LONG ON TARGETS, SHORT ON REALITIES

A Rapid Assessment of National Budget 2014-15

উন্নয়ন অন্বেষণ

UNNAYAN ONNESHAN

Long on Targets, Short on Realities: ***A Rapid Assessment of National Budget 2014-15***
Volume 5, No.6, June 2014

Acknowledgement
The rapid assessment of national budget is a publication of the Economic Policy Unit of Unnayan Onneshan, a multidisciplinary research organisation based in Dhaka, Bangladesh. The report is prepared by **Ebney Ayaj Rana** under the guidance of **Rashed Al Mahmud Titumir**. The Update has been copy edited by **Abid Feroz Khan**.

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1. INTRODUCTION

The current budget is tabled against the backdrop of three major economic challenges – decelerated economic growth due to stagnant investment, consumption financing fiscal deficit failing to augment the multiplier effect to overcome supply side constraints like inadequate infrastructure and decelerated increase in social sector spending – amidst raging strife between the ruling party and the parties in opposition.

The seeds of the present challenges have been palpable and have been articulated in a number of publications of Unnayan Onneshan (UO). More specifically, the organisation's pre-budget annual publication on the state of economy in Fiscal Year (FY) 2013-14 clearly identified the reasons for fall in Gross Domestic Product (GDP) below the average rate of the last decade (Unnayan Onneshan 2014). The old problems have also remained unabated over the years, while new ones have been added as time elapsed. In the post-budget assessment of FY 2013-14, the issues of decelerated growth, squeezed investment due to fiscal composition and deficit financing, and implications of contractionary monetary policy have also been warned.

Discretion and complexity in domestic resource mobilization and increased inequality in wealth creation, and failure of consumption-led expansion strategy in creating multiplier effect in the economy may pose serious challenges to the achievement of targeted rate of growth of 7.3 percent in gross domestic product (GDP) in the FY2014-15.

In the FY 2014-15, the economy of Bangladesh has to deal with a number of economic bottlenecks. Inadequate savings and investment and increasing gap between these two coupled with capital flight and regulatory unpredictability in economic management have appeared to be the major challenges in the economy. In addition, lack of any significant breakthrough in agriculture as regards innovation and technological advancement in the post-green revolution period, unsatisfactory rate of growth in manufacturing and lack of employment opportunity in the sector causing higher unemployment rate, lack of investment in skill development in the service sector has caused the real sector to decelerate. Discretion and complexity in domestic resource mobilization and increased inequality in wealth creation, and failure of consumption-led expansion strategy in creating multiplier effect in the economy may pose serious challenges to the achievement of targeted rate of growth of 7.3 percent in gross domestic product (GDP) in the FY2014-15.

A budget of Tk. 250,506 crore has been proposed for the FY 2014-15 setting the target of growth in GDP at 7.3 percent.

The target of revenue collection has been set at Tk. 182,954 crore of which NBR tax revenue is Tk. 149,720 crore and non-NBR tax revenue is Tk. 5,572 crore.

The overall budget deficit has been proposed Tk. 67,552 crore, which is five percent of GDP.

A budget of Tk. 250,506 crore has been proposed for the FY 2014-15 setting the target of growth in GDP at 7.3 percent. The target of revenue collection has been set at Tk. 182,954 crore of which NBR tax revenue is Tk. 149,720 crore and non-NBR tax revenue is Tk. 5,572 crore. The amount of non-development expenditure has been proposed at Tk. 128,231 crore, whereas the development expenditure has been set at Tk. 86,345 crore of which Tk. 80,315 crore has been allocated for Annual Development Programme (ADP) which is six percent of GDP. The overall budget deficit has been proposed Tk. 67,552 crore, which is five percent of GDP. In financing the deficit, Tk. 24,275 crore will be collected from foreign sources, whereas Tk. 43,277 crore will be collected from domestic sources. As far as the domestic sources of financing deficit are concerned, Tk. 31,221 crore, which is 2.3 percent of GDP, will be collected from the banking system and Tk. 12,056 crore will be collected from savings certificates and other non-banking sources. Dependence of government on the banking system in financing the deficit may, however, cause private investment to fall further and inflationary pressure to rise in the current fiscal year.

This rapid assessment reviews the policy measures introduced for FY 2014-15 to ascertain whether these could address the above points and stimulate the economy to create more jobs, reduce poverty and lessen inequality. This also examines the feasibility of budgetary targets and probes into any possible sources of tensions between fiscal and monetary policies.

This assessment begins with a brief description of macroeconomic context of the country. The following section provides outlook on growth, investment, and inflation for the next fiscal year in light of the proposed budgetary measures, with a sub-section explaining the reasons for stagnation in investment. The next section delves into the effectiveness of budgetary measures in increasing productivity with a special focus on the real sectors such as agriculture and industry. The penultimate section discusses the efficacy of social sector spending with particular emphasis on education, health, poverty reduction, and inequality. The final section recommends issues for discussion by parliamentarians in the floor of the House during the budget session.

2. MACROECONOMIC SCENARIOS

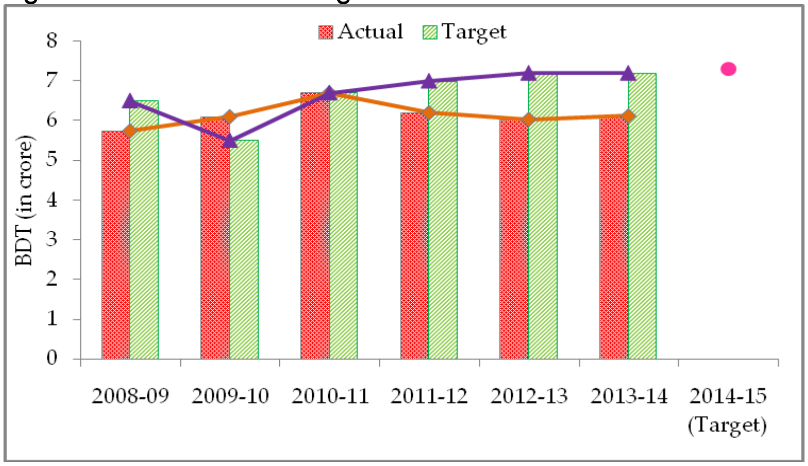
Several policy-induced macroeconomic challenges have severely restricted the maintenance of upward mobility of rate of growth in the recent fiscal years and the continuation of progress in different social sectors. The challenges have partly been the result of lack of farsightedness and creativity in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

2.1 Growth: Target versus Reality

The target of growth in the budget for FY 2014-15 is set at 7.3 percent. This target appears to be ambitious like the previous year's target of growth because of several reasons.

The target of growth in the budget for FY 2014-15 is set at 7.3 percent. This target appears to be ambitious like the previous year's target of growth because of several reasons. First, the historical track record shows that the government has not only failed to achieve such high rate of growth in its previous budgets, but also the country has been experiencing a decelerating rate of growth in the last three fiscal years. The target of growth of 7.0 percent in FY 2011-12 has been missed by 0.8 percentage points and 7.2 percent in FY 2012-13 by 1.19 percentage points. The same thing also happened in FY 2013-14, when the country's actual rate of growth fell short by 1.08 percentage points from the targeted 7.2 percent rate of growth.

Figure 1: Rate of Growth: Target versus Actual



Source: Authors' calculation based on Ministry of Finance, 2014

Second, with regard to the provisional growth estimate of FY 2013-14, the target of growth for FY 2014-15 would require an increase in rate of growth by 1.18 percentage points whereas the highest increment in the last 10 years has been observed at 0.8 percentage points in FY 2010-11. The achievement of lower rate of growth than target is due primarily to the supply side constraints in the economy caused mainly by poor infrastructural facilities and lack of confidence.

2.2 Savings and Investment

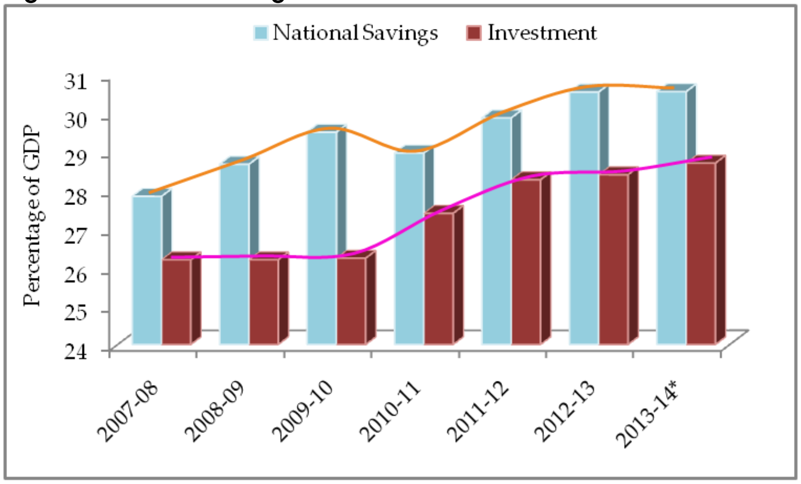
In the FY 2011-12, the gap between savings and investment was calculated as 1.6 percent of GDP, whereas the gap reached 2.14 and 1.85 percent of GDP in the FY 2012-2013 and FY 2013-14 respectively.

The rate of savings and investment to the GDP has remained stagnant over the years and the gap between savings and investment has assumed an increasing trend lately, suggesting that the macroeconomic strategies of government fall short of converting the savings into investment, resulting large amount of capital flight. In the FY 2011-12, the gap between savings and investment was calculated as 1.6 percent of GDP, whereas the gap reached 2.14 and 1.85 percent of GDP in the FY 2012-2013 and FY 2013-14 respectively. Under the Medium Term Macroeconomic Framework (MTMF) of 2014-18, the target of investment has been set at 34 percent of GDP comprising the private investment of 25.6 percent and the public investment of 8.5 percent by the FY2017-18, and the domestic savings were projected to increase to 24.2 percent of GDP by the FY2017-18 from the present 20.9 percent, whereas the national savings were projected to reach 33.3 percent of GDP by FY2017-18 from the present 27.6 percent. These seem to be unachievable in the present circumstances of low savings and investment. Besides, it has been found that an annual average amount of USD 1,581 million capital flew from the country during 2000-2008, reducing national capital (Kar and Curcio, 2011).

In the FY 2001-02, the rate of total investment was 23.15 percent of GDP, in which the shares of public and private sectors were 6.37 and 16.78 percent respectively. The rate of national investment increased to 24.65 percent of GDP in the FY 2005-06, whereas it came down to 24.46 percent of GDP in the FY 2006-07. In FY 2008-09, the rate of national investment further declined to 24.18 percent of GDP. In the FY 2009-10, the investment has slightly increased and reached 25 percent of the GDP, whereas in the FY 2010-11, it fell down further and became 24.4 percent of the GDP. Later on, in the

FY 2012-13, provisional estimation indicates a slight increase in investment by 0.3 percentage point vis-à-vis the investment of 26.54 percent of GDP in the FY 2011-12. It is, however, conspicuous that the government has not been able to achieve the investment target of MTMF in each revised MTMF (Ministry of Finance, 2013).

Figure 2: State of Savings and Investment



Source: Authors' calculation based on Ministry of Finance, 2014

2.3 Public Investment, Private investment and ICOR

In FY 2011-12, total investment was 28.26 percent of GDP, whereas investment reached to 28.39 percent and 28.69 percent in FY 2012-13 and FY 2013-14 respectively.

Not only the quantity, but also the quality of investment has not been satisfactory in the country. In comparison to countries like China and India which have posted rate of growth in double digit in the last decade, the investment is acting as a limiting factor for future growth prospect. In case of investment, the rate of total investment as percentage of GDP has been increasing, though the share of private investment has been on decreasing trend since the FY 2011-12. In FY 2011-12, total investment was 28.26 percent of GDP, whereas investment reached to 28.39 percent and 28.69 percent in FY 2012-13 and FY 2013-14 respectively. Meanwhile, during the same period the rate of private investment has been falling. In FY 2011-12, the private investment as percentage of GDP was 22.50 percent, whereas private investment fell to 21.75 percent and 21.39 percent in FY 2012-13 and FY 2013-14 respectively.

The investment in private sector, however, occupies the primary role, which has traditionally accounted for more than 70 percent of total investment. While the investment in private

Continuous sliding down of private investment from 21.75 percent in FY2012-13 to 21.39 percent in FY2013-14, while increase in public investment from 6.64 percent in FY2012-13 to 7.30 percent in FY2013-14 has failed to create much needed crowding in of private investment.

sector has been decreasing since FY 2011-12, the investment in public sector has increased from 5.76 percent in FY 2011-12 to 6.64 percent in FY 2012-13, and then further increased to 7.30 percent in FY 2013-14. However, this increase could not raise the total rate significantly as the share of public sector in total investment is meager and is largely spent to meet the non-development expenditure. However, continuous sliding down of private investment from 21.75 percent in FY2012-13 to 21.39 percent in FY2013-14, while increase in public investment from 6.64 percent in FY2012-13 to 7.30 percent in FY2013-14 has failed to create much needed crowding in of private investment.

The government would require total investment to rise at 34.24 percent of GDP in FY 2014-15 in order to achieve the proposed rate of growth of 7.3 percent if the ICOR remains constant at the previous fiscal year's level of 4.69.

Moreover, the Incremental Capital Output Ratio (ICOR)[1] of the country has deteriorated continuously in the past few years, indicating that the country has not been able to boost productivity of investment. The government would require total investment to rise at 34.24 percent of GDP in FY 2014-15 in order to achieve the proposed rate of growth of 7.3 percent if the ICOR remains constant at the previous fiscal year's level of 4.69. On the other hand, if the investment rate remains constant at the FY 2013-14's level of 28.69 percent of GDP, the productivity of investment has to be enhanced and the ICOR has to be reduced to 3.93 so as to make this growth possible.

2.4 Sectoral growth decomposition: Agriculture, Industry and Services

In FY2010-11, the share of agriculture in GDP was 18.01 percent, whereas in FY2011-12, FY2012-13 and FY2013-14 the share was 17.38 percent, 16.78 percent and 16.33 percent respectively.

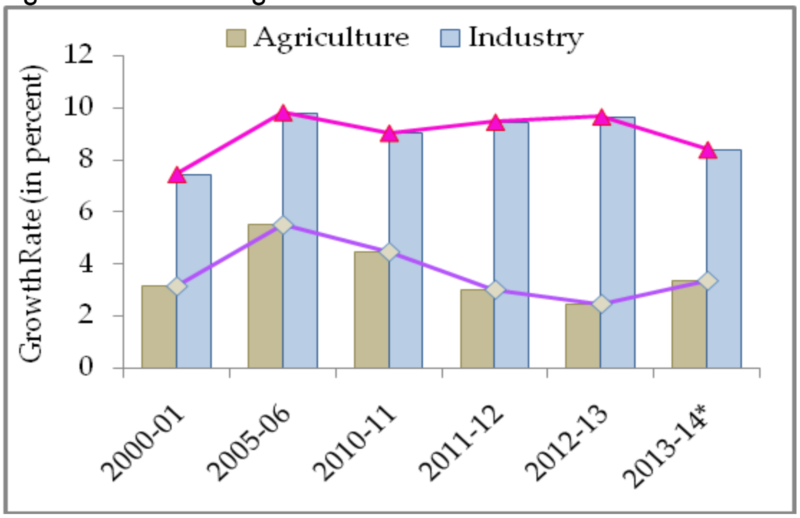
Although there was an increasing trend in growth in agriculture from 1990 to 2010, since the FY2010-11 the rate of growth has been falling. The rate of growth in agriculture was 4.46 percent in FY2010-11, whereas in FY2011-12 and FY2012-13 the rate was 3.01 percent and 2.46 percent respectively. This falling growth in agriculture has been causing the share of agriculture in GDP to decline over the recent years. For instance, in FY2010-11, the share of agriculture in GDP was 18.01 percent, whereas in FY2011-12, FY2012-13 and FY2013-14 the share was 17.38 percent, 16.78 percent and 16.33 percent respectively. In the FY 2013-14, however, rate of growth in agriculture has increased to 3.35 percent, though there remains controversy regarding the validity of this measurement of agricultural growth.

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

In FY2010-11, the rate of growth in manufacturing sector was 10.01 percent, the rate came down to 9.96 percent and the reach 10.31 percent and again fell to 8.68 percent in FY2011-12 and FY2012-13 and FY 2013-14 respectively.

The rate of growth in industrial sector has been falling. Whereas in FY2010-11, the rate of growth in manufacturing sector was 10.01 percent, the rate came down to 9.96 percent and the reach 10.31 percent and again fell to 8.68 percent in FY2011-12 and FY2012-13 and FY 2013-14 respectively. As a result, the share of industrial sector in GDP is increasing at a decelerated rate. In FY2010-11, the rate of growth of the share of industrial sector in GDP was 9.02 percent, while in FY2011-12, FY2012-13 and FY2013-14, the rate became 9.44 percent, 9.64 percent and 8.39 percent respectively.

Figure 3: Growth in Agriculture and Industrial Sector



Source: Authors' calculation based on Ministry of Finance, 2014

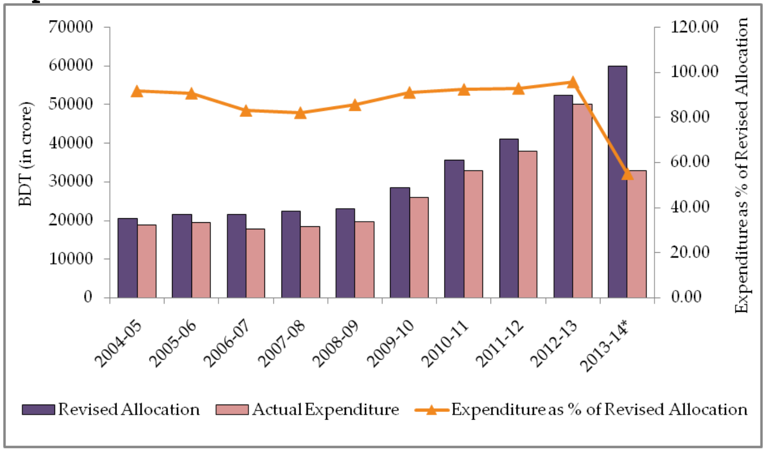
2.5 ADP Implementation Status

Like the previous fiscal year, the agriculture sector received the highest ADP allocation and its share has slightly increased from 25.4 percent in FY 2013-14 to 25.8 percent in FY 2014-15. On the other hand, ADP allocation in communication and transport has also increased from Tk. 15,216 crore in FY 2013-14 to Tk. 18,712 crore in FY 2014-15 because of greater emphasis on the sector.

Successful implementation of development projects depends on full utilisation of budget of ADP. According to Implementation Monitoring and Evaluation Division (IMED), the ministries and agencies of government spent only 55 percent of Tk. 60,000 crore of Annual Development Programme (ADP) in FY 2013-14 (up to April'14). This amount was 96 per cent in FY 2012-13 and 93 per cent in FY 2011-12.

As a consequence, implementation of the annual development projects has suffered a setback.

Figure 4: Trend of Proposed, Revised Allocation and actual Expenditure of ADP



Source: Authors' calculation based on Ministry of Finance, 2014

The ADP allocation of Tk. 80,315 crore in the FY2014-15 may remain underutilised as only 55 percent of total ADP allocation of Tk. 60,000 crore in FY2013-14 has been implemented until April 2014.

Furthermore, revised allocation as well as actual expenditure has been decreasing compared to proposed allocation of ADP for over the years. In FY 2012-13, proposed allocation was Tk. 55000 crore and in revised allocation decreased by Tk. 2634 crore and in FY 2013-14, the proposed ADP allocation given Tk. 65872 crore and then revised at Tk. 60,000 crore. Referring to the poor implementation of annual development programme (ADP) in the current fiscal year, it has however been warned that the ADP allocation of Tk. 80,315 crore in the FY2014-15 may remain underutilised as only 55 percent of total ADP allocation of Tk. 60,000 crore in FY2013-14 has been implemented until April 2014.

3. MOBILISATION OF RESOURCES

3.1 Revenue feasibility

Of the total revenue collection targeted at Tk. 182,954 crore in FY 2014-15, Tk. 155,292 crore is supposed to be collected from taxes and Tk. 27,662 crore is supposed to come from non-tax revenue.

Revenue earning of government largely depends on the collection of taxes. Although an increasing trend of collection in tax revenue continues, the country still lags behind other developing countries in collecting taxes. Of the total revenue collection targeted at Tk. 182,954 crore in FY 2014-15, Tk. 155,292 crore is supposed to be collected from taxes and Tk. 27,662 crore is supposed to come from non-tax revenue. Thus, in FY 2014-15, total revenue is expected to be scaled up to 13.7 percent of real GDP. This figure is only 0.4 percentage points higher than the revised budget estimates of FY 2013-14. On the other hand, total expenditure is planned at Tk. 250,506 crore, which is 0.4 percent higher than the revised budget estimates of FY 2013-14.

Although both the total revenue and total expenditure have an increasing trend, an increasing gap between the two is obvious. In FY 2013-14, the rate of growth in revenue and expenditure was 22.28 percent and 24.26 per cent respectively. The budgetary target, therefore, seems to be ambitious for both revenue earning and government expending.

In FY 2013-14, the actual collection of tax revenue was Tk. 125,000 crore whereas the target was Tk. 136,090 crore.

Moreover, actual collection of tax revenue has been seen to have fallen short of target in recent years. Actual NBR tax revenue surpassed the targeted amount from FY 2007-08 to FY 2011-12, but in FY 2012-13, actual collection stood at Tk. 103,332 crore against the target of Tk. 112,259 crore. Similarly in FY 2013-14, the actual collection of tax revenue was Tk. 125,000 crore whereas the target was Tk. 136,090 crore.

Table 1: Revenue Collection and Deficit Financing

Year	Tax Revenue (NBR)	Tax Revenue (NON-NBR)	Non Tax Revenue	Domestic Financing	Foreign Loan	Foreign Grants
2009-10	53.6	2.6	13.6	18.1	7.6	4.5
2010-11	54.9	2.6	12.7	17.9	8.2	3.6
2011-12	56.2	2.4	13.8	16.6	8.0	3.0
2012-13	58.5	2.4	11.9	17.5	6.5	3.2
2013-14	61.2	2.3	11.8	15.3	6.5	2.9
2014-15	59.8	2.2	11.0	17.3	7.2	2.5

Source: Authors' calculation based on Ministry of Finance, 2014

3.2 Tax structure and Need for Reform

In the budget of FY 2014-15, Tk. 57,500 crore of revenue will be earned from income and corporate tax, whereas Tk. 55,580 crore as revenue earning will come from VAT and Tk. 36,640 crore will be earned from import and supplementary duty.

Collection of revenue from Value Added Tax (VAT) has been the main source of total revenue collection in the country, whereas two other sources of tax revenue were income tax and import and supplementary duty. In the FY 2014-15, the government has targeted income tax as the main source of revenue earning, though the indirect sources of revenue (i.e. VAT and import and supplementary duty) comprise the greater amount of revenue earnings. In the budget of FY 2014-15, Tk. 57,500 crore of revenue will be earned from income and corporate tax, whereas Tk. 55,580 crore as revenue earning will come from VAT and Tk. 36,640 crore will be earned from import and supplementary duty. These statistics, however, show that the government collects large revenue from the indirect sources vis-à-vis the direct sources. The indirect tax revenue amounts to Tk. 92,220 crore where as the direct tax revenue comprises only Tk. 57,500 of the total revenue earning target of Tk. 149,720 crore. This regressive tax structure is, however, not up to the mark of addressing income inequality and barriers to wealth creation in the economy.

The most basic challenge has been the overall weakness of the policy framework, which is characterised by an enormous range of exemptions, incentives and special regimes. These range from the existence of simplified regimes associated with VAT, to significant scope within the law for tax officials and political elites to grant comparatively discretionary benefits. This directly undermines revenue collection, but equally complicates administration, undermines equity in the system and introduces significant scope for officials to exercise discretion in both policy and administration.

The discretion enjoyed by tax officials, as well as the overall inefficiency of data management within the NBR, has been exacerbated by a high degree of administrative fragmentation. Whereas there has been a trend across low-income countries towards greater integration across administrative units, the NBR remains divided into three highly autonomous divisions: direct tax, VAT and customs. The relative absence of data sharing across departments severely undermines administration, and opens space for collusion, arbitrariness and abuse, while fragmentation also creates additional costs for taxpayers.

The end result of these weaknesses is a tax system characterised by an extremely high degree of informality and discretion, and by the corresponding prevalence of negotiated tax liabilities. While large businesses submit tax returns to the government, they are emphatic that these tax returns represent merely a starting point for subsequent negotiations with tax officials. Over time, most firms accept this reality, and enter into implicit agreements with tax officials that involve regular informal payments and the informal negotiation of liabilities between tax officials, lawyers and auditors. The most notable feature of experiences in Bangladesh is, however, thus not the nature of the challenges, but the near total absence of reform despite widespread acknowledgement of the problems. Whereas major tax reform has occurred across much of the developing world in recent decades, the same problems have persisted for decades in Bangladesh despite almost continuous reform efforts.

The most striking fact that has to be considered in reforming the tax system is to provide recognition to the general public as tax payers. General public, in addition to paying direct taxes, has to pay large amount of VAT as consumers. As a result, a large portion of indirect taxes comes from the pockets of consumers, exerting immense pressure on their purchasing power and thereby making them worse off. In this circumstance, in addition to providing the public with recognition of paying tax, supply of services must be ensured to them in the form of subsidy or social security through discarding the availability of economic rents and facilitating political settlements in the economy.

3.3 Receipt of Foreign aid

A large portion of foreign aid in the country is utilised to finance deficit in the budget of the government. The resulting payment of principle and interest tends to assume a vicious cycle which causes the burden of debt to assume an increasing trend over the years. Net foreign aid during July-November of FY 2013-14, decreased to USD 441.69 million from USD 611.08 million in the same period of the previous fiscal year.

Table 2: Net Foreign Aid (In million USD)

Months	FY 2012-13 (Net foreign aid)	FY 2013-14 (Net foreign aid)
July	156.83	-73.18
August	69.39	61.06
September	130.95	119.84
October	198.29	50.2
November	55.62	283.77
July -November	611.08	441.69

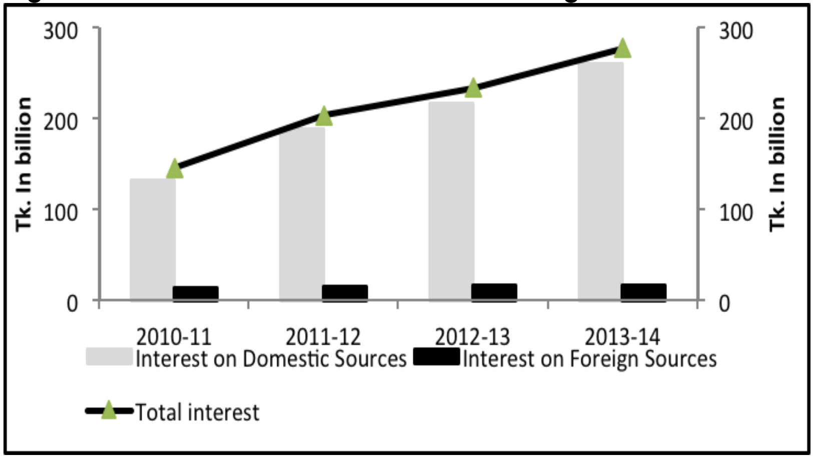
Source: Bangladesh Bank, 2014

3.4 Expenditure on Interest rate

In FY 2014-15, total expenditure on interest payment is estimated to take the highest position, which amounts to be Tk. 310.4 billion.

In case of non-development expenditure, usually the highest allocation goes to interest payment to both domestic and foreign sources. In FY 2014-15, total expenditure on interest payment is estimated to take the highest position, which amounts to be Tk. 310.4 billion. In FY 2013-14, the total expenditure on interest payment stood at Tk. 277.43 billion which is 18.83 percent higher than that of FY 2012-13. In FY 2011-12, the interest payments on domestic and foreign sources were Tk. 216.04 billion and Tk. 17.43 billion respectively, which reduced the spending on social expenditure

Figure 5: Interest rate on domestic and foreign sources



Source: Authors' calculation based on Ministry of Finance, 2014

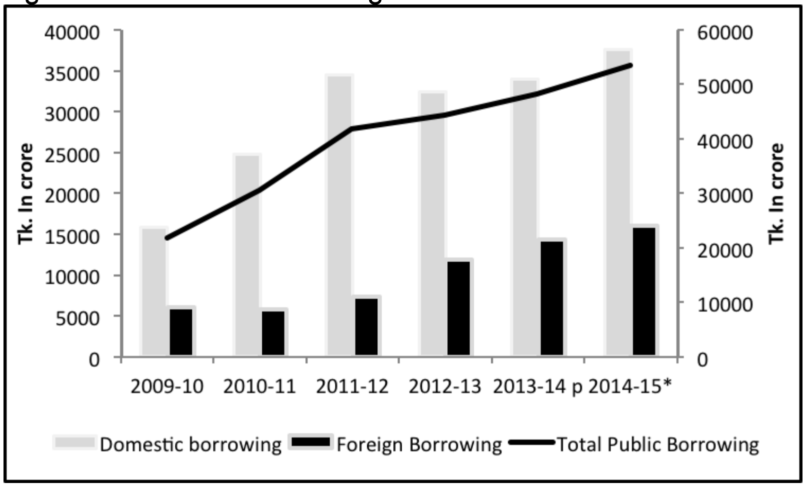
3.5 DEFICIT AND IMPLICATIONS ON INVESTMENT

3.5.1 Budget deficit

In FY 2014-15, deficit in budget is estimated at Tk. 67,552 crore, of which Tk. 43,277 crore is supposed to come from domestic sources and Tk. 24,275 crore is supposed to come from foreign ones.

In order to finance the deficit, the government relies on both domestic and foreign sources. In FY 2014-15, deficit in budget is estimated at Tk. 67,552 crore, of which Tk. 43,277 crore is supposed to come from domestic sources and Tk. 24,275 crore is supposed to come from foreign ones. Borrowing from banking sector is planned at Tk. 31,221 crore, which is Tk. 5,228 crore higher than the budget of FY 2013-14. In FY 2013-14, deficit stood at Tk. 59,551 crore and this deficit was financed by Tk. 18,569 crore and Tk. 40,982 crore from foreign and domestic sources respectively. Internal sources include banking sector and from these sources government took Tk. 29,982 crore in FY 2013-14 which was Tk. 2,518 crore higher than the previous fiscal year.

Figure 6: Total Public Borrowing



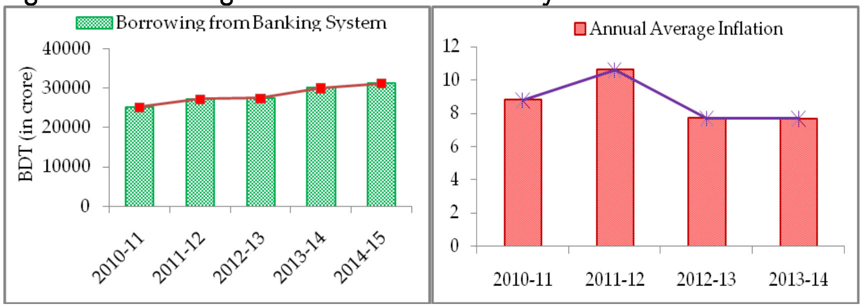
Source: Authors' calculation based on Ministry of Finance, 2014

3.5.2 Domestic Borrowing and its Implications

In FY 2014-15, total public borrowing from banking sector is assumed to be Tk. 31,221 crore and this amount is Tk. 5,228 crore higher than that in the budget of previous fiscal year.

There are two sources of debt financing; one is external and another is internal. Bangladesh bank, scheduled banks, and non-bank financial institutions are the main sources of the domestic borrowings. In FY 2014-15, total public borrowing from banking sector is assumed to be Tk. 31,221 crore and this amount is Tk. 5,228 crore higher than that in the budget of previous fiscal year. This high public borrowing from banking sector signals that capacity of deficit financing through revenue collection is not increasing sufficiently. Furthermore, implementation of the budget of Tk. 250,506 crore in the FY 2014-15 tends to increase domestic borrowing by a larger amount than the proposed amount since financing the deficit from foreign sources may not reach the targeted amount, thereby causing higher inflationary pressure in the economy on the one hand and retrenchment of allocation from social sectors on the other.

Figure 7: Borrowing from Bank and Inflationary Pressure



Source: Authors' calculation based on Ministry of Finance, 2014

Table 3: Domestic Borrowing (Tk. in crore)

Fiscal Year	Domestic borrowing
2009-10	15820
2010-11	24817
2011-12	34469
2012-13	32473
2013-14	40982
2014-15	43277 (proposed)

Source: Authors' calculation based on Ministry of Finance, 2014

4. EFFECTIVENESS OF BUDGETARY MEASURES IN INCREASING PRODUCTIVE CAPACITY

4.1 Agriculture

The decline in overall growth in agriculture is mainly due to fall in the growth of crop production. While the growth of livestock and forestry is witnessing an increasing trend, the growth in crops is substantially declining. As a result, the share of agriculture in GDP is largely declining, since the crop production that renders the major contribution to national income from agriculture sector is growing at a decelerating rate over the recent periods.

Recent declining trend of growth in agriculture can be attributed to a number of reasons. First, the post-green revolution period has not experienced any breakthrough as regards technological advancement in the country on the one hand, and the poor and marginal farmers who comprise the majority of total farm population cannot afford the high cost of using high input technologies in agriculture on the other. Second, despite higher cropping intensity, the declining trend in the availability of arable land causes the growth in agricultural sector to fall. Third, though the budget allocation in agriculture is increasing, the large portion of this allocation goes for meeting non-development expenditure every year leaving a meager amount for development spending, thus constraining development in the sector. For instance, 85 percent of total agriculture-related budget was allocated for meeting non-development expenditure in FY2009-10, 84 percent in FY2010-11 and 85 percent in FY2011-12. Therefore, in order to raise productivity and profitability, reduce instability, and increase efficiency in resource use, increase of the allocation on the development side is important.

4.2 Industry

The trend of rates of growth in industrial subsectors shows that the small and cottage industries are growing at a decelerated rate, while the rate of growth in the medium and large industries is decreasing for the last three fiscal years. As a result, the overall scenario of rate of growth in industrial sector indicates a decreasing trend. In addition, the proposal of withdrawal of supplementary duty from a number of industrial goods may pose serious challenges to the development of indigenous industries through causing them to compete with international market. The rise in the rate of growth in medium and large industry is much important, since the contribution of these sub-sectors to GDP is much higher than that of the small and cottage industries. For instance, in FY2009-10, the contribution of small and medium industries to GDP was Tk. 18340.9 crore, whereas the contribution of medium and large industries to GDP was Tk. 44229.8 crore. In the subsequent years, the contributions of small and medium industries to GDP were Tk. 19411.9 crore, Tk. 20664.7 crore and Tk. 22061.9 crore in FY2010-11, FY2011-12, and FY2012-13 respectively, while the contributions of medium and large industries to GDP were Tk. 49069.9 crore, Tk. 54232.3 crore and Tk. 59830.6 crore in the same fiscal years respectively.

Table 4: Rate of Growth in Manufacturing Sector

Industry	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14*
Small and Cottage Industry	7.15	7.30	8.17	5.67	6.58	8.81	6.60
Medium and Large Industry	7.38	6.54	6.27	11.11	10.76	10.65	9.16
Total	7.33	6.69	6.65	10.01	9.96	10.31	8.68

Source: Authors' calculation based on Ministry of Finance, 2014

This recent stagnant situation of the growth in industrial sector can be attributed mainly to the unavailability of infrastructural facilities, recent hiccups in garment sector, constraints originating from limited size of the domestic market, instability in property rights, and missing of institutions.

4.3 Infrastructure

Although government has proposed a deficit budget in FY 2014-15, the key issue remains that such deficit has not been meant to augment multiplier effects in the economy rather has financed consumption as opposed to paying for infrastructure to remove supply side constraints. This continuation of present deficit has its roots in maverick decision to install rental and quick rental power plants at the cost of long run solutions. In addition, government's reliance on expensive oil-based quick rental power plants in purchasing electricity is due to its inability in production and efficient use of gas and coal. Consequently, frequent hikes in the power tariff haunt the consumers in the economy. In the wake of less availability of resources due to service debts and subsidy payments, the capacity of government to invest in physical and social infrastructure has also decreased.

The proposed allocation in the infrastructure sector and the power sectors in the budget for FY 2014-15 is Tk. 23,136 crore and Tk. 11,540 crore respectively.

Compared to the other sectors, the infrastructure sector (Transport and Communication) and the power sector are more capital centric. The proposed allocation in these two sectors in the budget for FY 2014-15 is Tk. 23,136 crore and Tk. 11,540 crore respectively. These are higher than the allocation in the budget of FY 2013-14 by Tk. 14,226 crore and Tk. 9,902 crore respectively.

The highest level of policy miss-match is observed in generation of power. There is an increasing gap between installed capacity for power generation and maximum generation has been noticed since FY2008-2009 against the backdrop of current high demand for power. The gap between installed capacity and maximum generation was 1004 megawatts in the FY 2008-09, whereas the gap has nearly doubled within three years and become 2034 megawatts in the FY 2011-12, 2175 megawatts in the FY 2012-13 and 3271 megawatts in the FY 2013-2014 until March 25, 2014 (Ministry of Finance, 2013; Bangladesh Power Development Board, 2014).

In case of the cost of power generation, oil-based power plants are found costlier than the gas-based power plants. The generation of one kilowatt hour power by a gas-based power plant costs only Tk. 2.59, whereas the costs become Tk. 20.73

and Tk. 16.37 for the diesel oil-based power plants and oil-based power plants respectively. Instead of facilitating and renovating the gas-based power plants, the government has been relying on the quick rental oil-based power plants to purchase power at higher costs. Consequently, the cost of power supply has increased by 163 percent between the FY 2008-09 and FY 2012-13. In the FY 2008-09, generation of one unit power cost Tk. 2.55, whereas the cost became Tk. 6.7 in the FY 2012-13 for generating of the same amount of power, thereby exerting immense pressure on the poor. Of late, the Bangladesh Energy Regulatory Commission, following the proposal of power tariff hike by the power distribution boards and companies, has decided to raise the power tariff for another time by 6.96 percent to be in effect from the bill month March, 2014 Bangladesh Power Development Board, 2014.

In terms of budgetary allocation, although the infrastructure sector has seen one of the highest increases in recent times, the effectiveness of this amount, however, would depend on how the money is capitalised. If the money is used to build new roads, railways, etc, the possibility of a greater fiscal multiplier would be created. Moreover, one flaw in the government's infrastructure development plan is its reliance the Public Private Partnership (PPP) initiative, which has already failed to produce real results.

5. SOCIAL SECTOR

5.1 Poverty

Despite considerable thrust on poverty alleviation in all plan documents since the independence of Bangladesh, a significant number of people are still living below the poverty line. The rate of unemployment in the country, particularly youth unemployment is rising at a significant rate. The proportion of poor in the population declined considerably between 2000 and 2010. The incidence of poverty decreased from 49.8 percent in 2000 to 40 percent in 2005 and then further to 31.5 percent in 2010 (Saleh, 2014).

With the broader perspective of alleviating poverty and achieving the targets of Millennium Development Goals (MDGs)

The proposed allocation for poverty budget for FY 2014-15 is Tk. 1308.06 billion which is 52.22 percent of the proposed national budget and 9.77 percent of the targeted GDP.

the governments has been allocating around 55 percent of its national budget as poverty budget in each fiscal year. In FY 2013-14, Tk. 1152.370 billion has been allocated as poverty budget that is 15.55 percent more than that of the poverty budget of Tk. 997.290 billion of FY 2012-13. Poverty budget of the FY 2013-14 was 51.79 percent of the national budget and 9.69 percent of GDP. The proposed allocation for poverty budget for FY 2014-15 is Tk. 1308.06 billion which is 52.22 percent of the proposed national budget and 9.77 percent of the targeted GDP.

5.2 Employment

With a growth rate of 3.88 percent (from 1995-96 to 2010), the number of total civilian labour force in 2010 increased to 57.1 million. In 1995-96, total civilian labour force was 36.1 million out of which 30.7 million was male and only 5.4 million was female. Out of total civilian labour force, 40.2 million was male and rest 16.9 million was female. A total of 34.8 million were employed and 1.4 million were unemployed in 1995-96, which increased to 54.5 million and 2.6 million respectively in 2010 (BBS, 2011).

When underemployment is taken into account in assessing the status of the labor force in Bangladesh, the perception of the labor market significantly changes. The information on hours worked shows that a total of 10.99 million (which is about 20.31 percent of the employed labor of 54.1 million) were underemployed in 2010. This shows an extremely high level in the number of the people who work less than 35 hours per week. Also the information shows high incidence of underemployment in rural areas and among the female labor force (Saleh, 2014).

5.3 Health

In FY 2014-15, total amount allocated to health sector is Tk. 111.46 billion which is is 4.45 percent of the proposed budget.

In FY 2014-15, total amount allocated to this sector is Tk. 111.46 billion. The proposed allocation in health sector for FY 2014-15 is 4.45 percent of the proposed budget while it was 4.26 percent of the proposed budget in FY 2013-14. The rate of increase in allocation to this sector amounts to be 0.19 percentage point. Although this amount is higher than that of the previous year, it is still not sufficient to provide adequate health facility to the population as the doctor-population, doctor-nurse, nurse-population ratios are still far away from acceptable levels. Moreover, it is apparent that, in most of the fiscal year, the proposed budgetary allocation is reduced in the revised budget. For example, in the budget of FY 2013-14, the proposed allocation for health sector was Tk. 94.70 billion (including development and non-development budget). However, the allocation has been reduced to Tk. 85.49 billion in the revised budget for this sector. Additionally, reduction in the subsidy in health sector will make the situation more difficult to get minimum health services for the poor people (Mustafiz, 2014).

5.4 Education

In the budget for FY 2014-15, the proposed allocation to this sector is Tk. 292.13 billion, which represents 16.42 percent increase compared to the previous fiscal year.

To improve the educational status of the population, large budgetary allocation is required. However, in the budget for FY 2014-15, the proposed allocation to this sector is Tk. 292.13 billion, which represents 16.42 percent increase compared to the previous fiscal year. Because of insufficient fund, the progress in education sector more or less has been limited to the increase of enrolment in primary education or to the increases of literacy rate. Moreover, educated unemployment is on the rise as quality of education is not improving.

It is to be noted here that the rate of increment of education budget was 27.73 percent between FY 2009-10 and FY 2010-11 and then it started to decline. Additionally, in most of the cases the proposed budgetary allocation has got negative revision during the period FY 2000-07 to FY 2012-13 (Mustafiz, 2014).

5.5 Social Security Spending

The proposed allocation for the social safety-net and welfare sector is estimated at Tk. 139.74 billion, which represents only 13 percent increase over the amount in the previous budget.

The proposed allocation for the social safety-net and welfare sector is estimated at Tk. 139.74 billion, which represents only 13 percent increase over the amount in the previous budget. The proposed allocation for the social security and welfare sector, which was Tk. 123.66 billion in FY 2013-14, was already considered to be inadequate for the population of the country as about three of every ten people are living under poverty line. Such low allocation was attributed to the diversion of expenditure from social sector to meet the rising payment on account of principal and interest for the high public borrowing to finance the budget deficit in the recent years. Moreover, in Bangladesh, social safety net programmes have been developed and evolved on adhoc basis. The major shortcoming of these SSNPs is that they are short-term in nature and only designed to address post-disasters situations.

6. CONCLUSION

The country has been waiting for prudent actions to steer an economic recovery for continuation of economic and social progress. The authorities could have embarked on a two-pronged strategy, comprising a short-run one to revert the economic slowdown and a medium-term strategy of addressing structural bottlenecks. The fiscal measures fall short of augmenting the required investment and productivity growth to achieve the targeted growth of 7.3 percent for the next fiscal year. The proposed actions are inadequate to bring fiscal discipline in the management of deficit, debt and subsidy one the one hand and to increase income in the absence of radical reforms in the tax system on the other. The regressive tax structure is ridden with low base, avoidance and evasion. There is huge missing of distributive justice, characterized by widening income, spatial and male-female inequalities, driven by jobless growth. There is need for a pro-active state. Like the previous budgets, policies that focus mainly on stabilization, but pays little attention to proper allocation and distribution is more likely to even fail in stabilization of the economy as well. Second, numerous un-coordinated seemingly less than effective programmes relating to social safety nets need to shift its emphasis on social protection through innovation in social policies. Third, given the vulnerabilities existing in the external sector, breaking into the high-value global supply chain has become important for the country.

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