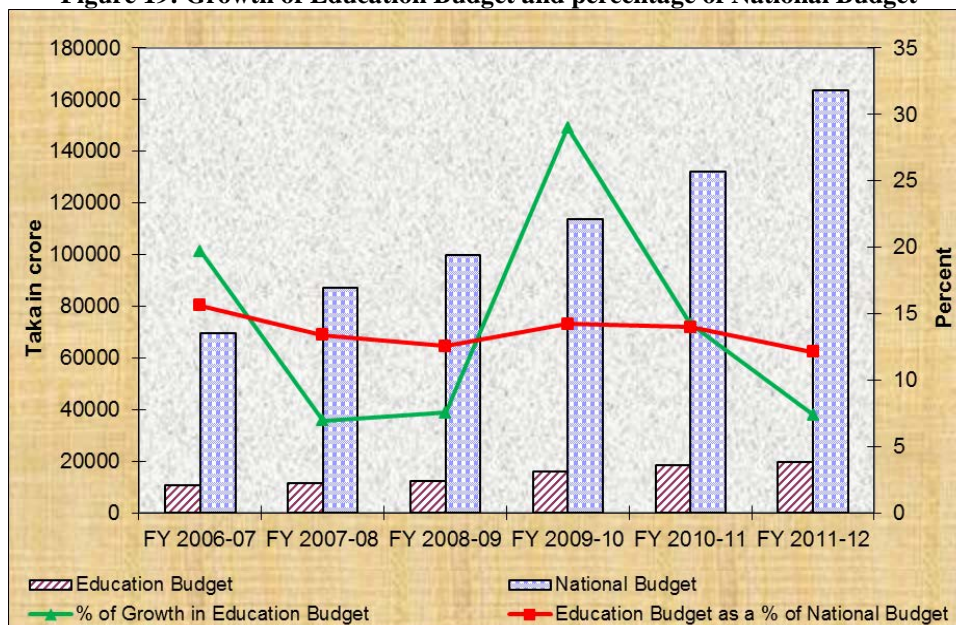
Figure 18: Development & Non-Development Budget Scenario, Education



Source: IMED, Finance Division, GoB (June 2011)

The overall growth rate of education budget since FY 2006-07 is only 14.14 percent which is only 13.64 percent of the national budget. However the growth rate in FY 2011-12 is only 7.4 percent which is 12.13 percent of the national budget of the fiscal year. Noticeably, the revised budget in education sector is in an increasing trend since FY 2007-08. **From the calculation of weighted average of the data of past few years, it is observed that the revised budget for education sector in FY 2011-12 might be BDT 20194.69 crore which is 11.28 percent higher than the revised budget of FY 2010-11.**

Figure 19: Growth of Education Budget and percentage of National Budget



Source: Authors' calculation based on IMED and Finance Division, GoB (June 2011)

As government has taken some time-befitting measures, it will be a great challenge to implement all projects within the time limit. For achieving the targets adopted by the government, allocation for education sector should be increased in the revised budget and revised ADP. Moreover, maximum implementation of ADP is required to achieving the goals of the current government.

Table: Education targets and initiatives of GoB

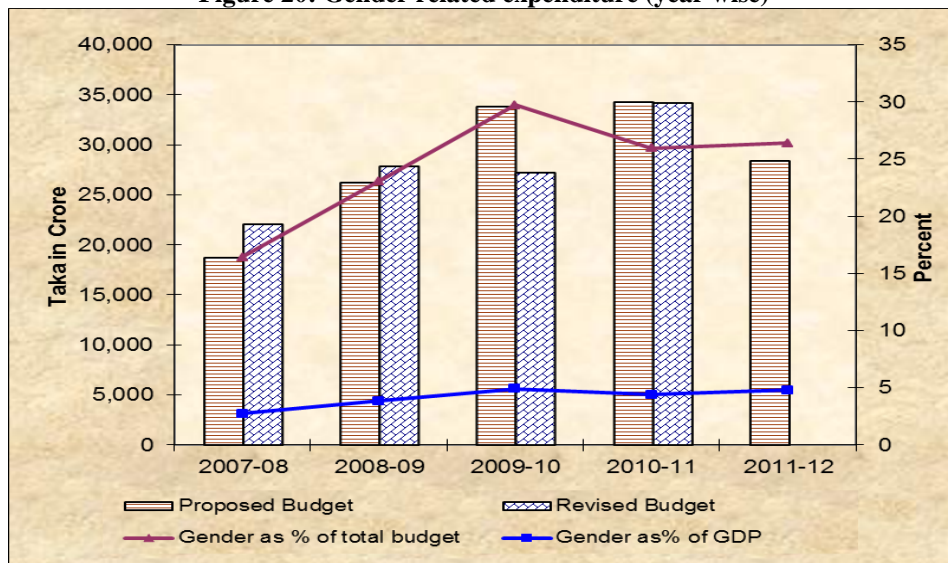
	Targets	Comments
MDG	<ul style="list-style-type: none"> • 100% net enrollment by 2015 	<ul style="list-style-type: none"> ➤ Increase in revise budget ➤ Maximum implementation of ADP
EFA	<ul style="list-style-type: none"> • 100% net enrollment by 2015 	
NPA II	<ul style="list-style-type: none"> • 95% net enrollment by 2015 • 5% drop-out by 2015 • 90% adult literacy by 2015 	
EM 2008	<ul style="list-style-type: none"> • 100% net enrollment by 2010 (2011) • 100% adult literacy by 2014 (2017) 	
NEP 2010	<ul style="list-style-type: none"> • 100% net enrollment by 2010-11 • Pre-primary education • Compulsory & free primary education to class VIII • Secondary education from class IX up to XII • Teacher-student ratio – 1:30 by 2018 • 100% adult literacy by 2014 	
NB 2011-12	<ul style="list-style-type: none"> • Stipend for 40% students (30% female & 10% male) in all upazilas • Create “Prime Minister’s Education Assistance Foundation” • Transform 307 schools into Model Schools • Build 3000 academic buildings of private schools • Distribution of laptop, multimedia projector and internet modem in 20,500 educational institutions • 100% adult literacy by 2014 • 1:40 teacher-student ratio by 2011-12 	

4.4 Gender

The present government has pledged to ensure women’s empowerment in its election manifesto. The government has taken many initiatives in the national budget to fulfill their commitment. The achievements of the government in the last two years are admirable. The government has formulated Development Policy 2011. Moreover, Elimination of Family Violence and Protection Act 2010 have been formulated with a view to stopping violence against women. The National Children Policy 2011 has also been formulated to confirm the commitment of the government by making adequate arrangements for upholding children rights and ensuring children welfare. In order to keep its earlier promise of eradicating child labor and preventing them from doing hazardous jobs, the present government formulated National Child Labor Elimination Policy 2010. 88,000 rural mothers across the country and 67,500 garment workers are receiving maternity allowances given to benefit the poor pregnant mothers.

In the present fiscal year (2011-12), the total proposed budget allocation for gender related expenditure is Tk. 43,194 crore of which Tk. 1237 crore has been allocated for the Ministry of Women and Children Affairs (MoWCA). However, about 26.40 percent of the total expenditure has been allocated to ensure gender parity while in the previous fiscal year it was 25.96 percent of the total budget. The following figure shows the status of allocations for gender related expenditure in some previous budget including this fiscal year.

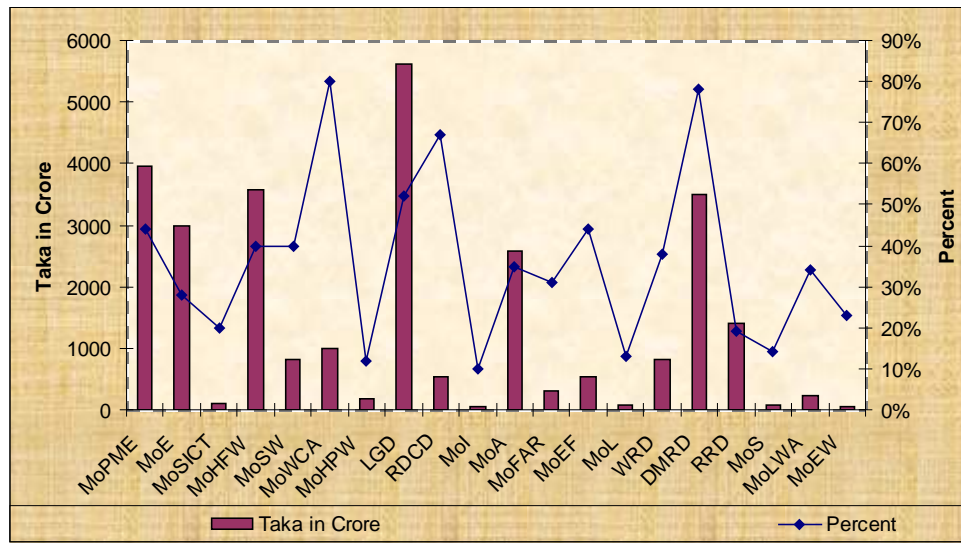
Figure 20: Gender related expenditure (year wise)



Source: Ministry of Finance

In the present fiscal year (2011-12), the allocation for gender related expenditure covers twenty ministries while in last fiscal year, it was for ten ministries only. The following figure shows the ministry wise gender related budget allocation in this Fiscal Year (2011-12).

Figure 21: Ministry Wise Gender Related Budget Allocation in Fiscal Year (2011-12)



Source: Ministry of Finance

MoPME- Ministry of Primary & Mass Education, MoE- Ministry of Education, MoSICT- Ministry of Science, Information & Communication Technology, MoHFW- Ministry of Health & Family Welfare, MoWCA- Ministry of Women and Children Affairs, MoHPW- Ministry of Housing and Public Works, LGD- Local Government Division, RDCD- Rural Development and Co-operation Division, MoI- Ministry of Information, MoA- Ministry of Agriculture, MoFAR- Ministry of Fisheries and Animal Resources, MoFE- Ministry of Forest and Environment, MoL- Ministry of Land, WRD- Water Resources Division, DMRD- Disaster Management and Relief Division, RRD-Road and Railways Division, MoS- Ministry of Shipping, MoLWA- Ministry of Liberation War Affairs, MoEW- Ministry of Expatriate Welfare.

It has been observed by analysing the previous years’ budgets that in the revised budgetary provisions, the amount of grants have decreased in women focused projects. In FY2011-12, the government has taken new initiatives like special training on different new trades like housekeeping, mobile servicing and English language. Various initiatives have been undertaken to eliminate violence against women and children. In order to create women friendly environment for working mothers, the government has taken measures to increase the number of child day care centers. But no specific amount is mentioned in the budget speech for tracking the government’s expenditures. In last fiscal year (2010-2011), the allocation of Annual Development Program (ADP) for MoWCA is Tk. 21,225 lakh. From July 2010 to April 2011, the total ADP implementation rate was 62 percent which stood at Tk. 13,201.74 lakh. In spite of all these efforts and allocations, the budget yet to be considered as a gender sensitive one. At the same time, skyrocketing inflation is causing enormous suffering to the lives of poor women. .

Again the picture is not very pleasant in the utilization and management of allocations to above sectors. There remain some gross obstacles to ensure a gender sensitive budget. In addition, the allocation for women in the indirect productive sectors like information technology is quite feeble. Women hardly get any advantage from the grants. The Government pledged in its manifesto that necessary measures would be taken for appointment of women in senior posts in the administration and in all sectors of employment. The allocation in the budget for employing women is too meager to serve the purpose. The government needs to pay more attention to the cause of women. In the sports sector, there is a clear picture of discrimination against women. In the education sector, women get very insignificant amount through the allocation for development of the cadet colleges at the national level. Although women are directly related with

agricultural works in different ways, there is not any women centered project in the productive agricultural sectors. Similarly in the industrial sector, there are few projects for women which are confined to micro-credit. In Bangladesh, incidences of violence against women are very high. The allocation to combat these offenses has to be concrete. Budget allocation in the health sector is also gender discriminatory. The government aimed to reduce maternal mortality rate to 1.5 percent from 3.8 percent by 2021. In present fiscal year, only Tk. 3572.77 crore has been allocated to for women's health. It is admirable that 78 percent of the total expenditure in the Ministry of Disaster Management and Relief Division has apportioned for the benefit of women. Again, the government should grant more allocation in the Ministry of Social Welfare for gender related expenditure. Only 40 percent of the total expenditure of it has been allocated for ensuring women's development. In addition, the budget does not address the issues of women's participation in politics. The allocations in the budget for women's empowerment are too little to bring any significant change in women's lives.

Recommendations:

- The government should consider sufficient allocations in the real terms for women's economic development;
- The government along with the civil society should develop a monitoring mechanism to evaluate the budget implementation rate targeted towards reducing gender inequality;
- A set of indicators should be developed to measure the progress of women empowerment;
- There should have sufficient allocation to address the gender based violence both in public and private spheres;
- Proper allocation is needed to implement the National Women Development Policy.

4.5 Employment

In case of employment generation, the government has planned to create employment opportunities for about 656 lac and 26 thousand man-month in the fiscal year 2011-12 while it was 621 lac and 56 thousand in the fiscal year (2010-11). Employment opportunities are largely depend on investment. High investment is always favourable to employment opportunities. From the figure the employment opportunities was high in 2007, which is the result of the high investment in 2005 and 2006. It is observed that during the last few years the trend of employment opportunities is decreasing resulted from the decreasing investment scenario (Figure 1). In order to increase the employment opportunities the government should be creative and take necessary steps to enhance the investment scenario. Otherwise, the commitment of the present government, pledged in their election manifesto remains elusive.

According to the report on monitoring and employment survey-2009, the labor force increased from 49.5 million to 53.7 million from 2006 to 2009. The growth rate has been 2.7% a year. 62.7% of the population are of age 15 years and over and out of them 59.3% are economically active and 40.7% are economically not active. The rate of unemployment has increased to 5.1 percent the highest during the last several years, implying that the employment generation is lagging behind the actual rate of inclusion of active labor force, placing the government to a huge challenge. Although unemployment picture of Bangladesh depicts 5 percent but in reality it is reflected in the high underemployment rate (28.7 percent). The number of total unemployment

in Bangladesh is now estimated at 30 million while every year some 2.0 million young people are entering the job market and only 0.7 million of them are getting job. The number of the ‘Disguised Unemployment’ employed less than their potential- is estimated by some recent studies, to be about 32 percent of total labor force.

Figure 22: Investment and Employment Opportunities Scenarios



Source: Foreign Direct Investment in Bangladesh (1971-2010), BOI

If GDP growth 8 percent is targeted then effort should need to be made to attain 12-16 percent growth in manufacturing sector. When one percent growth in output is associated with a 0.6 percent growth in employment, 12 percent growth in manufacturing output will yield 7.2 percent growth in employment, but here comes the importance of strategies and policies. Assuming that the growth of the labor force is 3.3 percent per year, the total labor force in 2010-11 would work out to be 55.75 million, based on the employment elasticity assuming that if the GDP growth is 6.5 percent then additional employment works out to be approximately 1.8 million per year. This would be less than the addition to the labor force, which currently about two million workers.

Table 9: Employment Scenario in Bangladesh

Labour Force Characteristics	MES-2009	LFS 2005-2006
Economically Active Population (Million)	53.7	49.5
Employed Population (Million)	51.0	47.4
Unemployed Population (Million)	2.7	2.1
Not in Labour Force (Million)	36.9	35.1
Unemployment Rate	5.1	4.3
Underemployment Rate	28.7	24.5
Labour Force Participation Rate	59.3	58.5
Employment Rate by Agriculture Sector	43.6	48.1
Employment Rate by Non-agriculture Sector	56.4	51.9

Source: BBS

Creation of employment opportunities for its people is one of the major challenges of the government. Furthermore, recently many workers from abroad came back due to the restless situation of middle-east. This is an extra burden to the government. However, the government tries to create employment opportunities for its population in short-term basis but, this is not a sustainable solution for employment for the long-term basis. Hence, the government should

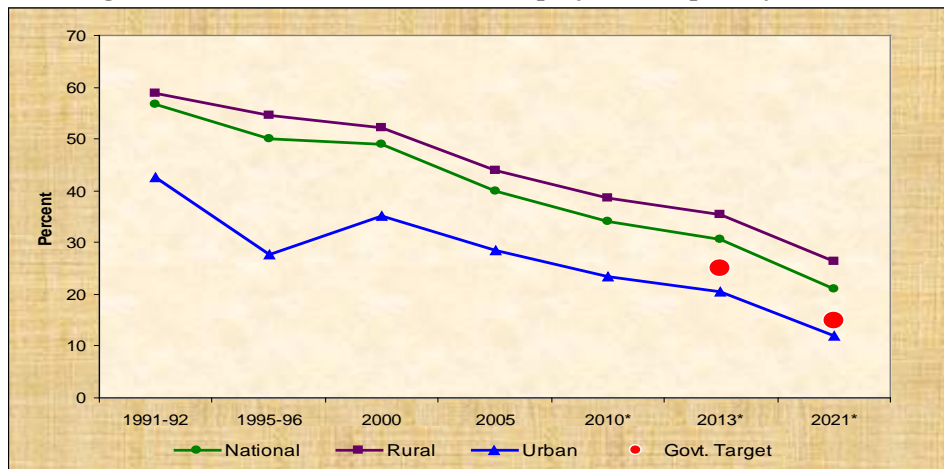
establish and allocate proper amount of money for the industrial sectors to create employment opportunities in on hand and country’s development on the other.

Also creative policies are firmly needed to be pursued to create employment opportunities. Labor oriented production sectors should be identified and pro-actively encouraged by building and operating a large number of training institutes, the government can also make a big contribution towards making the workforce more suitable for employment in productive sectors. Enabling them to take up employment in the country, go abroad for work or to engage in rewarding self-employment schemes.

4.6 Poverty

Despite considerable thrust on poverty alleviation in all plan documents since the independence of Bangladesh, a significant number of population still lives below the poverty line. It is a constitutional obligation of the government to provide a decent living standard for the citizens by alleviating poverty. In its election manifesto, the present government has therefore laid special emphasis on poverty alleviation and pledged to reduce poverty. They made a commitment to reduce the rate of poverty to 25 percent and 15 percent by 2013 and 2021 respectively. If a projection is made based upon the past, with the assumption of business as usual, the government’s target might not be possible within the time limit. There is also a strong rural urban difference in the percentage of poverty rate where in rural areas this rate is higher than the urban areas.

Figure 23: Current situation and future projection of poverty scenarios

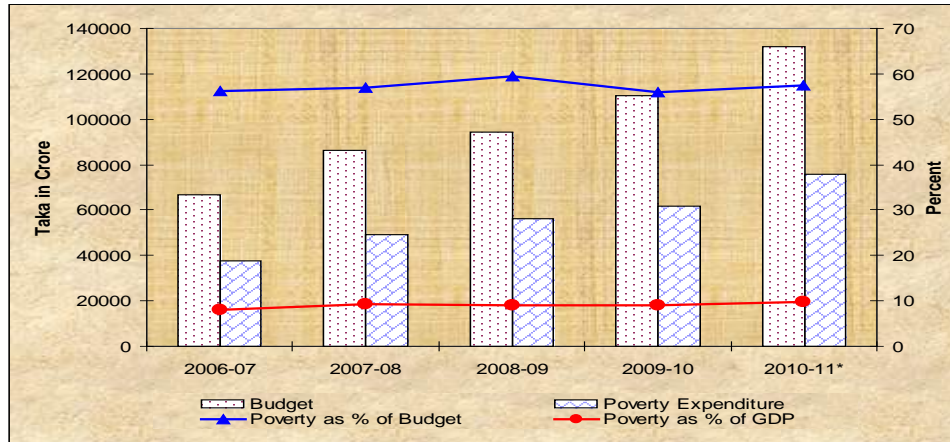


Note: * indicates authors’ calculation based on HIES 2005 data

According to the Budget speech in FY 2011-12, poverty reduction through acceleration of economic growth has been principal focus and had been made so far on various sectors. The Government invested large amount of money in various safety net programs. Continuing with all social safety nets and empowerment programs government allocate Tk. 22556.05 crore for FY 2011-12 which is about 13.79 percent of the total budget and 2.51 percent of GDP. The poverty reducing expenditure is defined as the “spending that would benefit the poor, such as: direct services, and indirect services” The definition follows the framework of PRSP approach. From

the figure we see year wise Poverty reducing expenditure as percentage of total expenditure and GDP and it's remained more or less stagnant. Government should make a proper implementation of poverty reduction expenditure.

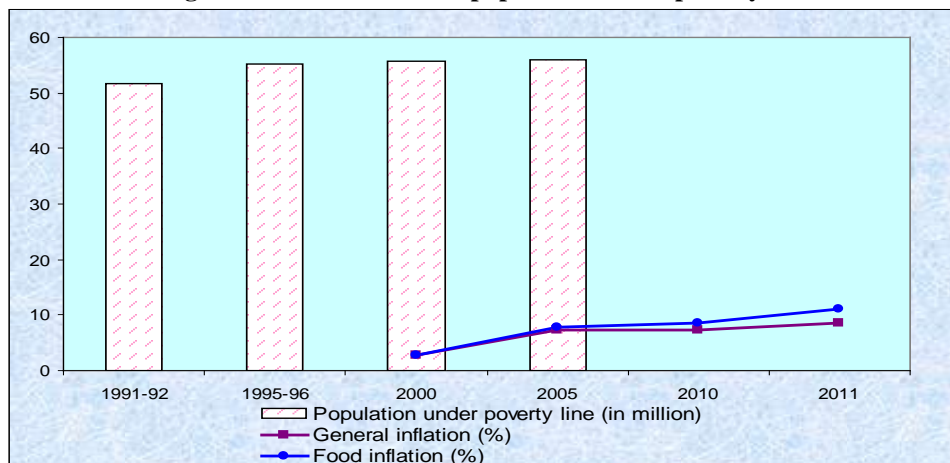
Figure 24: Budgetary allocation for the reduction of poverty



Source: Finance Division, Bangladesh;
* indicates proposed

People living below poverty line in 2000 were 55.8 million, which increased to 56 million in 2005. Though, the number of poor people increased during this period, it increased at a slower rate than those of the previous decade. The business as usual situation may be further exacerbated due to lower rate of growth, slump in investment, rise in inflation and increase in unemployment than those of the 1990-2005. Bangladesh has already experienced a double-digit food inflation rate on point-to-point basis since July 2007. The soaring prices of essential commodities, especially, food prices could hurt the poor and worsen equity. Food inflation has a profound nexus with poverty and inequality. Food inflation hits hard the poor since their purchasing power decreases due to the erosion in real income. There exists a positive relationship between food inflation and poverty. As the food inflation increases, the additional number of people goes under the poverty line.

Figure 25: Inflation versus population under poverty line



Sources: HIES 2005 and Bangladesh Bank

At present the overall poverty rate is decreasing but the gap between rich and poor and the number of people living under poverty line is increasing comparing with 2005. It is also need to be recognized that the inequality is increasing day by day. It is time to tackle the problem of inequality. It should be noted that a large segment of the population in Bangladesh remain vulnerable cause by natural calamities and economic crisis of various types like sharp increase in food price and economic down-turn. Such shocks affect not only the poor but additional people go below the poverty line. Here social protection can play a vital role to reduce these kinds.

To achieve the estimated target, the government should have a look to ensure the proper implementation of the allocated money, infrastructures development, political stability, control over the inflation, increase export by establish labor oriented industries, effective allocation for different social safety net programs, fare distribution of wealth and ensure good governance. Most of the initiatives taken by the government are on short-term basis, which might never be a sustainable solution for the reduction of poverty. In this budget there is no specific step or creative policy to reduce poverty. Probably this is high time for Bangladesh to give more emphasis to build up a basic social floor, of course taking the ground realities of the country into consideration.



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