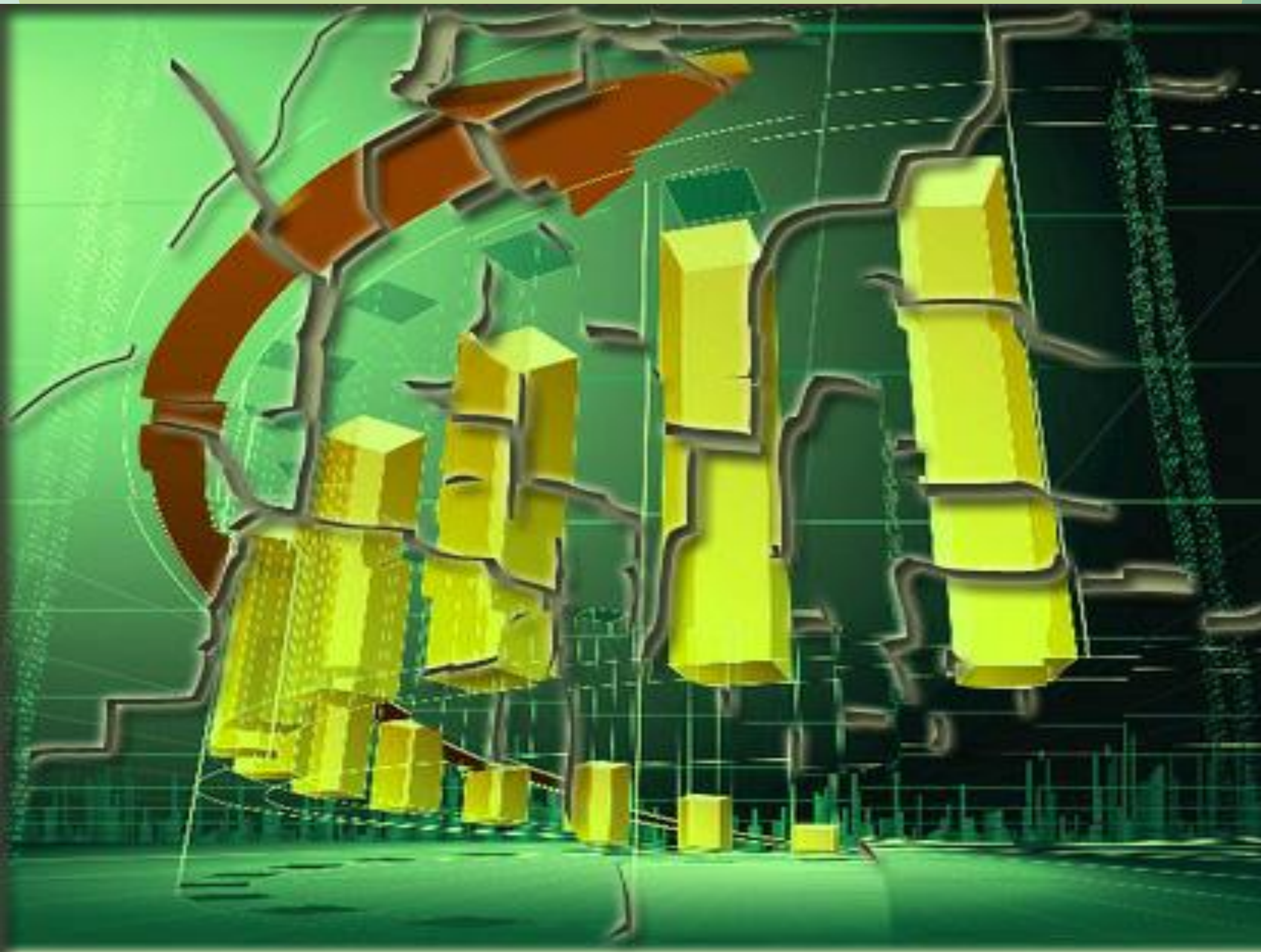
Balancing the Imbalances

A RAPID ASSESMENT OF NATIONAL BUDGET 2019-20



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1. INTRODUCTION

The 48th national Budget of FY 2019-20 is placed when macroeconomic instability looms large with creeping imbalances while the situation of common people is also in distress. Though common people are paying major share of the taxes, they are getting little benefit from it. The government is claiming that GDP is growing at a faster pace but at a rate which is not compatible with other socio-economic indicators. The rate of poverty reduction has decreased. Inequality and unemployment are rising alarmingly while real wage is declining.

There is revenue imbalance with rising expenditure and falling income, which is leading to increased deficit. Value added tax is increasing every year while share of income tax shows little change, which means tax structure is severely regressive. There is significant gap between targeted revenues and collected revenues. The economy is prone to severe debt crisis since loans are getting unsustainably higher.

The rate at which import payment increases does not match with rate of export earnings, which is creating current account deficit. The amount of loans is increasing but these are not being repaid now. When repayment will start, it will negatively affect the overall balance of payment. This may also slide the the economy into debt trap.

It is argued that the rate of poverty reduction should be faster with increasing GDP growth. In contrast, the rate of poverty reduction has actually declined. The rate of unemployment is also on the rise. New job creation is less than the number of job seekers. Real wage has declined. Rate of nutrition intake has decreased notably from 2010 to 2016. Questions are raised about the quality of education and health. Since quality of education is not satisfactory, there is deficiency of skilled labour. As a result, people in different sectors are hired from abroad. Moreover, the out-of-pocket expenditure as share of total expenditure in health sector is increasing over the years, which is also higher than the neighbouring countries. The percentage of people under the coverage of social safety net programmes is less than that of neighbouring countries while other services like electricity, gas and safe drinking water are in a quandary. These scenarios do not commensurate with the high rate of GDP.

The tax money collected from the common citizens is paying for the consumption by the public administration and capital shortfall of banks due to loan defaults, but the common people are not getting adequate public services. That means clientelism is rising in lieu of serving people's interest. This clientelistic network is comprised of defaulter on one side and bureaucracy on the other. Besides, capital flight is also occurring extensively.

As a result, income distribution is becoming skewed to the wealthy clientilistic groups.

Default loan is at the highest in the last ten years. Instead of taking steps against defaulters, more facilities are offered to them. This is making the situation worse since good borrowers may feel the same to escape from the loan repayment. In addition, financing is done by taking money from taxes in order to overcome the liquidity crisis in the banking sector. Since, public debt is increasing to repay the previous loans, the economy is closing in to vicious debt trap.

Similarly, the real sector of the economy is in serious disarray. Number of large and medium industries has been declining in the last six years. Economy is dependent on a single sector – the RMG industry, while alternative productive sectors are not growing. As a result, job creation is hampered and lack of industrial and product diversification is making the economy vulnerable in the near future.

Based on the backdrop, the following sections examine whether the declared budget as a major part of fiscal policy instrument can address the key questions and problems regarding education, health, employment, poverty and welfare of the general people. It scrutinizes whether the budget is dealing with the regressive mode of tax structure by shifting the burden of common people and increasing the income tax to reduce the fiscal deficit.

This also examines if there is a comprehensive strategy in the budget to increase investment in augmenting human capabilities of the labor power through investing in education and health. Given the discrepancies of the national income, whether the budget has come with policy predictability, incentive structure and business confidence to bring life into the stagnant private sector investment in the economy.

It also explores whether the budgetary measures have been able to create harmony with momentary policy to bring discipline into wrecked financial sector— including banking and capital market. It further investigates whether there is a clear-cut roadmap in averting impending debt trap which might plague revenue imbalances and the balance of payment.

Finally, it outlines a strategic direction on how to stabilize and strengthen pathways for sustainability of the real sector to achieve sustainable GDP growth without any fear of growth reversal.

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2. NATIONAL INCOME ACCOUNTING DISCREPANCIES

There is a doubt about the rate of growth in national income. National income or GDP is the summation of investment, consumption, government expenditure and net export-import in the economy in given year. GDP increases when these variables increase. So, it is necessary to examine whether the changes of these variables are reflected in the national income change.

Investment comes from savings. In comparison with FY 2016-17 both domestic savings rate and national savings rate have declined in FY 2017-18. Domestic savings rate decreased to 22.83% in 2017-18 from 25.33% in 2016-17 (Table 1). In FY 2016-17, national savings was 29.64% of total GDP (Table 1) which also declined to 27.42%. According to primary estimation of FY 2018-19, both domestic and national savings show increasing trend. The statistics ushers that income has been reduced for most of the people or consumption expenditure has reached such a higher level that they cannot save. As a result, investment will not increase, will rather remain stagnant or decrease.

Table 1: Savings, Investment and Consumption as Percentage of GDP

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Domestic Savings	22.04	22.09	22.16	24.98	25.33	22.83	23.93
National Savings	30.53	29.23	29.02	30.77	29.64	27.42	28.41
Private Investment	21.75	22.03	22.07	22.99	23.10	23.26	23.40
Public Investment	6.64	6.55	6.82	6.66	7.41	7.97	8.17
Private Consumption	72.85	72.57	72.44	69.13	68.67	70.81	69.77
Public Consumption	5.12	5.34	5.40	5.89	6.0	6.36	6.30

Source: Ministry of Finance, 2019

In addition, the ratio of private investment to GDP remained stagnant for the last few years. This is due to the lack of business confidence owing to political uncertainty as well as inadequate availability of infrastructure primarily due to reduced public investment, as the government has been diverting resources to service non-development expenditure, including payment to employees and debt servicing.

In the FY 2017-18, share of private investment to GDP was 23.26% which has increased by 0.14 percentage point in FY 2018-19. The increase in public investment is more noticeable. It has increased by 0.56 percentage point in the FY 2017-18 in comparison to FY 2016-17 and by 0.2% in the FY 2018-19 compared to FY 2017-18. This pace of growth does not commensurate with the GDP growth rate due to its miniscule figure. Again, the total savings are not converting to investment due to the growing gap between savings and investment over the years. This situation occurs because of siphoning of capital or lack of security of capital leading to either reduced savings or less investment or both. For example, Global Financial Integrity (GFI) estimates that 5.9 billion US dollar is siphoned from Bangladesh during the period of 2006 to 2015.

National income and consumption expenditure are intertwined to each other. In order to boost national income at the rate that government claims, consumption expenditure should be expanded. The consumption in both public and private sector has increased in FY 2017-18 in comparison to FY 2016-17. In the FY 2016-17, share of consumption in public and private sector to total GDP were 6.0% and 68.67% respectively. This share has increased to 6.36% and 70.81% respectively in the FY 2017-18. In contrast, the temporary estimation for FY 2018-19 shows negative trend both in public and private consumption (Table 1).

People's income or purchasing capacity is supposed to ameliorate on the occasion of increased consumption expenditure. People need income to increase consumption. As pointed by recent ILO report, however, the real wage has in fact declined in last few years. Growth of real wage has decreased by 3% in 2017 in comparison to 2015 and 2016. During the period of 2008 to 2017, average real wage growth was the minimum in Bangladesh compared to other south Asian countries (3.4%). Making the situation even worse, unemployment rate has increased as well. Currently there are 1 lakh 29 thousand job vacancies for the job seekers in the industrial sectors against 20-22 lakh job seeking people. Thus, large number of people are losing their income which has implications for reduced standard of living.

The HIES data show that the rate of calorie intake has decreased by 5%, making it 2210 kilo calorie in 2016 from 2318 kilo calorie in 2010 (HIES, 2016). Similarly, poverty situation is not improving as the rate poverty decline has slowed down. For instance, the rate of poverty decline was 1.7% from 2005 to 2010, which has come down to 1.2% in 2010 to 2016 period. If national income has increased as claimed by the government, then why these discrepancies are observed.

Due to increase of import cost in comparison to export earnings, there is deficit in overall balance of payment since FY 2017-18. The export-GDP ratio has decreased to 13.2% in FY 2017-18. Deficit of trade balance and current account balance is increasing. Though financial balance is not negative at present, it is showing secular increase in the amount loans. Government expenditure is continuously increasing but the lion's share of it is in unproductive sector. This situation of overall balance will be worse when the repayment of loans begins. This image of the balance of payment does not match with the claimed increasing national income narrative.

The preceding analysis suggests that the official figure of GDP growth rate is grossly overestimated which is hardly supported by available evidence. Governments in many developing countries tend to engineer growth statistics to inflate the performance of the economy. For example, a recent study in case of India has that the country's actual GDP growth rate is 2.5% lower than the official estimation (Subramanian, 2019). If similar study is done in Bangladesh, GDP growth rate will be lower by 2.5% to the level of 5-6%, which is the auto-pilot growth rate for Bangladesh, given the consumption level maintained by remittance from migration to cities and abroad. Moreover, considering stagnant remittance income and declining consumption, current official rate of GDP growth is nothing but highly inflated masking the real scenario of the economy.

3. REVENUE IMBALANCE

The target of tax revenue in FY 2019-20 is 3 lakh 40 thousand 100 crore taka, while the actual tax revenue of FY 2017-18 was 1 lakh 94 thousand 327 crore taka. To meet the target of FY 2019-20, the tax collection needs to be increased by 75%, which is quite impossible since previous experience shows targets are not met. The target of tax revenue in FY 2018-19 has been set 3 lakh 5 thousand 928 crore taka. Of these, the target of total revenue by the National Board of Revenue (NBR) is estimated to be 2 lakh 96 thousand 201 crore taka. Though this target has been revised to 2, 80, 300 crore taka, NBR has collected 1 lakh 53 thousand 419.89 crore by March this year which is 54.73% of target. Further, the target of non-NBR tax was set 9, 727 crore taka. Since the target of budget announced in June will not be achieved, the revised target is set where it is found that there are significant differences between the announced and revised budget.

The amount of income tax collection is not increasing at a desired rate. The ratio of income tax with the expansion of GDP does not match. The tax coverage has not increased too. Of the total population in Bangladesh only 2.1 million pays income taxes. If GDP is increasing, then why collection of tax is so less? Hence, there is incongruence in GDP calculation. In neighbouring countries, though the amount is not high, the collection of tax is about 18%. Estimation says that 68% of capable people are out of tax coverage in Bangladesh. The tax-GDP ratio is also low compared to other developing countries. The growth of national income is incompatible with it. On the one hand, tax is not collected properly and on the other had money laundering is occurring rampantly. Attempts to facilitate the loan defaulters are also visible.

Notably, tax structure is heavily dependent on Value Added Taxes (VAT). The burden of this indirect tax is on the ordinary people. The lower- and middle-class people have to bear the burden of this tax. On the contrary, tax exemption and tax evasion for the upper classes have become the norm. The ordinary taxpayers are working as the main sources of debt repayment and development. Though it is argued repeatedly, income tax is not made as the main source of tax revenue. In the implemented budget of FY 2009-10, the value added tax was 23,878 crore taka. In FY 2018-19, the amount of VAT has been estimated to be 1, 10, 555 crore taka, which means VAT has increased by 380 percent in 9 years. VAT is like the duck to the government that lays golden eggs. In this process tax structure has become severely regressive.

Shifting from its initial plan to set a uniform rate, the government has finally unveiled four rates of VAT to please businesspeople and will take them on board to implement the new VAT law from the next fiscal year. Again, the general public has to compensate for large loan defaulters. Over the last few years, about 15 thousand crore taka has been provided from tax money to meet the capital crisis in government banks. Even though the general public carries the burden of taxation, they are not getting satisfactory public services. The quality of education and health is highly substandard. Other services like safe drinking water, sanitation, rural electricity and related public service facilities are moving at a slower pace.

Table 2: Revenue and Expenditure (Crore Taka)

	Budget 2019-20	Revised 2018-19	Budget 2018-19	Actual 2017-18
Revenue and Foreign Grants				
Revenues	3,77,810	3,16,612	3,39,280	2,16,556
Tax Revenue	3,40,100	2,89,600	3,05,927	1,94,327
NBR Tax Revenue	3,25,600	2,80,300	2,96,201	1,87,103
Non-NBR Tax Revenue	14,500	9,600	9,727	7,223
Non-Tax Revenue	37,710	27,013	33,352	22,229
Foreign Grants	4,168	3,787	4,051	868
Expenditure				
Operating Expenditure	3,10,262	2,66,728	2,82,415	1,91,473
Recurrent Expenditure	2,77,934	2,47,747	2,51,668	1,78,879
Domestic Interest	52,797	45,278	48,377	38,160

Foreign Interest	4,273	3,467	2,963	3,605
Capital Expenditure	32,328	18,981	30,747	12,593
Overall Deficit (Including Grants)	-1,41,212	-1,22,242	-1,21,242	-1,04,438
Overall Deficit (Excluding Grants)	-1,45,380	-1,25,929	-1,25,293	-1,05,306

Source: Ministry of Finance, 2019

While government expenditure is increasing, the income is not increasing leading to chronic budget deficit. In proposed budget of FY 2019-20, the overall deficit excluding grants is 1,45,380 crore taka. To finance the deficit, government resorts to borrowings. Due to gradual increase of loans, a huge amount of expenditure goes to repay the loans with interest. In 2019-20 fiscal year, 18.3 percent of the revenue expenditure is allocated in this sector which was 18% in previous fiscal year. Consequently, the government's investment in education and healthcare sector to generate human capital or skilled labor force is not increasing.

Furthermore, there is no direction for the payment of increased loans in the budget. Expenditure mainly constitutes of two categories – revenue and annual development related expenditure. In the last 10 months of this fiscal year annual development expenditure was 55%. The tendency of leap of expenditure is in full swing in the last couple of months as usual. As a result, loan will increase to make balance in this deficit. As budget is getting larger every year, huge amount of loan with high interest is being sought and brought from both private sector and foreign countries. In this quandary, though the burden of debt is not felt at the current state, what will happen when all the debts will become a mountainous burden at the time of repayment?

Question also arises regarding the allocated expenditure of annual development program. On several occasions doubts have been expressed about the quality provision of expenditure in the development sector. Different mega projects are being undertaken where excessive cost and repeated cost over-runs. For example, expenditure in Padma Bridge project has constantly increased with projected expenditure currently surpassing 30 thousand crore taka. In Bangladesh, cost of making per kilometer road is far higher than that of India and China. In India, US$11-13 lakh are spent to make four lane highway roads. In China the amount is US$13-16 lacs. On the other hand, for example, cost of making Dhaka-Sylhet four lane highway is worth US$70 Lacs in Bangladesh. The scenario is quite clear. Corruption has been in a strong motion and there is also lack of regulatory measure taken by the government. Picture of looting in the Ruppur atomic project has been unveiled recently. Excessive and inconsistent expenditure is shown in the estimation of expenditure in purchasing and lifting of furniture and other products to the apartments. Salary of a driver of this project is shown as taka 73 thousand 708. Every cook and gardener gets taka 63 thousand 708 respectively. The most bizarre fact is, cost of buying and lifting of each pillow has been estimated to be 5 thousand 907 and taka 760 respectively. The level of corruption in public procurements and development projects can be predicted easily from this example.

In spite of this clumsy situation, every year tendency of showing ADP implementation rate at the level of 90-92% occurs which is totally impertinent with the reality of the first 10 months.

The implementation of the budget was 76.1 per cent in the fiscal year 2017-18, while the figure was 79.1 per cent in FY17, 80.8 per cent in FY16, 81.6 per cent in FY15, 84.6 per cent in FY14 and 90.8 per cent in FY13. Likewise, revenue collection, the main tool for budget implementation, has witnessed a major setback in the outgoing fiscal year 2018-2019. Revenue collection grew by 7.27 per cent in the first nine months of the financial year 2018-19, against the overall target of about 44 per cent, with a shortfall of 50,367 crore taka.

Table 3: Financing (Crore Taka)

	Budget 2019-20	Revised 2018-19	Budget 2018-19	Actual 2017-18
Foreign Borrowing-Net	63,848	43,397	50,016	25,621
Foreign Borrowing	75,390	53,883	60,585	33,132
Foreign Debt Repayment	-11,542	-10,486	-10,569	-7,512
Domestic Borrowing	77,363	78,745	71,226	78,815
Borrowing from Banking System	47,364	30,895	42,029	11,731
Long-Term Debt (Net)	28,094	21,117	23,965	6,171
Short-Term Debt (Net)	19,270	9,778	18,064	5,560

Source: Ministry of Finance, 2019

Budget deficit can be accepted if it creates multiplier impact on the economy. One of the major reasons for the increase in debt is the increase of the number of government jobs than the requirement. The mass promotion of government officials and creation of additional posts include extra salaries, allowances and other facilities. In FY 2018-19, 20.5 percent of the revenue expenditure has been allocated for salaries and allowances. Again, in FY 2019-

20 the allocation of revenue and development expenditure in public administration is 18.5%. There are 1,554 officers against 850 posts of Deputy Secretary. In addition to 450 posts of Joint Secretaries, 787 people are working; while against the 100 posts of Additional Secretaries 435 are working. Besides, contractual appointment is also present rampantly. In 2017, among 142 officers recruited on contractual basis 12 Secretaries were re-appointed after their retirement.

Table 4: Sector-Wise Resource Distribution (%)

Sector	Revenue & Development Budget	Revenue Budget	Development Budget
Health	4.9	4.3	5.8
Education & Technology	15.2	13.2	18.1
Social Security & Welfare	5.6	6.5	2.7
Agriculture	5.4	2.6	5.4
Public Administration	18.5	9.8	6.1
Interest	10.9	18.3	
Transport & Communication	12.4	2.7	26.1
Local Govt. & Rural Development	7.2	1.7	15.4
Public Order & Security	5.3	7.2	-
Defence	6.1	8.7	-
Energy & Power	5.4	-	13.2

Source: Ministry of Finance, 2019

4. BALANCE OF PAYMENT IMBALANCE

The surplus or deficit of current account balance in Bangladesh is determined mainly by import cost, export earnings and remittance inflows. According to latest available information from Bangladesh Bank, there is no change in capital account. The issue of foreign investment and loans — that is financial account is the third component of overall balance of payment. Financial account balance gets influenced when the amount of loans increases, and the interest payment starts. Since current account and financial account have more influence on macro economy of Bangladesh, these two accounts need to be discussed critically.

In recent time, the deficit in current account balance is noticeable. For the past two years, the slow pace of export earnings and remittance income and the high growth of import expenditure have been creating a lot of pressure on the current account balance. In July-April of the fiscal year 2018-19, the gap between export earnings and import expenditures has increased to $ 13,675 million in the trade deficit. The recession in remittance income in few past years has also raised concerns. Despite a slight increase in July-April of this fiscal year (13,303 million dollars) comparing to the same period of last fiscal year, the ups and downs of remittance inflows are going on. As a consequence, there is a deficit of $ 5,065 million in current account.

Though government is claiming that expenditure is increasing due to infrastructural development and imports of industrial raw materials, various reports indicate that illicit outflow of money has become rampant showing over invoicing of imports. The Washington-based research institute Global Financial Integrity (GFI) reports that around USD 5.9 billion was siphoned out of Bangladesh through trade mis-invoicing during 2006-2015 period. This rate is increasing every year. For example, during 2013-15 the value of imported rice in Bangladesh was $ 800 to $ 1000 per tonne. At the same time, the average price of rice in the international market was around $ 500 per tonne. Money laundering increases when it is earned illegally or capital becomes unsecured in the country.

Table 5: Some Elements of Balance of Payment (Million US Dollars)

	2017-18 (July-April)	2018-19 (July-March)	2018-19 (July-April)
Trade Balance	-15269	-11927	-13675
Export	30077	30440	33430
Import	45346	42367	47105
Remittance Inflows	12092	11869	13303
Current Account Balance	-7793	-4246	-5065
Capital Account	261	188	212
Financial Account	6994	4306	4765
Foreign Direct Investment (gross inflows)	2484	2897	3145
Portfolio Investment (Net)	344	147	146
Other Investment (Net)	5343	2820	3138
Medium & Long-Term Loans	4013	4314	4667
Other Long-Term Loans (Net)	179	906	1032
Other Short-Term Loans (Net)	1372	1018	963
Overall Balance	-1044	-326	-590
Gross Reserves (after valuation adjustment)	33109	31753	32123

Source: Bangladesh Bank, 2019

Financial account, although it currently shows no deficit, requires a serious discussion. One of the main elements of financial account — the foreign direct investment (FDI) is meagre and shows little change over the years. Though it increased slightly during the July-March period of this fiscal year, for some years it remained stuck close to 2.5 billion US dollar. On top of that, the investment in the capital market and other sectors has declined. The investment of Bangladeshi expatriates in capital market has decreased by 22.94 percent (Table 5). Meanwhile, the amount of medium and long-term foreign loans increased by 16.30 percent in the July-April of FY 2018-19 compared to the same period of previous fiscal year. In the meantime, amount of other short-term loans has also increased. In most cases, loans are being taken for large infrastructural projects. It is seen that projects life-span extends frequently. As a result, the cost of these projects is also increasing on one hand and flow of foreign loans is on the rise to bear these increased costs on the other. Questions have also been raised about the quality of these projects.

According to Bangladesh Bank report, the amount of medium and long-term foreign debt during July-March of FY 2018-19 is 4314 million US dollar. It was 3220 million dollars in previous fiscal year. So, it has increased by 33.98 percent in just one year. In the meantime, other long-term foreign debt amounted to 1005 million US dollar, which was only 161 million at the same period of the previous fiscal year. The rate of repayment of loan during the period is less than the previous year. Due to surplus in financial account overall balance of payment is indicating little shortage though current account balance shows huge shortfall.

Payments of loans are not being made right now. That is why shortage in financial account is noticeable. The problem will arise when the repayment begins. The entire economy will be under pressure and stability will be lost due to repaying the accumulated burden of debt. By taking too much credit, the economy is constantly engaged in a debt crisis. It will a bigger challenge to come out of this trap. Different developing countries are forced to take suicidal decisions due to such debt burden. Recently, Sri Lanka has leased the Hambanota port to China due to this debt burden. In other South Asian countries like Pakistan, the International Monetary Fund (IMF) will be in charge. Eight years ago, in order to address the crisis of overall balance of payment, Bangladesh was forced to go under the extended loan facility of IMF with strict conditions.

The amount of foreign currency reserve is also in decline from FY2017. In July-April period of FY2017-18, the reserve amounted to 31,753 million US dollar and stood at 32,123 million dollars at the same time in FY2018-19. Due to the dollar crisis in the market, central bank is supplying dollars to the open market from the reserve. Businesses are not getting dollars due to the use of dollars in large projects. The failure of LC opening has led the overall foreign transaction in instable situation. Again, interest rate of foreign debt is on the rise. In order to repay the debt, more pressure on the dollar bills will emerge. As emphasized above, the deficit will increase further when the repayment of interests of various loans for projects begins.

5. Social Sector: Education and Health

Present state of education and health has been in affinity with previous trend of deprivation and low allocation of budget. Besides, quality is not maintained with the current allocation of budget. In the FY2018-19, allocation in education sector is only 13.6% of total budget and allocation in health sector is only 4.3% of total budget. Instead of focusing on improving quality of higher education in the country, current budget proposes to hire teachers from foreign countries which will results in increased outflow of capital. Since key problems of quality and institutional deficits in educational institutes have not been addressed, merely importing teachers will do nothing but serve the government's fancy narrative.

Discrepancies and confusions are prevailing regarding various indicators in these sectors. For example, a recently published report by National Institute of Population Research and Training (NIPORT) shows that rate of maternal death in Bangladesh is 196 per thousand at present. Contrarily, department of family planning does not recognize this estimation. According to their estimation, the rate is 172 per thousand. If the estimation of NIPORT is taken into account, then it can be determined that the maternal death rate has increased to 196 in 2016 from 194 in 2010. The problem lies in admitting the reality and taking responsibilities to incur solution from the predicament in order to take necessary steps. Medical care and treatment facilities are going out of reach for the poor people.

Out of Pocket Expenditure (OOP) is so high in Bangladesh in comparison with other countries. In 2017, from the health report published by the government, OOP as share of total expenditure is 67% in Bangladesh which is larger than the neighboring countries like India (62%), Pakistan (56%), Nepal (47%), Bhutan (25%) and Maldives (18%). Per person expenditure in health sector of Bangladesh has increased but quality has not. Public health sector is deteriorating in terms of providing quality health service. The allocated money for education and health sectors are mainly spent for infrastructural development.

6. Agriculture and industry

Recent declining trend of growth in productivity 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. Therefore, in order to raise productivity and profitability, reduce instability, and increase efficiency in resource use, increasing the allocation on the development side is essential.

Similarly, productive sectors are not performing up to the mark. In addition to this, increase in the number of productive sectors as well as diversification is not taking place. The whole economy has been counting upon one-sector based income. Apart from readymade garments industries, new industrial sectors are not flourishing. In the last six years, number of industrial factories has reduced by 608. In 2012, there were 3,639 big industries which have come down to 3,031 in 2019. Number of medium industrial factories has gone down to 3,014 from 6,103. The fundamental reason of such kind fiasco is the fragility of the institutions, lack of confidence in investment and capital flight hindering the expansion of productive capacity of the job-creating industrial sectors.

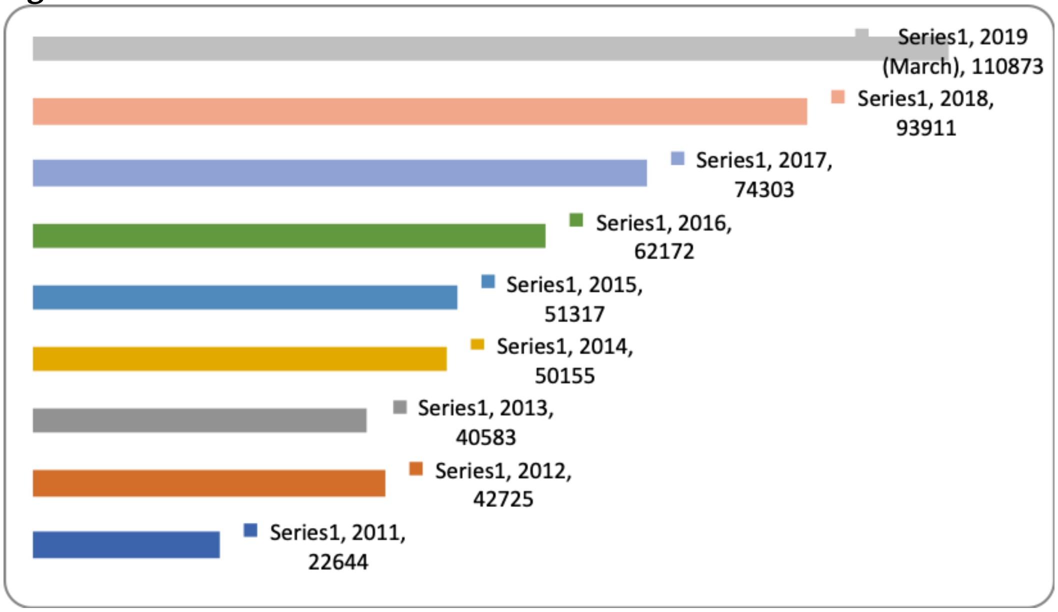
In the budget, since the garment sector is most influential industrial sector, 2825 crore taka has been allocated as incentive in sector while no other sectors are getting sufficient incentive to flourish. Industrial sector is concentrated only in RMG leading to insufficient attention and efforts to diversification of the export-oriented manufacturing sectors. There is lack of strategic direction for alternative industries and product diversification in the budget.

7. Financial Sector

Regulatory imbalances are seen prevalent in everywhere. This study particularly draws attention on banking and capital market. Because of its money creating capacity, banking sector creates a virtuous cycle in the economy. It contributes through creation of money, which then contributes to capital accumulation. It also contributes in enhancement of productivity by proving money to help firms in acquiring technological capabilities, which contributes in turn in enhancing productivity. Instead of creating this virtuous cycle, banking sector is promulgating a vicious cycle in Bangladesh. Default loans are increasing. The culprits remain out of punishment. Instead of taking legal steps against the defaulters, the government is seen offering plethora of facilities in favour of defaulters. Banking sector is in liquidity crisis.

Moreover, default loan has been increasing over the years. In 2011, it was 2 thousand 644 crore taka which has become 1 lac 10 thousand 873 crore taka as of March 2019, up by 88,229 crore taka or whopping 389.64%.

Figure 1: Default Loan



Source: Bangladesh Bank, 2019 cited in Sakib, 2019

New steps have been taken in favour of loan defaulters. As per the new policy, the defaulters will be allowed to reschedule their classified loans by making a down payment of only 2% instead of the existing 10-50%. A maximum 9 percent interest will be charged on the rescheduled loans while the existing interest rate is 12-16 percent. Besides, the tenure for repayment is 10 years with a grace period of one year. The move did not yield any success. Offering such a benefit will only increase the number of wilful defaulter and discourage good borrowers from repaying loans.

Yet, tax money paid by the ordinary people is used to resolve the fiasco of the banking sector. As a result, more debt is being sought from abroad. Thus, loan repayment has become one of the highest sectors of resource distributions that disproportionately benefits the wealthy and powerful groups.

Same holds for capital market. People trade debt or equity-based securities from it. If they do not get equity from capital market, productive capacity will not increase. This explains why the capital market of Bangladesh is so small in spite of the growing size of the GDP. Furthermore, due to frequent scams and controlling of capital market by the clientelistic network of, market capitalization is not increasing in the country.

8. Poverty, inequality and unemployment

There is a disturbing trend of deceleration in rate of reduction of poverty. According to the BBS, the reduction in poverty has slowed down to 1.2 percentage points during the period of 2010 -2016 from 1.7 percentages points of the period of 2005 – 2010 (Table -6). The people living below the poverty line has declined from 48.9 per cent in 2000 to 40 per cent in 2005 to 31.5 in 2010 (according to the HIES data) and the government approximates to 25.6 per cent in 2014.

Table 6: Poverty Rate

	HIES-2005	HIES-2010	HIES-2016
Upper poverty line	40	31.5	24.3
Lower poverty line	25.1	17.6	12.9

Source: Bangladesh Bureau of Statistics, 2016

Income elasticity of poverty, which measures the magnitude of the effect of per capita income growth in reducing the rate of poverty in percentage terms, provides crucial information about the role of economic growth in poverty alleviation. The annual rates of decline in the poverty rates and rates of increase in real GDP per capita during the broad period between 2005-2015 and estimated value of income elasticity of poverty for South Asian countries provide some revealing insights (Table 7).

Bhutan, Sri Lanka, Nepal, and Pakistan have achieved largest reduction in poverty at a rate around 15% annually with India’s rate of decline to be around 9% whereas the rate of decline for Bangladesh is the lowest at about 5% annually. Considering the relative rates of annual change in average income and poverty rates, countries such as Bhutan, Sri Lanka and India experienced higher rate of growth in income along with higher rate of decline in poverty. However, countries such as Bangladesh and Pakistan experienced lower rate of decline in poverty despite higher rate of growth in income.

Table 7. Income elasticities of poverty (using international poverty line) for South Asian Countries, 2005-2015

Country	$1.90 poverty rate, 2005 (%)	$1.90 poverty rate, 2016 (%)	Annual rate of poverty decline, (DP), %	Annual growth rate of GDP per capita (GY), %	Elasticity (DP/GY) (-)
Bangladesh	25.7 (2005)	14.8 (2016)	– 4.89	4.82	1.01
Bhutan	17.6 (2003)	1.5 (2017)	– 16.13	5.25	3.07
India	38.2 (2004)	13.4 (2015)	– 9.08	5.06	1.79
Nepal	46.1 (2003)	15 (2010)	– 14.82	3.06	4.84
Pakistan	16.5 (2005)	3.9 (2015)	– 13.43	1.20	11.19
Sri Lanka	08.3 (2002)	0.8 (2016)	– 15.39	5.38	2.86

Note: 1. Poverty rates are taken from World Bank Poverty and Equity Data Portal (2019) and following Ram (2011, p.2436), annual rate of decline is calculated as [{(P2/P1)exp(1/n)}– 1] where P2 and P1 are the poverty rates for the last and first years and n is the number of years. The rate is then multiplied by 100 to convert it in percentage points
2. Annual rate of growth of GDP per capita (G) is calculated by taking constant-price GDP per capita in local currency from World Development Indicators for 2017, and estimating the expression for exponential growth Ln(Y) = a + G(t) + u , where t takes values equal to number of time periods for each country.

Clearly, huge variability is observed in the estimated elasticity rates among this small group of neighboring countries with the highest elasticity is in Pakistan (11.19) and the lowest is in Bangladesh (1.01). Income elasticity of poverty for rest of the four countries in South Asia are 4.84, 3.07, 2.86 and 1.79 for Nepal, Bhutan, Sri Lanka and India respectively and in descending order. Additional estimates of elasticity using $3.20 poverty rate (lower middle-income class poverty line) and $5.50 poverty rate (also known as upper middle-income class poverty line) along with estimates of elasticity by Ram (2015a) using $1.25 poverty rate for the period between 1990-2005 (Table 8).

Table 8: Income elasticities of poverty for South Asian Countries using three different poverty measures

Country	Reference period	**Income elasticity of poverty (DP/GY) (-)**			Elasticity using $1.25 poverty rate, 1990-2005
		$1.90 poverty rate (%)	$3.20 poverty rate (%)	$5.50 poverty rate (%)	
Bangladesh	2005-2016	**1.01**	0.43	0.10	**0**
Bhutan	2003-2017	**3.07**	1.80	0.86	**0.91**
India	2004-2015	**1.79**	0.72	0.21	**0.35**
Nepal	2003-2010	**4.84**	1.85	0.36	**1.19**

Pakistan	2005-2015	**11.19**	4.48	1.27	**4.67**
Sri Lanka	2002-2016	**2.86**	1.69	0.69	**0.67**

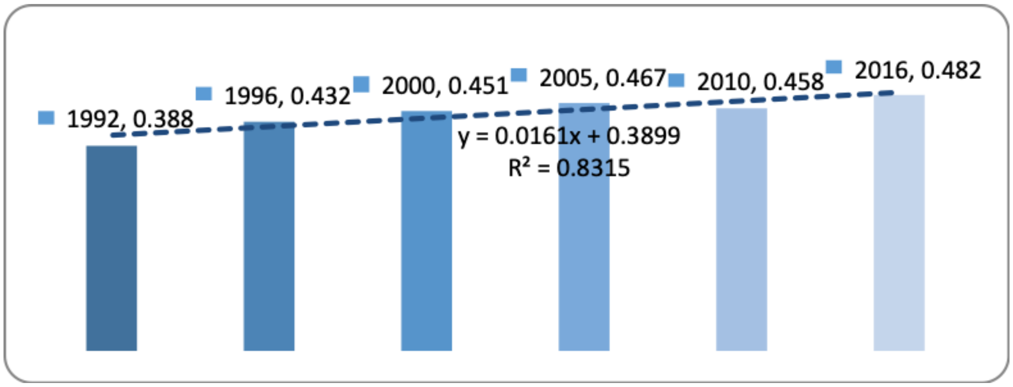
Notes: 1. $3.20 and $5.50 Poverty rates are taken from World Bank Poverty and Equity Data Portal (2019) and elasticities are calculated by following the same procedure as Table 1.
2. Elasticity estimates using $1.25 poverty rate for the period 1990-2005 are taken from Ram (2015).
3. Poverty line of $1.90 in 2011 is equivalent to $1.25 in 2005 price

Compared to 1990-2005 period, poverty rates have declined substantially in the recent decade and poverty's responsiveness to income growth has increased substantially in the recent period. However, income elasticity of poverty declines as one raises the cut-off point of poverty line. This suggests that the role of income growth is much smaller (almost half or lower than that of $1.90 estimates) when $3.20 poverty rate is used. Since most of the countries in the group are in lower middle-income category, elasticity estimates with $3.20 poverty line is considered more reasonable than with the $1.90 poverty estimates.

Notably, the observed variability shows highest elasticity is in case of Pakistan and lowest in Bangladesh with Nepal, Bhutan, Sri Lanka and India taking second to fourth positions. the pattern of variability in elasticity estimates among this small group of countries implies that cross-country factors other than income play a more significant role in reducing poverty. Targeted policies besides economic growth matter much since the similar rates of income growth are found to be have considerably varied effect on poverty reduction. It should be noted, however, that unusually high estimates for few countries should be read with caution since there might be some issues with poverty data which are reported by each country. For example, very high elasticity in case of Pakistan despite lowest economic growth in the group may be inflated by data discrepancy.

Turning to inequality, it is observed that the rate of income inequality is increasing at an alarming pace. In 2016, inequality estimate Gini coefficient has risen to 0.483 from 0.458 in 2010. In 2016, share of income of the poorest 10% people has decreased to 1.01% which was 2% in 2010. From the 2005 to 2010, poverty reduction rate was 1.7% every year. This ratio has come down to 1.2% during the 2010 to 2016 period. Poverty reduction rate is gradually getting mitigated. Consequently, poor people are becoming poorer.

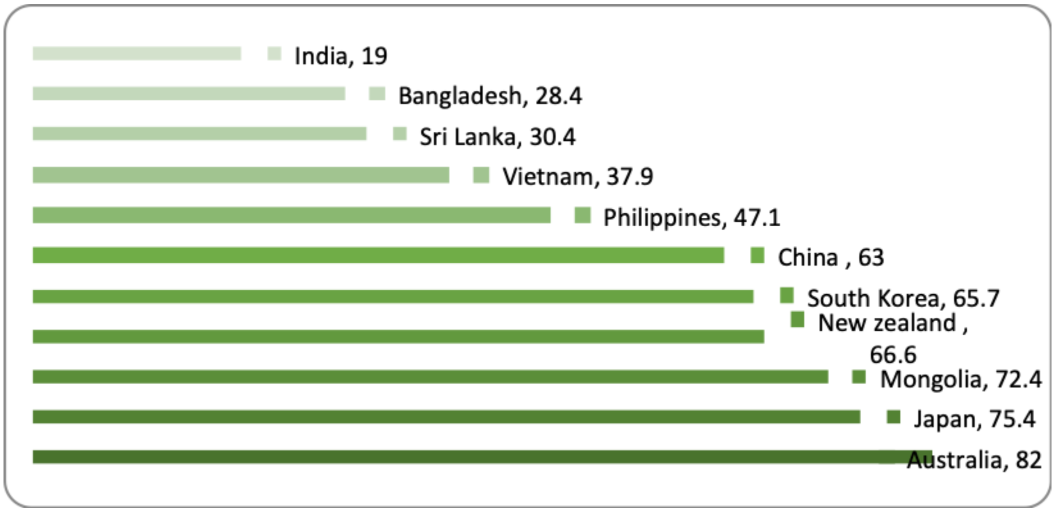
Figure 2: Income Inequality (Gini Co-efficient)



Source: Byron and Parvez, 2019

At present, there are almost 145 ongoing social safety net programs. Percentage of people under the coverage of at least one social safety net program is 28.4. The situation is more affirmative in countries like Philippines, Sri Lanka, Vietnam, and Bhutan where more people get the facilities of social safety net programs. Apart from the rate of the beneficiaries, this sector is deprived of adequate allocation in comparison with other sectors. Allocation in this sector in Bangladesh is lower than that of Bhutan and Nepal. Bringing more people under the umbrella of benefits of social safety net programs along with adequate allocation has become a vital challenge in this context.

Figure 3: Percentage of People under SSNP Coverage (%)



Source: Ahmed, 2018

9. CONCLUSIONS

This budget remained in favour of the clientalist network while the interest of the common people has been neglected as usual. It has failed to address the key problems and questions of masses regarding poverty, unemployment, education, health, social security and so on. The regressive mode of tax structure is still prevailing where the lion's share of tax is borne by general taxpayers. Share of income tax is still very trivial.

Widespread imbalances in revenue, financial and external sectors sector and disproportionate burden on the income and welfare of the common people are creating challenging sloppy condition for the economy with an impending crisis is looming large.

Expediency in fiscal mismanagement along with the central bank's imprudence in adoption of policy measures caused low investment demand in the economy. The macroeconomic policy measures thus failed to channel adequate resources to the productive sectors. This was further aggravated by the supply constraints, primarily those of infrastructure. Consequently, the trend in growth in agriculture and manufacture, which together comprise half the total sectoral contribution of GDP, has recently been assuming a declining trend.

In an attempt to restore the economy to the path of achieving sustainability of its growth, the adoption of pro-productive capacity expanding strategy and dismantling the process of primitive accumulation are essential. Centralisation or concentration of power, which signifies the absence of political rights and participation breed law and order conditions in the economy through the winner-takes-all strategy, has been observed in the functioning of Bangladesh economy.

In order to get rid of the outlined bottlenecks, a strategy is needed that generates increment in the productive capacity and provides avenues for the poor to obtain an increased share. The adoption of such a growth strategy necessitates a prudent economic management. It warrants harmonisation of fiscal and monetary policy in order to stimulate the expansion of productive capacity.

A vigilant look into the falling investment demand is pressing since any further decline in the private investment is assumed to significantly slow down the economy. The private domestic expenditure may be dampened, if a decline in expenditure happens. The growth of export as well as increased private investment should, therefore, be emphasised. Macroeconomic stimuli are required to ensure pro-poor growth through generating employment opportunities in the economy. Besides, an increased allocation of resources and implementation of development programmes in health and education sectors must be ensured, while the social safety net programmes have to be transformed into of a sustained system of social security.

Thus, the country has been waiting for prudent actions for economic and social progress. The authorities could have embarked on a two-pronged strategy, comprising a short-run 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 rate of growth for the next fiscal year.

The proposed actions in various macroeconomic plans and strategies 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, characterised by widening income, spatial and male-female inequalities, driven by jobless growth.

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