Growth Narrative and the State of Living Standard of the Masses

Year-end Assessment of Bangladesh Economy

Bangladesh Economic Update

December 2017

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1. Introduction

The country has been missing opportunities to capitalise on its resources and potentials in the medium term. The causes of elapsing prospects are more institutional. The gradual corrosion of institutions has constrained allocation of resources to channel efficiently into the productive sectors in order for the economy to get higher returns in terms of expanded productive capacity. The lack of farsightedness in policymaking, stemming from political expediency, has caused institutional fragility. As a result, in 2017-18, a number of medium-term challenges are looming large in the economy.

The stagnation in the ratio of private investment to gross domestic product (GDP) and ever increasing rise of capital flight, coupled with regulatory unpredictability in economic management have appeared to be the major challenge in the economy. This has hampered the growth of real sector. The capacity to generate employment in the formal sector, particularly in manufacturing has shrunk, and there has been further concentration of export in one sector, risking the economy to high vulnerability and shocks. The paralyzed policy process has failed to induce and unleash the capacity of the private sector in expanding and diversifying into more competitive products.

The fiscal balance is in shambles. The immediate past year, statistics for which have been released recently, witnessed another year of no sign of improvement in the tax-GDP ratio, pushing the country towards a deeper debt trap. There has been increasing reliance on debt and further accumulation of debt on account of payments for principal and interest.

The country's quest for self-reliance based upon domestic resource mobilization has been marred by the policy shift towards 'debt-financed-debt-trapped development financing.' The current year witnessed the same level of debt dependence due to failure in providing strategic direction in overhauling the domestic resource mobilization to expand and increase the tax base.

The people at large also do not feel encouraged to be part of the tax-base as they do not find the fiscal allocation is anchored to its mandate of serving the public interest. Citizens find public resources are prone to corruption by way of amassing the resources through apportionment of manifold more than standard required expenditure while the public services for the citizens have degenerated into a chaos. For example, the public are flooded with graphic details of disproportionately high earmarked allocation for the infrastructure projects in Bangladesh vi-a-vis similar projects in other countries as well as with examples of multiple upward revisions of such expenditures during the process of implementation and deliberate ploys of delays for increasing allocation. This does not resonate that citizen's tax revenue is spent for the provision of public service.

Debt financing is not a problem if it is spent rightly – efficiently in productive sectors and in building both social and economic infrastructure. However, it is not the case here. The ever-increasing debt is also not developmental, causing also enormous distress on the social sector development, particularly on the marginalized section of the society. There has been a mounting of debt due to manifold increase in the non-development expenditure while the ratio of the increase in annual development programme (ADP) has remained nominal. The rise in debt has increased the payments for principal and interest, which has emerged as the number one expenditure in the national budget, and reduced the fiscal space for allocation in social sectors such as education, health and social protection. Therefore, the national budgets demonstrate sliding rates of increase in allocation for education, health and social protection.

In addition to proportionately less public investment for education, health and social protection relative to the size of the budget, the poor and the disadvantaged section of the society has further been marginalized due to the regressive nature of the tax structure, heavily biased towards such regressive tax as value-added-tax (VAT), a tax that is indifferent to the level of income. The government has expanded the jurisdiction of VAT to maintain it as the major source of revenue collection at the cost of general masses.

The political expediency has dogged the financial sector miserably. The current year, like in the previous years, witnessed a monumental rise in writing off of loans, meteoric rise in the default loans and nose-dive in risk and capital adequacy ratio. The public in general has to pump their tax money to rescue the stripped nationalized commercial banks through recapitilsation due to loots in these banks. The culture of impunity extended since the capital market scam continues to reign, with culprits hardly brought to justice. The new banks have also been infected with such diseases while shares of some private banks are traded in the bourse with less than the face value, costing the shareholders with missed dividends at the backyards of the regulators.

The real sector is marred with failure to diversify products and markets. The rate of growth in export has slowed down. The manufacturing is chocked by deficits in infrastructure. This has been further held back by lack of business confidence. There has been no significant breakthrough in agriculture as regards innovation and technological advancement in the post-green revolution period. The service sector is facing a critical shortage in supply of skills. The short supply in the required levels of skills has led to hiring of documented and undocumented professionals and workers from abroad, resulting huge sums of outflow of remittances. This huge outflow and declined levels of inflow of remittances are serious causes of concern. The lack of strategic direction in human resource and skills development has not only aggravated the outflow of hard currency, but also has not been able to employ the country's human resources as has been observed by the rising unemployment in general and increasing unemployment amongst the youth, particularly the educated youth.

The lack of an improved business climate causing declining private investment and consequential lull in real sectors, fiscal shambles resulting into infrastructure deficits, debt overhang, reduced social sector investment, are resulting into jobless growth, decline in the rate of poverty reduction and widespread inequality. The sustainability of the economy is at risk. These have accentuated due to the lack of accountable politics and governance. The old problems have remained unabated over the years, while new ones have been added as time elapsed.

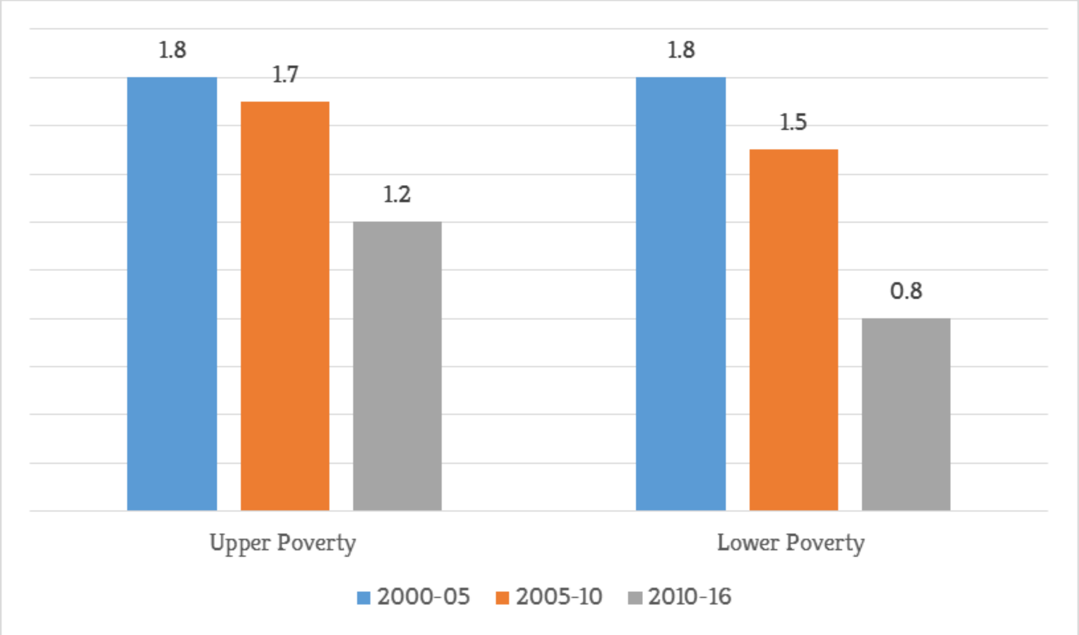
This report attempts to address the issue of inequality of opportunity due to reduced rate of poverty alleviation, increasing income inequality and decreasing employment opportunities amid accelerated rate of growth in gross domestic product (GDP). In addition, this Update take account of squeezed investment due to fiscal composition and deficit financing, declining rate of growth in revenue collection, inefficiency in public spending, volatility in external sector coupled and implications of lack of an improved business climate for the economy.

2. Growth Hiding in the Shadows of Poverty, Inequality and Unemployment

The proportion of poor in the population declined considerably between 2000 and 2010. The incidence of poverty decreased from 49.8% in 2000 to 40% in 2005 then to 31.5% in 2010 and 24.3% in 2016. The annual average reduction in incidence of poverty has declined of late according to the preliminary report on the Household Income and Expenditure Survey (HIES) 2016. Annual average reduction in overall poverty as measured by upper poverty line fell to 1.2

percentage points in 2010-2016 from 1.7 percentage points in 2005-10 while the rate of reduction in extreme poverty as measured by lower poverty line declined to 0.8 from 1.5 percentage points. 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.

Figure 1: Rate of reduction in poverty incidence



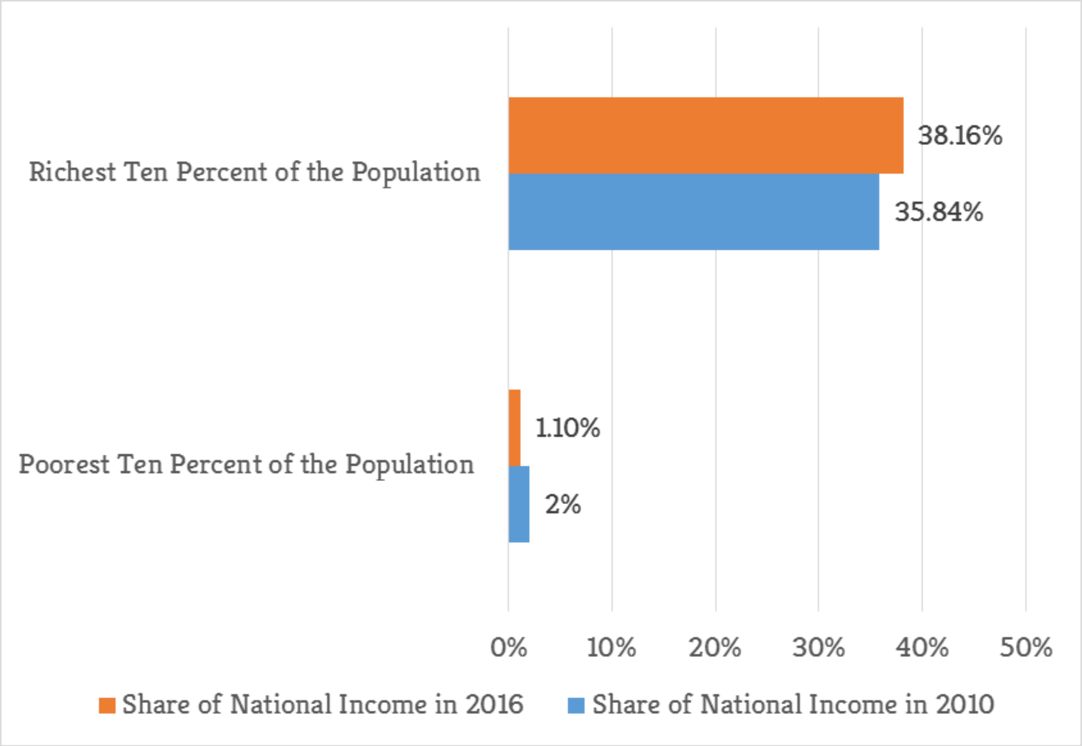
Source: Bangladesh Bureau of Statistics (BBS) 2017

Increase in Gini coefficient of income distribution to its highest ever level of 0.483 in 2016 signals the ominous state of rising income inequality in the country. The poorest 10 percent of the household population receives 1.01 percent of the total national income in 2016 compared to 2 percent in 2010, whereas the richest 10 percent of the population owns 38.16 percent of the national income in 2016 compared to 35.84 percent in 2010.

The rate of unemployment in the country, particularly youth unemployment is rising at a significant rate. In addition, casual work constitutes almost two-thirds of wage employment in Bangladesh (International Labour Organization, 2016). 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 out of which 40.2 million was male and rest 16.9 million was female. In 1995-96, the total civilian labour force was 36.1 million out of which 30.7 million was male and only 5.4 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).

Recent estimate from the World Bank suggests that annual rate of growth in employment was 3.1 percent during the period between 2003 and 2010, whereas employment growth declined to 1.8 percent per annum during the period between 2011 and 2016, questioning the effectiveness of accelerated economic growth. However, the number of unemployed population increased at an annual rate of 5.29 percent during the period of 2000-2010 and increased from 1.70 million in 2000 to 2.60 million in 2010 while 10.6 million people were day labourers who did not have job security. Taking this trend into account, it is calculated that the country needs to increase employment opportunities by two percent in order to enter the middle income group by 2021.

Figure 2: State of income inequality



Source: BBS 2017

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.

Another disappointing aspect is working poor. A large number of people, both in the formal and informal sector work at a wage rate far below the poverty line. While 32 percent of the population fall below the USD1.90-a-day international poverty line, 80 percent of the population falls below the USD 3.10-a day poverty line. And, there is very little difference between those 32 percent at the bottom, and those 48 percent just above them. These working poor are vulnerable to any shocks to the economy or to their personal life – they risk falling into extreme poverty.

Recently BBS has published detailed estimates of nominal wage indices of labourers engaged in agriculture, manufacturing and service sectors of the economy. The nominal wage index of the non-formal labourers has increased during the period 2010-11 to 2014-15 by 24.7 per cent. However, the consumer price index (CPI) during the same period increased by 32.6 per cent. This implies that by 2014-15 they lost 7.9 per cent of the real wage income they had in 2010-11. Not only that they did not benefit at all from the much vaunted high GDP growth rate, the system actually surreptitiously took away, by means of inflation, part of whatever meagre wage income they had earned.

Table 1: Nominal wage index, consumer price index and GDP per capita

Year	Nominal Wage Index	Consumer Price Index	GDP per capita 2005-06 prices Taka
2010-11	100.0	100.0	43,190
2011-12	106.2	108.7	45,421
2012-13	112.6	116.1	47,491
2013-14	118.8	124.6	49,701
2014-15	124.7	132.6	52,243

Source: Bangladesh Bureau of Statistics

The Household Income and Expenditure Survey 2016 shows that the average per capita per day calorie intake has fallen by 5 percent from 2318 kilo calorie in 2010 to 2210 kilo calorie in 2016. Given the rise in consumer price index, a reduction in real income is also conspicuous. While the average calorie intake should be 2430 kilo calorie according FAO and WHO estimates, decline in daily intake of calorie from 5 percent in 2010 to 9 percent in 2016 will pose serious challenge to human development. In addition, population of Bangladesh has completely missed out on the benefits of the high growth in national income since both their average income and consumption declined. Such contradictory findings, however, even question the credibility of national estimates.

Table 2: Household income and consumption

Year	Per household		CPI	Per household		Per capita		
	Nominal Income	Nominal consumption	2005-06=100	Real income	Real consumption	Household real income	Household calorie intake	Real gross national income
2016	15,945	15,420	220	7,252	7,014	1,786	2,210	4,840
2010	11,479	11,003	141	8,130	7,792	1,807	2,318	3,700
2005	7203	5964	100	7203	5964	1,391	2,239	2,660

Source: Taslim 2017

3. Fiscal Management: Mobilization of Resources

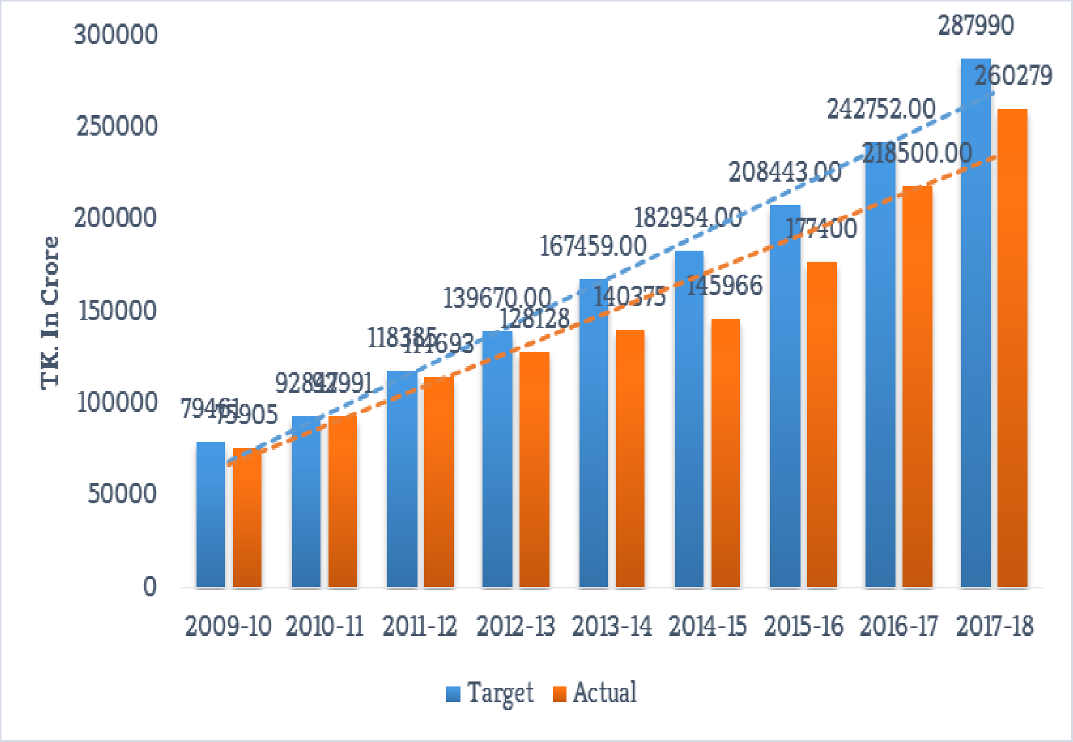
Expediency in fiscal mismanagement along with the central bank's imprudence in adoption of policy measures caused low investment demand in the economy. The macroeconomic policy measures thus failed to channel adequate resources to the productive sectors. This was further aggravated by the supply constraints, 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 causing the growth of GDP not to accelerate substantially.

3.1. Collection of Revenue: Target vis-à-vis Actual

Government's revenue earning largely depends on the collection of taxes. Although the trend in collection of tax revenue continues to increase, the country still falls behind other developing countries in this regard.

Of the total revenue collection targeted at Tk. 2,87,990 crore in FY 2017-18, Tk. 2,56,812 crore is supposed to be collected from taxes and Tk. 31,179 crore is supposed to come from non-tax revenue. However, taking account of the business as usual scenario it is projected that the collection of revenue vis-à-vis the target may reach Tk. 260279 crore in FY 2017-18.

Figure 3: Trend in revenue collection

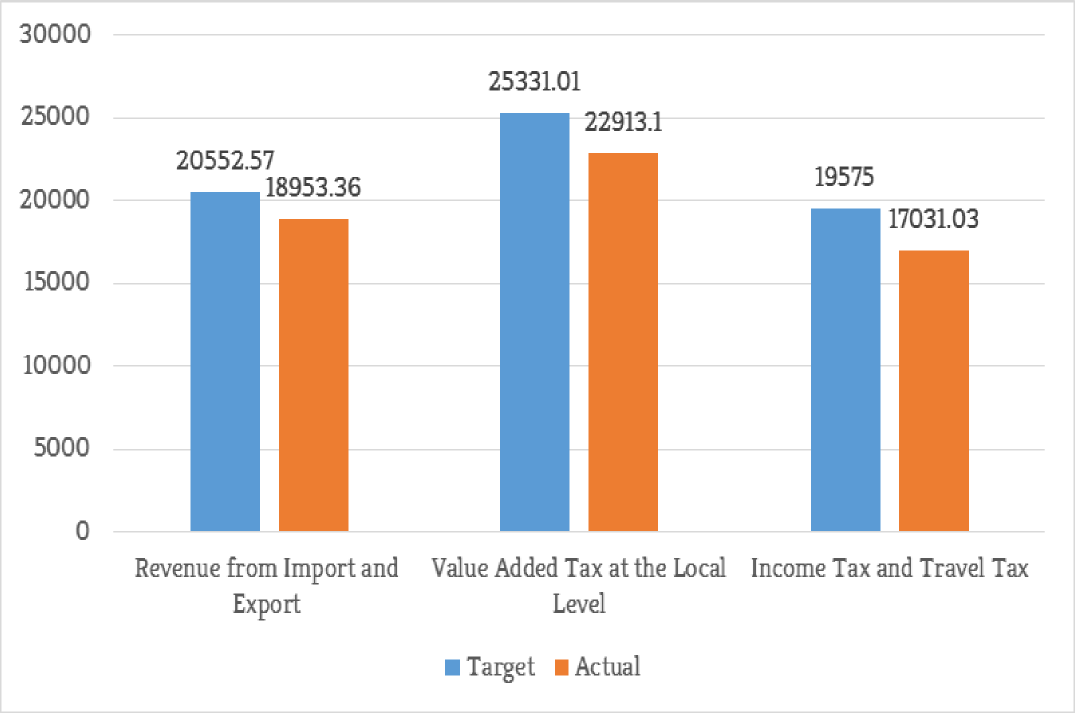


Source: Ministry of Finance, 2017a

Collection of NBR tax revenue falls short of target in the first four months of the FY 2017-18. For the period of July–October 2017, revenue target was set at Tk. 19575 crore for income and travel tax, Tk. 25331.01 crore for value added tax (VAT) at the local level, and Tk. 20552.57 crore for import and export tax, while the actual collections fall short by 13 percent, 9.55 percent, and 7.78 percent respectively.

Analysis historical data of revenue mobilization shows that the trend in the growth of revenue collection has never been stable, let alone increasing. In view of the fact that revenue collection has particularly been assuming a declining trend in the periods of national elections since the FY 1994-95, it is feared that a drop in revenue growth in the coming years is likely. Revenue growth fell to 14.59 percent in FY 2001-02 from 21.26 percent in FY 2000-01, to 14.27 percent in FY 2008-09 from 22.37 percent in FY 2007-08, and to 12.17 percent in FY 2013-14 from 21.57 percent in FY 2012-13. Furthermore, the rate of growth in revenue collection has declined in recent years, averaging 13.96 percent in the last five fiscal years (FY 2012 – FY 2017) compared to 18.4 percent in the preceding five fiscal years (FY 2007 – FY 2012).

Figure 4: NBR revenue in July-October, 2017: target and actual



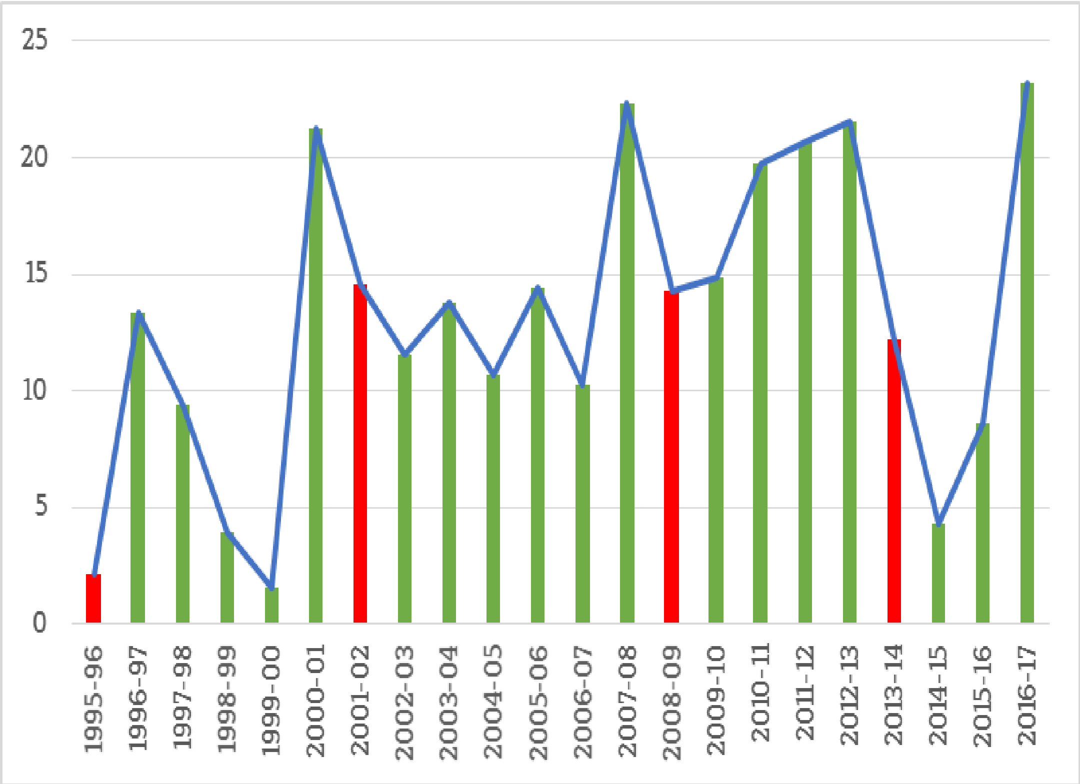
Source: National Board of Revenue (NBR), 2017

The rate of growth in revenue mobilization has been on the decline since FY 2011-12. Actual mobilization of total revenue grew by 23.3 percent in FY 2011-12, whereas the rate of growth decline in the subsequent years and stood at 11.8 percent, 9.4 percent and 3.98 percent in FY 2012-13, FY 2013-14 and FY 2014-15 respectively. In FY 2013-14, 85 percent of the total revenue was collected where actual revenue collection was 141603 crore against the target of Tk 1, 67,459; a shortfall of 25856 crore or 15 percent of the target remained uncollected. In the previous FY 2012-13, 92.33 percent of the total revenue was collected where the actual collection of revenue was Tk. 128823 crore against the target Tk. 139670 crore; a shortfall of Tk 10847 crore or 7.77 percent target remained uncollected. In

FY 2013-14, the target of tax revenue collection was Tk. 130178 crore and the actual collection was Tk. 125125.47 crore - a shortfall of Tk. 5052.3 crore.

Furthermore, it is estimated that Bangladesh has the potential to increase the mobilization of its revenue up to 22 percent of gross domestic product (GDP) whereas the total revenue mobilization as percentage of GDP remained almost stagnant and stood at 11.65 percent, 11.66 percent, 10.78 percent, 10.26 percent, and 11.17 percent in FY 2012-13, FY 2013-14, FY 2014-15, FY 2015-16 and FY 2016-17 respectively. The average revenue mobilization as percentage of GDP during the last four years stood at 11 percent in Bangladesh compared to 20 percent in India, 19 percent in Nepal, 14 percent in Pakistan, and 13 percent in Sri Lanka.

Figure 5: Rate of growth in revenue collection (red bars represent the years of national election)



Source: Ministry of Finance, 2017a

According to the latest statistics, total collection of NBR tax revenue in the first four months of FY 2017-18 has stood at Tk. 58897.49 crore against the four months' target of Tk. 65458.58 crore, representing a 10.02 percent shortfall.

Taking account of the recent trend, it can be forecast that the total collection of revenue may fall short of the target by Tk. 38900 crore in the end of the current fiscal year.

Table 3: Revenue collection: target, actual, and growth (in billion Tk.)

	FY2010-11	FY2011-12	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY 2016-17
Revenue Target as Per Original Budget	928.5	1183.9	1396.7	1674.6	1829.5	2084.4	2427.5
Revenue Target as per Revised Budget	951.9	1148.9	1396.7	1566.7	1633.7	1774.0	2185
Actual Mobilization	929.9	1146.8	1282.6	1403.7	1459.6	1774.0	1912.9

Source: Ministry of Finance, 2017b

3.2. Collection of Revenue: Decomposition of Sources

The revenue structure in Banladesh is not so strong because of its high dependency on one or two sources. Revenue needed for expenditure purposes is collected mainly from three sources-Tax revenue, non tax revenue and the exrternal source that is foreign aid and grants. Total revenue is collected either from tax or from non-tax sources. In total revenue, tax revenue consisted of 80.9 to 83.42 percent over the period between FY 2007-08 and FY 2012-13 and the remaining came from non-tax sources. Of the total tax revenue, nearly 95-96 percent is collected by National Board of Revenue (NBR).

NBR taxes mainly come from income and profit, value added tax (VAT), import duty, export duty, excise duty, supplementary duty and other taxes and duties. In contrast, non-NBR taxes consist of narcotics duty, motor vehicles tax, land tax and stamp (non-judicial). Non-tax revenue is collected from dividend and profit, interest, administrative fees, penalty and forfeiture, services, rent and leasing, tolls and levies, non-commercial sale, defense, non-tax receipts, railway, post office department, T&T Board, and capital receipts.

Table 4: Sources of revenue collection (in billion Tk.)

Revenue Sources	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Total Revenue (a+b)	929.93	1146.74	1282.57	1403.73	1459.6	1831	2185
a. Tax Revenue (a1+a2)	795.48	952.27	1074.52	1160.31	1287.8	1611	1915
a1. NBR Tax Revenue	762.25	915.94	1033.32	1114.23	1239.6	1555	1850
a2. Non-NBR Taxes	33.23	36.33	41.21	46.09	48.2	56	63
b. Non-Tax Revenue	134.45	194.46	208.05	243.42	171.8	220	270

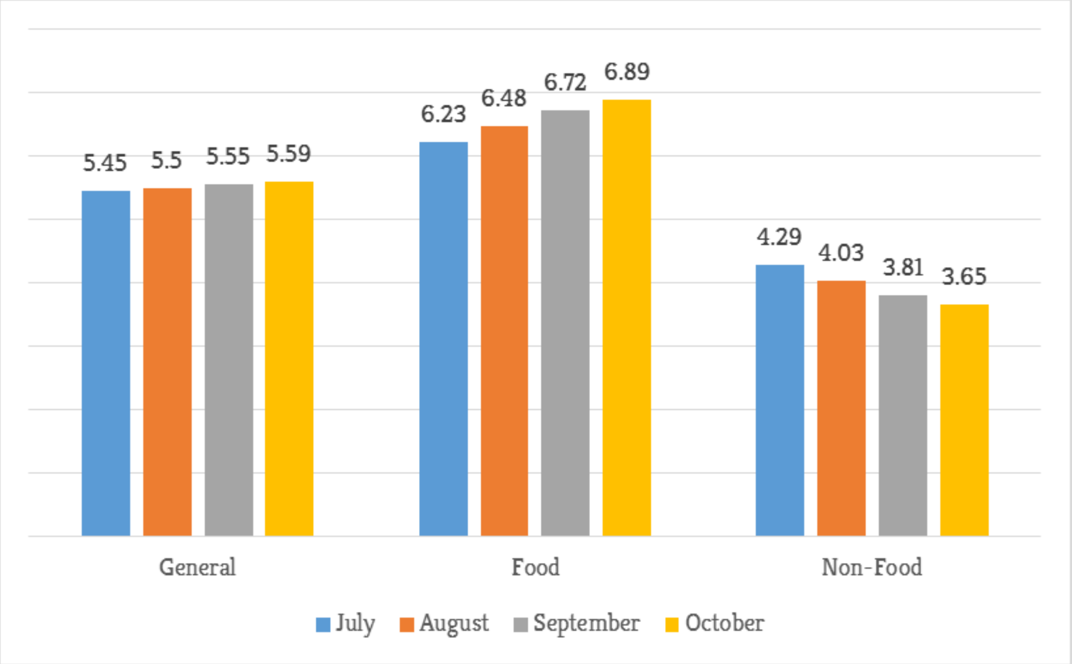
Source: Ministry of Finance, 2017b

4. High Price and Low Wellbeing

The twelve month average general inflation has been on the rise since May 2017. Average general inflation edged up to 5.59 percent in October 2017 while the average food inflation also increased to 6.89 percent. However, average non-food inflation decreased to 3.65 percent in October 2017 from 3.81 percent in September 2017.

Such increase in price in the commodity market coupled with reduced production of food grains, decline in real wage, and lack of employment opportunities is likely to adversely affect people's standard of living on the one hand and threaten overall food security in the country on the other.

Figure 6: Trend in inflation



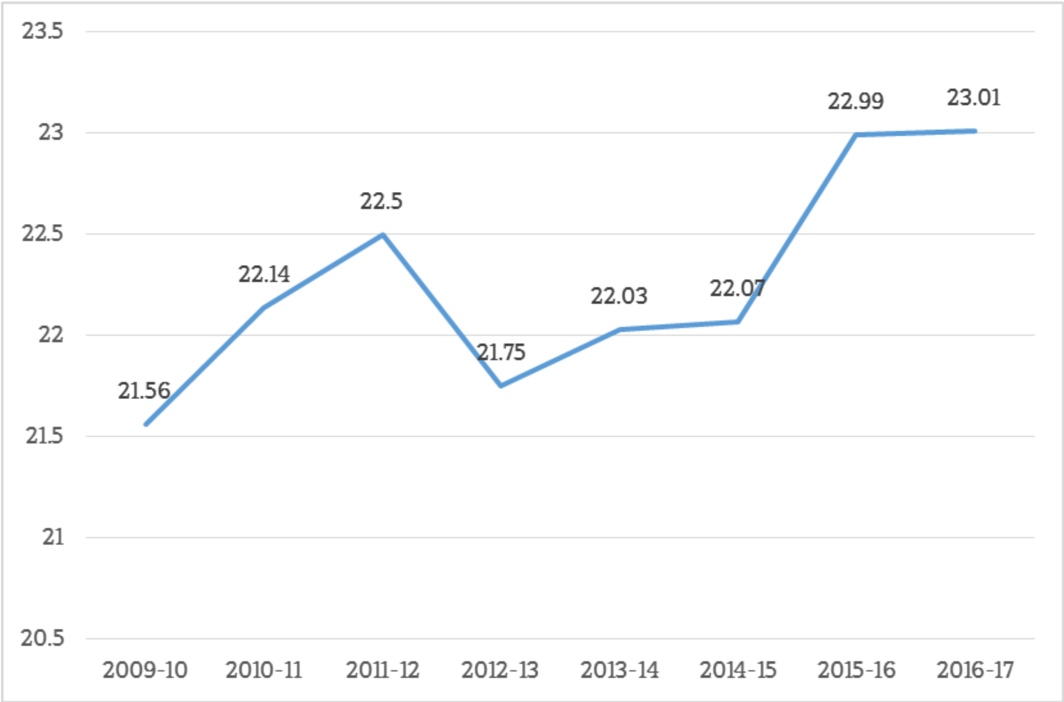
Source: Bangladesh Bank 2017a

5. Productive Capacity: Savings, Investment, and Illicit Capital Flow

The rates of savings and investment to the GDP have 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. The stagnation in the ratio of private investment to gross domestic product (GDP) and ever increasing rise of capital flight, coupled with regulatory unpredictability in economic management have appeared to pose serious challenge to overall economic performance.

Private investment as percentage of GDP has increased by less than one percent on average during the period between FY 2010-11 and FY 2016-17. Private investment as percentage of GDP stood at 22.50, 21.75, 22.03, 22.07, 22.99, and 23.01 percent in FY 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, and 2016-17 respectively. 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 percent, 0.65 percent, 0.13 percent, and 0.7 percent of GDP in the FY 2012-2013, FY 2013-14, FY 2014-15, and FY 2015-16 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 FY 2017-18 from the present 20.9 percent, whereas the national savings were projected to reach 33.3 percent of GDP by FY 2017-18 from the present 27.6 percent.

Figure 7: Trend in private investment as percentage of GDP

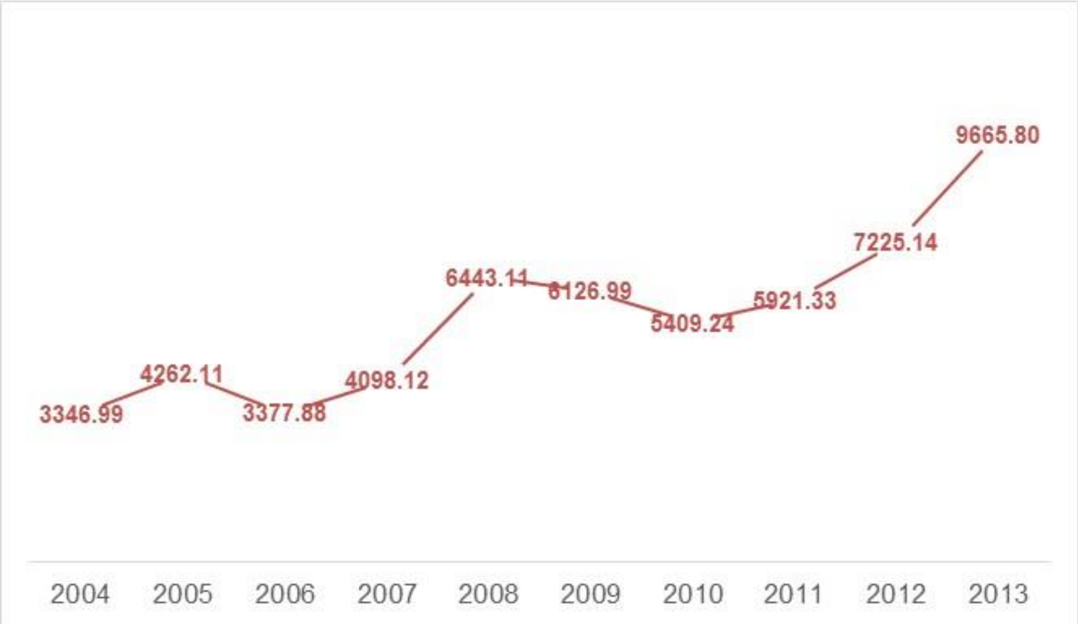


Source: Ministry of Finance, 2017b

These seem to be unachievable in the present circumstances of low savings and investment. Total national savings stood at 29.23 percent of GDP in FY 2013-14, 29.02 percent in FY 2014-15, and 30.08 percent in FY 2015-16, and warns that such trend may induce national output to decline. Private investment has been remaining stagnant and has stood at 22.07 percent of GDP in FY 2014-15 and 21.78 percent in FY 2015-16, while increase in public investment from 6.82 percent in FY 2014-15 to 7.6 percent in FY 2015-16 has not succeed to create much needed crowding in of private investment. Thus, there is a downward pressure on aggregate demand which may induce a fall in national output or growth slow down, especially if growth in exports decelerate.

In addition, the lack of adequate capital formation due to large scale illicit capital outflows every year causes national savings and investment not to rise significantly.

Figure 8: Trend in illicit capital flow



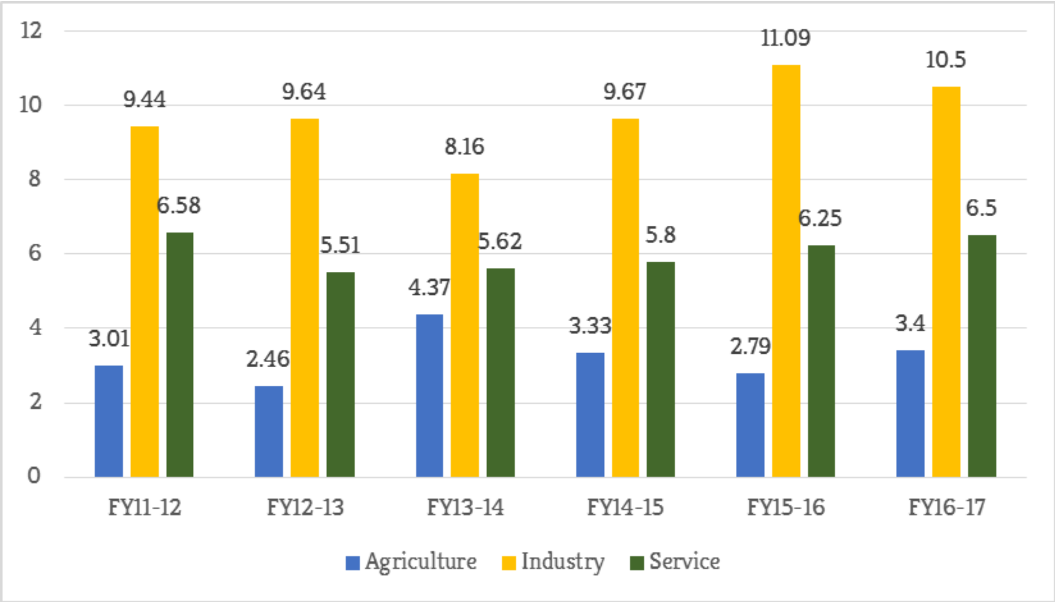
Source: Global Financial Integrity, 2015

Statistics suggest that during the period of 2004 to 2013, illicit capital outflow amounted to USD 5587.67 million every year on average. In 2010, the amount of illicit capital flow was USD 5409.24 million whereas the amount increased to USD 5921.33 million in 2011, USD 7225.14 million in 2012 and USD 9665.80 million in 2013.

6. Real Sector

It is supposed that the macroeconomic policy framework has not succeeded to boost the agriculture, industry and service sectors to their potential. Growth in agriculture has been on the decline of late, while growth in industry and service sectors stagnates. Although there was an increasing trend in growth in agriculture from 1990 to 2010, the rate of growth has been falling since the FY 2010-11. The rate of growth in agriculture was 3.01 percent in FY2011-12, whereas in FY2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 the rate was 2.46 percent, 4.37 percent, 3.33 percent, 2.79 percent and 3.4 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, FY2013-14, FY 2014-15, and FY 2015-16 the share was 17.38 percent, 16.78 percent, 16.50 percent, 16.00 percent, and 15.33 percent respectively.

Figure 9: Rate of growth in agriculture, industry and service



Source: Ministry of Finance, 2017b

The rate of growth in industrial sector has been falling as well. Whereas in FY2010-11, the rate of growth in manufacturing sector was 10.01 percent, the rate came down to 9.96 percent in FY 2011-12 and then reached 9.64 percent in FY 2012-13 and again fell to 8.16 percent in FY 2013-14, have got an increment in FY 2014-15 at 9.67 percent and further increased in 2015-16 reaching at 11.09 percent respectively. But in FY 2016-17 it again fell down to 10.5 percent. As a result, the share of industrial sector in GDP is increasing at a decelerated rate. In FY2010-11, the share of industrial sector in GDP was 9.02 percent, while in FY2012-13, FY2013-14, FY 2014-15 and FY 2015-16 the rate became 29.00 percent, 29.55 percent, 30.42 percent, and 31.28 percent respectively.

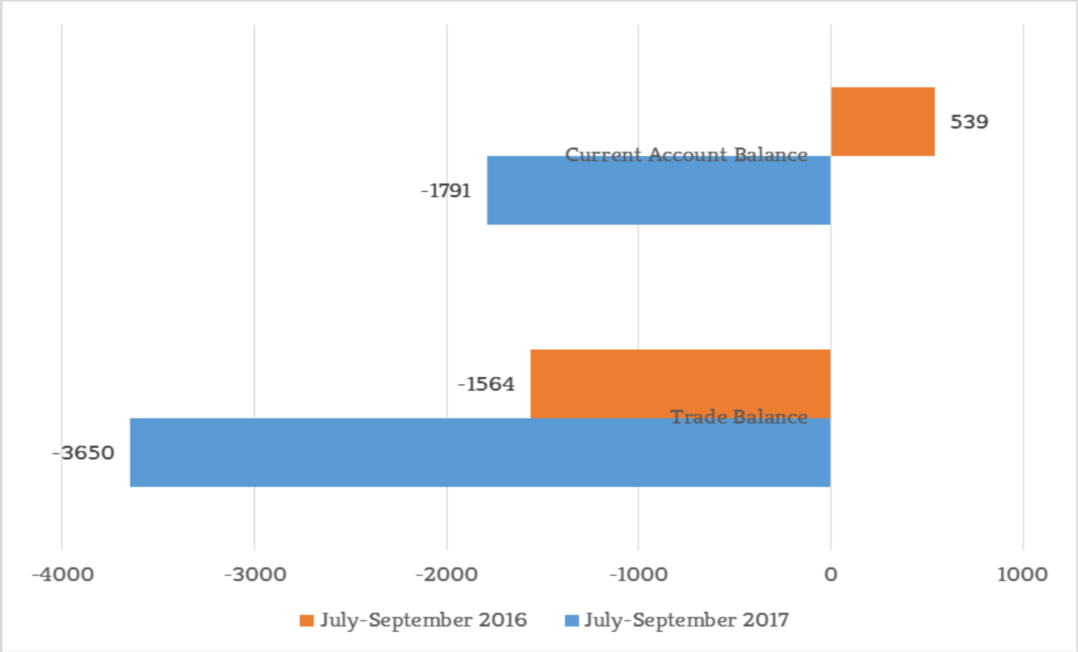
7. External Sector

Declined growth in export shipment in the starting months of FY 2017-18 is likely to exert immense pressure on the country's balance of payments. In addition, decrease in remittance and export of manpower, increasing deficit in service and trade balance are likely to impede the rate of growth of the economy. Inflows of remittance has become negative in recent times mainly because of the decline in labour migration in major markets of the Middle East countries. This declining inflow of remittance is likely to exert adverse impact on rural economy since consumption and expenditure of people living in rural areas are largely contingent upon remittance sent by their household members living abroad.

7.1. Current Account Balance

As a result of deterioration in the trade balance with a deficit of more than USD 2000 million compared to the previous fiscal year, the current account balance declined substantially in July-September 2017 compared to the corresponding period of the previous year. The current account balance exhibited a surplus of USD 539 million in the first quarter of FY 2016-17, whereas the balance experiences a deficit of USD 1791 million in the first quarter of FY 2017-18.

Figure 10: Trends in current account balance (in million USD)



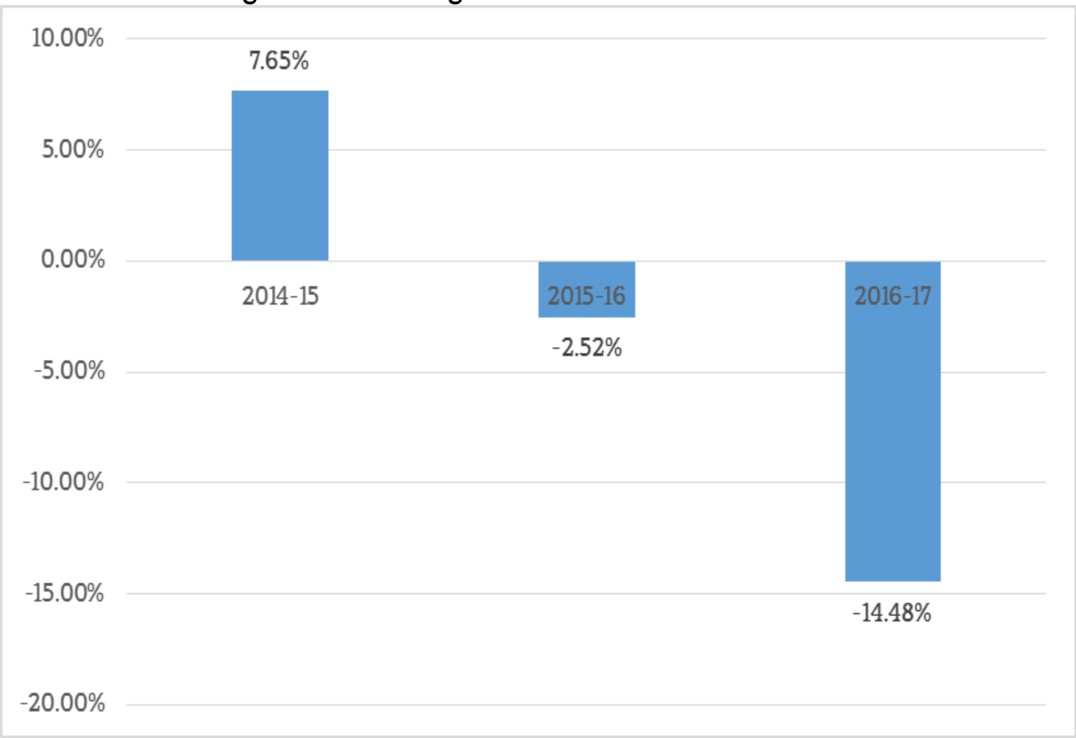
Source: Bangladesh Bank, 2017b

7.2. Remittances

A declining trend is also observed in the inflow of workers' remittance on yearly basis. Inflow of workers' remittance increased by 7.65 percent to USD 15316.91 million in FY 2014-15, which subsequently declined by 2.52 percent to USD 14931.15 million in FY 2015-16 and by 14.48 percent to USD 12769.45 million in FY 2016-17.

Decline in the inflow of remittance coupled with recent inflationary pressure is likely to upset the rural economy since the remittance-recipient households in rural areas expend a significant portion of their income on consumption, health and education. Given the informal system for transferring money induced by gap in the rate of US Dollars in banks and curb market, it is imperative that a conducive atmosphere for higher inflow of remittance be maintained through effective regulatory measures and diplomatic negotiations.

Figure 11: Rate of growth in inflows of remittance



Source: Bangladesh Bank, 2017b

8. Conclusions

In order to get rid of the outlined bottlenecks, the country has been waiting for a medium-term strategy 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 and the fall in the rise of inflationary pressure.

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 pace of growth in 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 in order to escape further downturn in the economy. Macroeconomic stimuli are required to be initiated in order 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 programs institutionalised into of a sustained system of social security.

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.

There is need for a pro-active state. As experienced in the recent past, policies that focus mainly on stabilisation, but pay little attention to proper allocation and distribution of resources are more likely to even fail in stabilisation of the economy as well. It is, therefore, necessary to adopt a medium-term strategy, encompassing employment enhancement actions that foster equality of opportunity in the society through reduced income gap, higher revenue collection through expanding the tax base, institutional reform in financial sector, increased private investment through improved business climate, and effective harmonization of the macroeconomic policy measures.

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