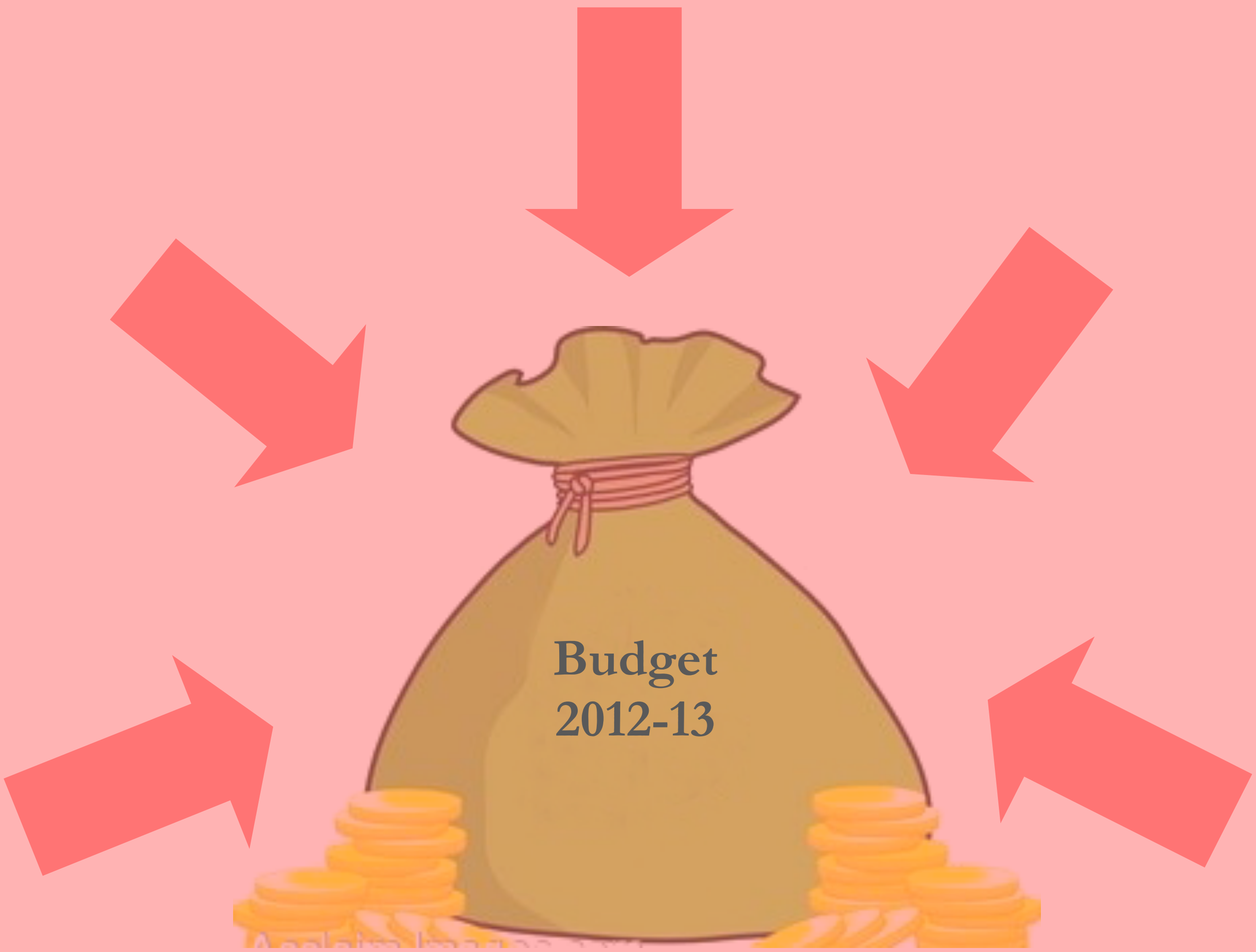
Faltering Growth

A Rapid Assessment of National Budget 2012-13

June 2012



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Unnayan Onneshan
The Innovators
centre for research and action on development

Faltering Growth
A Rapid Assessment of National Budget 2012-13
Volume 3, No. 5, June 2012

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For orders and request please contact:

Unnayan Onneshan - The Innovators
16/2, Indira Road, Farmgate
Dhaka-1215, Bangladesh
Tell: + (880-2) 8158274, 9110636
Fax: + (880-2) 8159135
E-mail: info@unnayan.org
Web: www.unnayan.org

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1. INTRODUCTION

The current budget is faced with the challenge of arresting the intensified macroeconomic pressures that have drifted the economy into deceleration of national output. The fiscal measures, suggested in the proposed budget, coupled with contractionary monetary policy and orthodox exchange rate management are part of a three-year programme agreed between the government and the International Monetary Fund (IMF). The programme articulated in the Memorandum of Economic and Financial Policies (henceforth IMF-MEFP) is a typical IMF programme of austerity measures, which in recent times have come under serious attacks from mainstream economists for inducement of slowing down economic growth.

The recent macroeconomic pressures of own making, ensued by wrong choices of policies, stemming from chaotic management of the economy and pursuance of policy conditionalities in order to be eligible for the loan from the Extended Credit Facility of the IMF have had a knock on effect, particularly on investment, leading to a deceleration of growth of national output. According to an UO estimate, the real GDP growth may reach as low as 5.47 per cent in the 2011-2012 and the IMF also projected a GDP growth rate of 5.5 per cent. If such policies and instruments of tightening remain in place and no recourse is made to escape the trap, the UO estimate alerts that the GDP growth may further dip in 2012-2013.

In comparison with the target of the GDP growth rate of 7.2 percent mentioned in the proposed budget, Unnayan Onneshan, through considering the impacts of IMF-MEFP on real economic variables, cautions that the real GDP (Gross Domestic Product) growth in FY 2012-13 might be as low as 5.31 per cent. If such turns out to be the case, this reflects a shrink by 1.89 percent than that of the government target of Medium Term Budget Framework (MTBF) and Medium Term Macroeconomic Framework (MTMF) for the current fiscal year.

The challenge of maintenance of fiscal balance was the making of the government of the day as it allowed a kind of rent seeking in the power sector. The huger for quota rent ballooned the rate of government borrowing to feed in the demand for the quick rental power plants, resulting in high fiscal deficit, future debt servicing liabilities and above all crowding out investible finance for the private sector for expansion of the productive sector. Indirectly, it also left a knock on effect on government's capacity to finance physical and social infrastructure, needed for maintaining growth of the economy.

In FY 2011-12 budget, overall deficit was targeted at Tk. 452.02 billion that was five percent of GDP. However, the target increased to Tk. 463.28 billion, 5.1 percent of GDP in the revised budget. Overall deficit for FY 2012-13 is targeted at five percent of GDP that is Tk. 520.68 billion in terms of volume, which might increase to Tk. 533.65 billion by the end of the next fiscal year.

In addition, government borrowing from banking system was targeted at Tk. 189.57 billion in FY 2011-12 which was revised to Tk. 291.15 billion that is 53 percent more than that of the target. For FY 2012-13, government borrowing from banking system is targeted at Tk. 230.00. Continuation of current trend may witness a total of Tk. 351.90 borrowed from banking system by the end of the next fiscal year.

Associated with the above, the contractionary monetary policy to curb inflationary pressure resulted in slump in investment, particularly by the private sector through increasing the cost of fund. Thus, ever increasing domestic borrowing of the government and low foreign exchange reserve due to mounting petroleum bills resulted in crowding out effect and squeezed the scope for domestic investment.

The economy is also experiencing pressure on balance of payment as the growth rate of export started decelerating and import bills increasing, fuelled by the import of petroleum products for power generation. The hunger for high import of petroleum products resulted in depreciation of national currency and the foreign exchange reserve also dwindled. The contractionary monetary policy, however, restrained import of capital machineries and intermediate good.

The rate of point-to-point inflation in May 2012 came down to slightly below double-digit at 9.15 percent. The high inflation, resulting in lower consumption, led to decrease in aggregate demand, culminating in lowering the rate of expansion of the economy, as the current economic growth in Bangladesh is a consumption-led one.

Implementation of RADP till April 2012 is 55 percent that is 3 percent less than that of the same time of the previous fiscal year. Chaotic scenario in the process of ADP accomplishment has limited the scope for employment generation.

Moreover, a chunk of the projects taken under ADP suffers from politically expediency.

The flow of foreign aid disbursement in the current fiscal year is comparatively lower than those of other fiscal years. In addition, the incremental FDI inflow has witnessed a trend of deceleration. Keeping the loan from the IMF aside, the assistance from foreign sources has shrunk that had exerted pressure on public investment, holding back the process of growth in the country.

In case of poverty reduction, the basic problem of poverty lies in its concept that poverty is the manifestation of social property relationship. However, slump in investment has squeezed the scope for employment generation opportunity without which the process of alleviating poverty is next to impossible and the overall impact may lead into stagnation in the pace of reduction in poverty. If the reduction in poverty is halted from the desired level and the rate of graduation from poverty goes down or stagnates, the rate of economic growth also falters.

2. GDP, SAVINGS & INVESTMENT

2.1 GDP Outlook

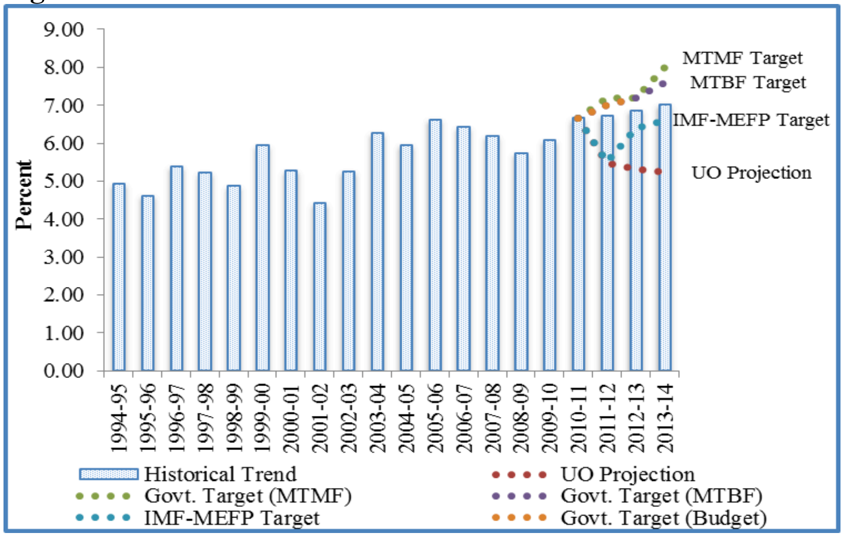
Unnayan Onneshan projection reveals that the real GDP (Gross Domestic Product) growth in FY 2012-13 might be as low 5.31 percent.

By considering the impacts of IMF-MEFP on real variables of the economy, the Unnayan Onneshan projection reveals that the real GDP (Gross Domestic Product) growth in FY 2012-13 might be as low 5.31 percent. However, the government has targeted to achieve real GDP growth rate of 7.2 percent in FY 2012-13. If such estimates hold, this is a shrink by 1.89 percent than that of the government target of Medium Term Budget Framework (MTBF) and Medium Term Macroeconomic Framework (MTMF) in the current fiscal year.

Historically, the economy of the country has been growing at an average rate of six percent in the recent decade.

Historically, the economy of the country has been growing at an average rate of six percent in the recent decade. It has the potential to increase its real GDP growth rate as high as 6.72 percent in the current fiscal year and 6.87 percent in FY 2012-13 as per business as usual scenario. The country has witnessed ups in real GDP growth rate at 6.27, 6.63 and 6.66 percent in FY 2003-04, FY 2005-06 and FY 2010-11 respectively in the current decade. The growth rate of real GDP took a nose dive after FY 2005-06. In FY 2008-09 it reached at 5.74 percent which is the lowest in nine consecutive fiscal years and then again gained the momentum.

Figure 1: Real GDP Growth



Source: Authors' calculation based on Bangladesh Bank, 2012

2.2 IMF –MEFP Triggering Contraction

2.2.1 Fiscal policy

The government is heading towards contraction by minimising public expenditure, reducing subsidy and increasing inequalising tax such as VAT in accordance with the IMF-MEFP.

The government is heading towards contraction by minimising public expenditure, reducing subsidy and increasing inequalising tax such as VAT in accordance with the IMF-MEFP. It is widely evident that reduction in public expenditure leads to lesser generation of employment, and hence holds back the growth process. The production cost would hike, if subsidy is minimised drastically without taking alternative measures, when the government is banking its growth, amongst others on agriculture. Increase in tax, particularly VAT would only elevate the burden of the marginalised section of the country. All these together would reduce the aggregate supply, which may lead to stagnate the overall pace of growth of the economy of the country.

2.2.2 Monetary policy

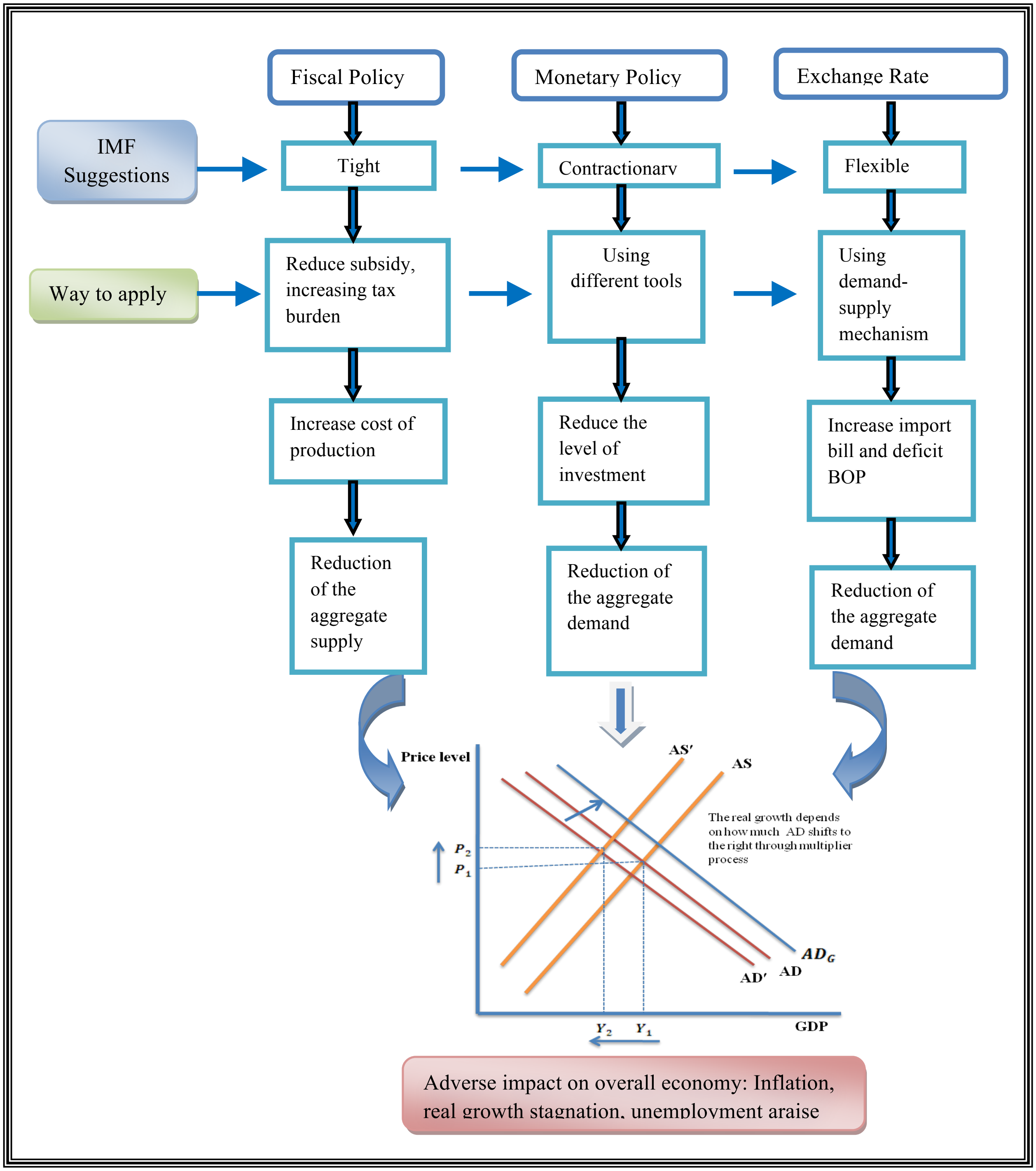
Keeping in mind the diktat of the IMF, the central bank has been following contractionary monetary policy from the beginning of the current fiscal year through its last two Monetary Policy Statements.

Keeping in mind the diktat of the IMF, the central bank has been following contractionary monetary policy from the beginning of the current fiscal year through its last two Monetary Policy Statements. The IMF-MEFP has asserted much pressure to follow restrained monetary policy. Increased rate of interest and monetary squeeze has already, and would, decelerate the pace of investment. The tightened domestic investment would not only deteriorate generation of employment but also reduce aggregate demand. As a result, the historical trend of growth of the economy would slow down.

The IMF-MEFP requires exchange rate to be flexible using demand-supply mechanism.

2.2.3 Exchange rate policy

The IMF-MEFP requires exchange rate to be flexible using demand-supply mechanism. The depreciation of BDT against USD would not only increase the import payment bills but also exert pressure on balance of payment, which would finally shrink the foreign exchange reserve. This has been in observance. Ultimately, aggregate demand may reduce and thus the pace of growth may be hindered.

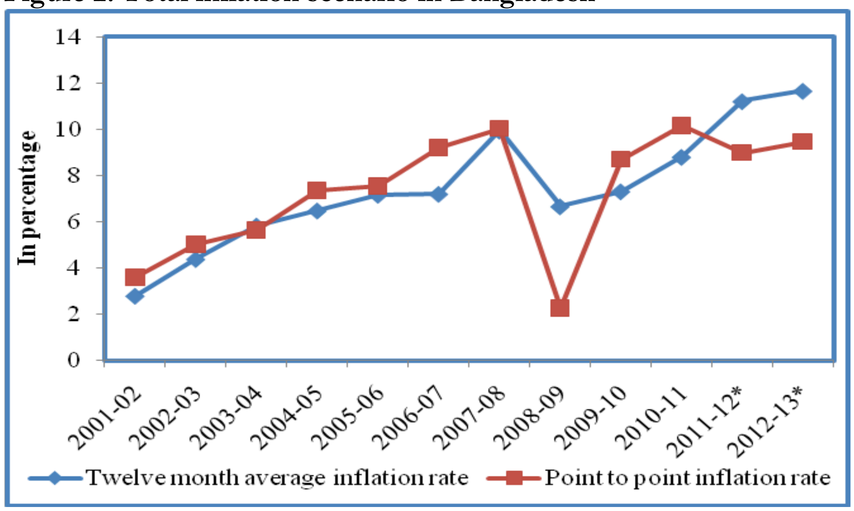


3. INFLATION

To achieve the targeted GDP growth rate, it is necessary to maintain the rate of inflation at a tolerable limit. In Bangladesh, it is mainly driven by external supply-side factors and internal demand for food and energy. The pressure has been furthered because of the rise in imports and depreciation of BDT.

The rate of general inflation (point-to-point) in May, 2012 is 9.15 percent which was 9.93 percent in April, 2012. However, general inflation (twelve month average) in April 2012 was 10.86 percent against 8.54 percent in the same period of the previous fiscal year and this was 10.92 percent in the previous month of this current fiscal year.

Figure 2: Total inflation scenario in Bangladesh



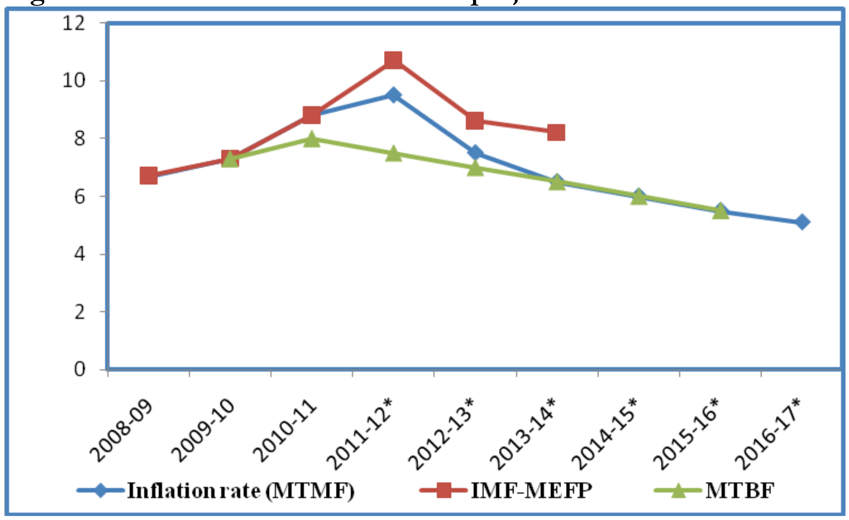
Source: Authors' calculation based on Bangladesh Bureau of Statistics, Bangladesh Bank 2012

An inconsistency is observed between the businesses as usual scenario of inflation and the projection made by MTMF, MTBF and IMF-MEFP.

According to IMF-MEFP, MTBF and MTMF forecast, inflation might increase at 8.6 percent, 7 percent and 7.5 percent at the end of the FY 2012-13.

The annual average rate of food inflation is increasing over the successive three years. Point-to-point food inflation is declining from October 2011 and twelve month average from December 2012 mainly due to bumper harvest of food grain. On the contrary, non- food twelve month average inflation items maintained an upward trend from the very beginning (July 2011) of the FY 2011-12 due to electricity and fuel price hikes.

Figure 3: Current scenario and future projection of inflation rate



Source: Authors' calculation based on Bangladesh Bank, Ministry of Finance and International Monetary Fund 2012

Food and non-food inflation (point-to-point) in May 2012 is 7.16 and 12.72 percent respectively while it was 8.12 and 13.77 percent respectively in April 2012. However, food and non-food inflation (twelve month average) in April 2012 was 11.93 and 10 percent respectively against 11 and 4.14 percent respectively in the same period of the previous fiscal year.

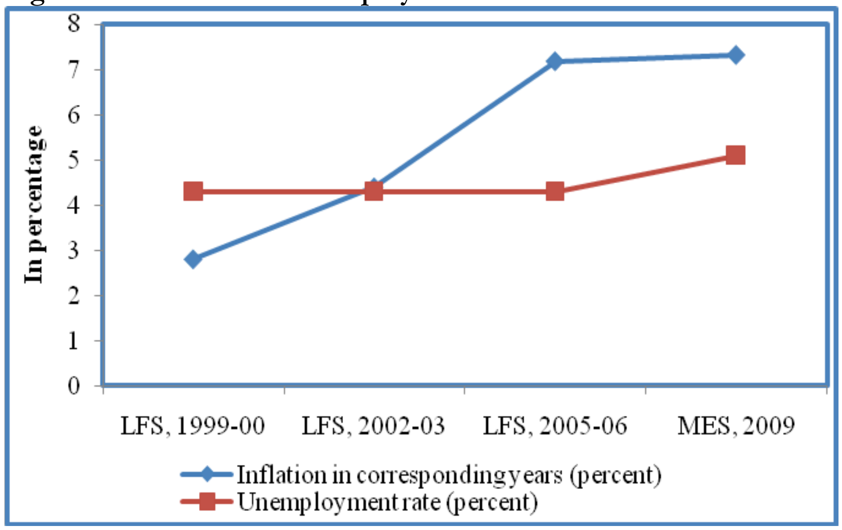
Food inflation is higher in urban areas whereas non-food inflation is higher in rural areas than that of the urban areas.

Food inflation is higher in urban areas whereas non-food inflation is higher in rural areas than that of the urban areas. Point-to-point basis urban and rural inflation decreased to 11.12 and 8.83 percent in May 2012 against 11.77 percent and 9.21 percent respectively in the previous month of the current fiscal year. In rural areas, food inflation is decreasing at a slower rate but non-food inflation is experiencing an upward trend than that of the urban areas. The double-digit inflation is affecting mostly the poor people living in rural areas and the fixed-income grouped people in urban areas.

The statistics of Bangladesh in recent years depict a different picture than that of the findings of "The Philips Curve".

In Bangladesh rate of unemployment is increasing along with increasing inflation rate from FY 2005-06. Thus, the economy of Bangladesh is heading towards a three-way trap as high inflation is creating income erosion and increasing unemployment rate is preventing access of general people into income source which in turn might slow down the pace of eradicating poverty.

Figure 4: Inflation and unemployment rate



Source: Labour Force Survey (1999-2000, 2002-03, and 2005-06), Monitoring of Employment Survey (2009), Bangladesh Bureau of Statistics and Bangladesh Bank 2012

The rate of inflation, specially food inflation and poverty are positively correlated. Increase in food inflation drags down additional marginalized people under the poverty line.

The cumulative impact of high inflation (particularly the weighted inflationary impact of the price of rice) has resulted in significant income erosion of the marginalized people in Bangladesh.

The cumulative impact of high inflation (particularly the weighted inflationary impact of the price of rice) has resulted in significant income erosion of the marginalized people in Bangladesh. From this assessment, it is clear that high inflation increases instability among local people and bank increases its interest rate which reduces investment. As a result, more people become unemployed and go below the poverty line.

4. FISCAL BALANCE

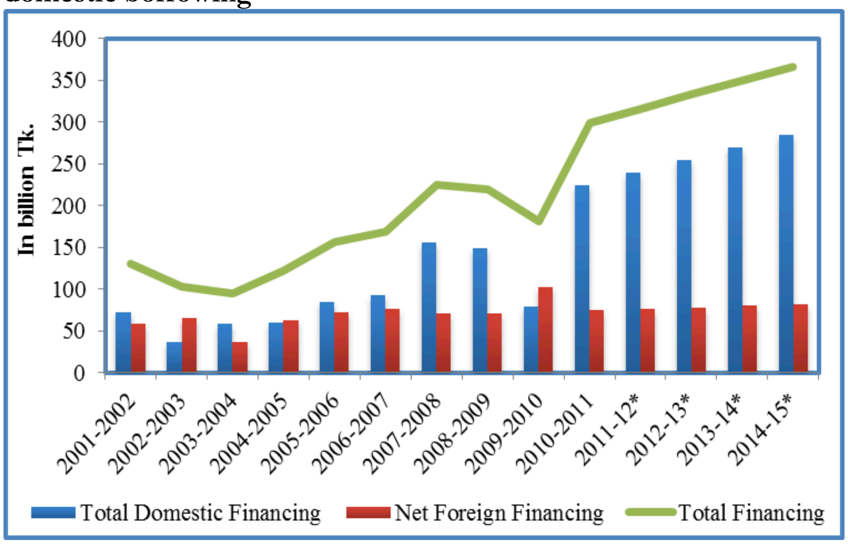
Excessive borrowing from banking sectors for deficit financing in the current fiscal year indicates a sharp crowding out effect which may dampen private investments.

Excessive borrowing from banking sectors for deficit financing in the current fiscal year indicates a sharp crowding out effect which may dampen private investments. Even the IMF-MEFP assessment on net borrowing from banking system is overambitious and it may trim down the opportunity of other investments as well as the production capacity of the country. Moreover, the target to attract foreign financing in the MTMF projections is also myopic. Revenue, one of the sectors of financing is increasing over the years, of which collection of total revenue including tax revenue is increasing at a higher rate than that of non-tax revenue over the years.

4.1 Public Debt

Financing the mounting deficit is mainly dependent on borrowing, both domestic and foreign. In FY 2011-12, the overall public debt was estimated at Tk. 402.66 billion which is 31.59 percent higher than that of the revised budget of FY 2010-11. The share of domestic borrowing and foreign borrowing has been estimated at Tk. 272.08 billion and Tk. 130.58 billion respectively in the current fiscal year, which are 67.57 and 32.43 percent of the total debt. Moreover, in FY 2011-12, net foreign and domestic debt have been projected at Tk.130.58 billion and Tk. 272.08 billion respectively which are 125.79 and 9.63 percent higher than those of FY 2010-11.

Figure 5: Total borrowing, foreign borrowing (net) and total domestic borrowing

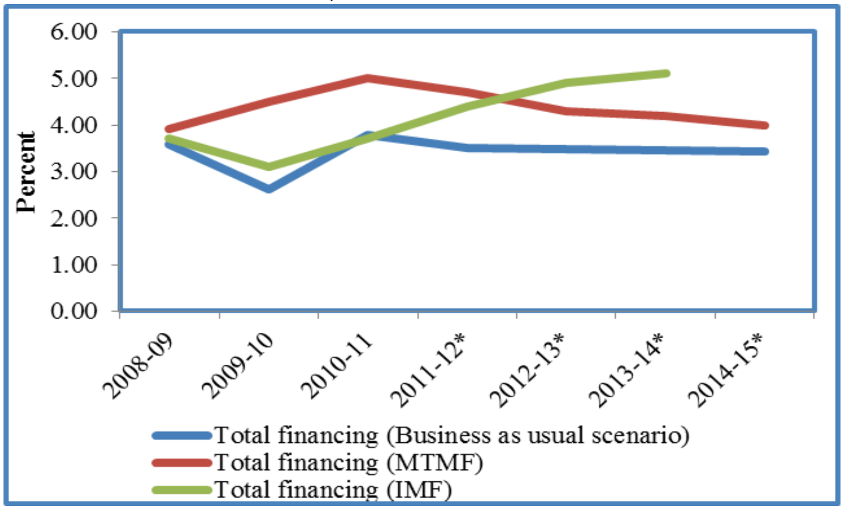


Source: Finance Division, 2012

Under the business as usual scenario, the total financing as a percentage of GDP might be 1.19 and 89 percentage points less than that of the projections of the MTMF and the IMF-MEFP respectively.

In the current fiscal year, the IMF-MEFP estimation of total financing as percentage of GDP is 3 percentage points less than that of the estimation of the MTMF. Under the business as usual scenario, the total financing as a percentage of GDP might be 1.19 and 89 percentage points less than that of the projections of the MTMF and the IMF-MEFP respectively. If the current trend continues, the gap between the projections of the IMF-MEFP and the MTMF and the business as usual scenario might be 6 percentage points and 1.42 percent respectively in FY 2012-13 and 9 percentage points and 1.65 percent respectively in FY 2013-14.

Figure 6: Total financing (as percentage of GDP) according to business as usual scenario, MTMF and IMF-MEFP

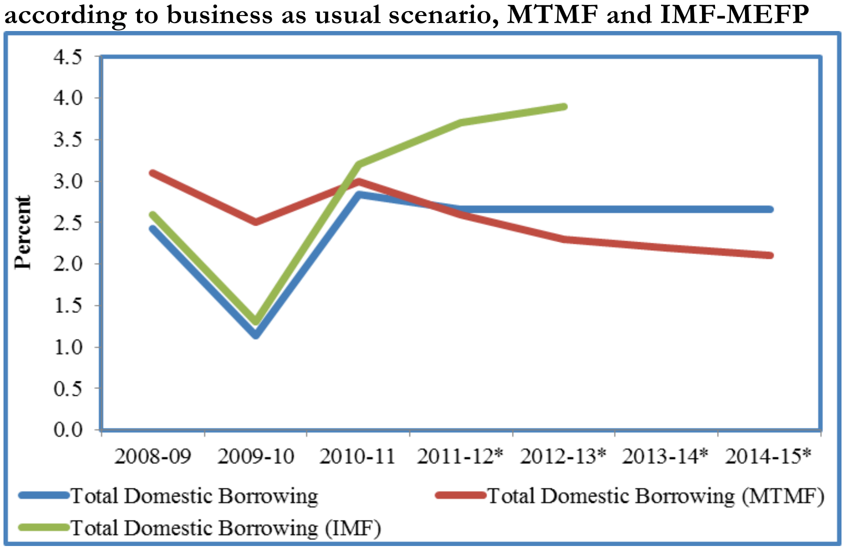


Source: Authors' calculation based on Bangladesh Bank, Ministry of Finance and International Monetary Fund, 2012

4.2 Debt Management

There are two sources of deficit financing: internal and external debt. The Government has become more dependent on the banking sector rather than the non-banking one for domestic debt financing. Over the past few years, the overall budget deficit registered an increasing trend that exerts a serious pressure on the total financial leverage of the country.

Figure 7: Total domestic borrowing (as percentage of GDP) according to business as usual scenario, MTMF and IMF-MEFP



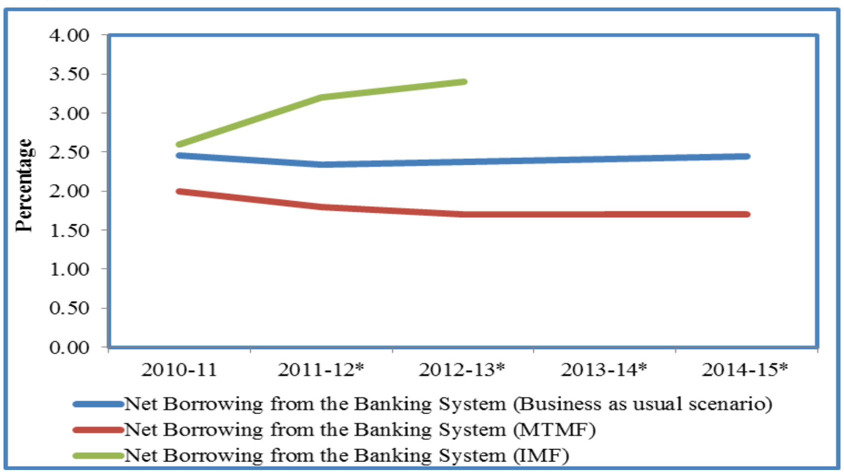
Source: Authors' calculation based on Bangladesh Bank, Ministry of Finance and International Monetary Fund, 2012

During the last two fiscal years, Government domestic borrowing has been rising. Total domestic borrowing of the Government has increased to 320.09 percent during July to January, FY 2012-12 than of the same time of the previous fiscal year. Between FY 2009-10 and FY 2011-12, the average annual domestic financing is expected to be Tk. 180.65 billion which is 167.15 percent more than that of the average annual domestic financing from FY 2002-03 to FY 2004-05.

If the current trend continues, the gap between the MTMF projection and the business as usual scenario on domestic borrowing might be 46 percentage points in FY 2013-14 and 56 percentage points in FY 2014-15.

The projections of the IMF-MEFP on domestic borrowing may not be realised in the upcoming fiscal years. There is a gap between the projections of the IMF-MEFP and the MTMF and the business as usual scenario. In FY 2011-12, the projection of the IMF-MEFP may be 1.1 percent and 1.04 percent higher than the projections of the MTMF and the business as usual scenario respectively. If the current trend continues, the gap between the MTMF projection and the business as usual scenario might be 46 percentage points in FY 2013-14 and 56 percentage points in FY 2014-15.

Figure 8: Net borrowing from banking system (as percentage of GDP) according to business as usual scenario, MTMF and IMF-MEFP



Source: Authors' calculation based on Bangladesh Bank, Ministry of Finance and International Monetary Fund, 2012

If the current situation exists, the IMF-MEFP projection on net borrowing from the banking system might be 1.71 percent and 1.02 percent higher than the projection of MTMF and business as usual scenario.

The IMF-MEFP assessment on net borrowing from the banking system is more ambitious and it may trim down the opportunity of other investment as well as the production capacity of the country. In the current fiscal year, the MTMF projection of borrowing from banking system (as percentage of GDP) is 1.8 percent whereas it might be 2.34 percent under the business as usual scenario and 3.2 percent in the IMF-MEFP projection. If the current situation exists, the IMF-MEFP projection will be 1.71 percent and 1.02 percent higher than the projection of MTMF and business as usual scenario.

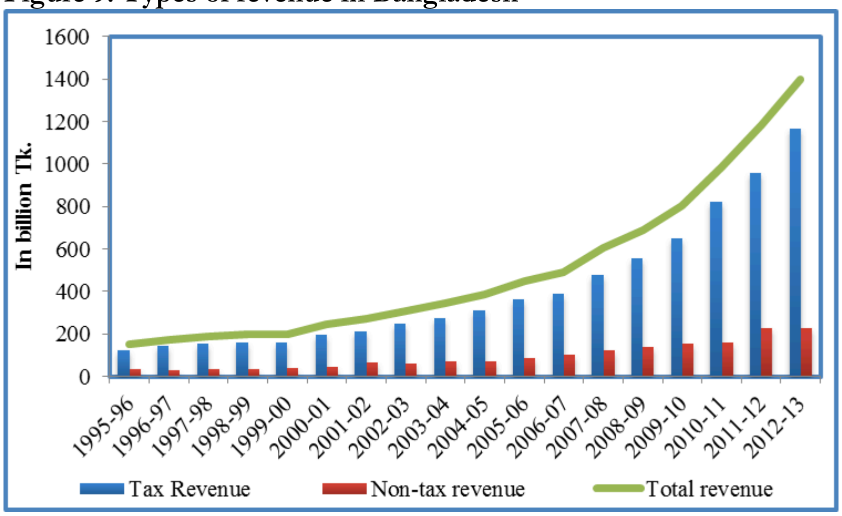
4.3 Revenue

In FY 2012-13, total revenue has been estimated Tk.1457.14 billion in which tax revenue and non-tax revenue are Tk.1168.24 billion and Tk. 228.46 billion respectively which is 22 percent higher than the current fiscal year.

In FY 2012-13, total revenue has been estimated Tk.1457.14 billion in which tax revenue and non-tax revenue are Tk.1168.24 billion and Tk. 228.46 billion respectively which is 22 percent higher than the current fiscal year. In prevailing economic situation it is difficult for government to collect the targeted revenue.

In FY 2010-11, the collection of total revenue, tax revenue and non-tax revenue, was Tk. 984.57 billion, Tk. 823.21 billion and Tk. 161.36 billion respectively (22.43 percent, 26.86 percent and 3.92 percent respectively up on the previous fiscal year). In the meantime, the contribution of NBR and non-NBR were Tk. 790.91 billion and Tk. 32.2936 billion respectively which was higher by 27.48 percent and 13.37 percent than that of FY 2009-10.

Figure 9: Types of revenue in Bangladesh



Source: Authors' calculation based on Bangladesh Bank, National Board of revenue, 2012

5. CAPITAL ACCOUNT BALANCE

5.1 Export and Import

The trade deficit is increasing at a staggering rate because of the increase in import payments and slower rate of the export earnings.

The trade deficit is increasing at a staggering rate because of the increase in import payments and slower rate of the export earnings. The continuous depreciation of national currency against dollars has induced increase in the import payments.

In FY 2010-11, the export earnings and import payments increased by 41.49 percent and 41.79 percent respectively than those of the previous fiscal year due to readymade garments. The export income from the readymade garments was USD 13043 million in FY 2010-11 and increased in 2011-12 by 37.30 percent than that of the previous fiscal year. Other sectors such as raw jute, jute goods and leather were increased by 35.73 percent, 24.05 percent and 32.20 percent respectively in FY 2010-11 than that of the previous fiscal year.

During July-April 2012, export earnings were USD 19777.04 million which was 8.41 percent higher than that of the same period of the previous fiscal year. Export earnings are following an irregular trend over the months of this fiscal year. However, export earnings have lowered by 7.13 percent in April 2012 than that of April 2011. 51 percent of export earnings came from the EU Zone and 22 percent received from the U.S.A. However, the EU debt crisis and global recession especially in U.S.A have led to decreased price of commodities and discouraged export earnings. Another reason of decreasing trend of export earnings is the increase in the rate of interest. Continuous increase in the price of electricity, gas and fuel has also led to increase in cost of production and as a result, there has been a pressure on to holding the competitiveness of the exportable.

5.1.1 Future scenario of export

There is a discrepancy among the projection of MTMF, MTBF, IMF-MEFP and the business as usual scenario on the percentage change of export earnings from FY 2011-12 to FY 2015-16. In FY 2011-12, the projection on export earnings growth of MTMF and MTBF is same as 14.5 percent, whereas the business as usual scenario and IMF-MEF might stand at 4.99 and 14.2 percents respectively.

In FY 2012-13, projection of the MTMF, IMF-MEFP, MTBF and the actual scenario of percentage change of exports is 14.5 percent, 16.6 percent, 14.5 percent and 4.75 percent respectively.

In FY 2012-13, projection of the MTMF, IMF-MEFP, MTBF and the actual scenario of percentage change of exports is 14.5 percent, 16.6 percent, 14.5 percent and 4.75 percent respectively. This also shows that the gap might increase in the upcoming fiscal years. The projection of MTMF about growth rate of export earnings is too ambitious.

Table 1: Future scenario of Exports

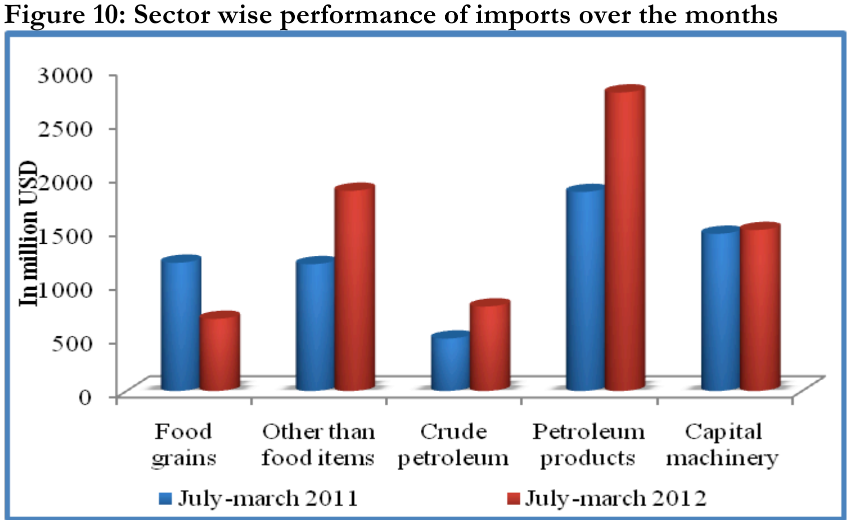
	Business as usual scenario	MTMF	MTBF	IMF
2010-11	41.49	41.7	41.7	41.7
2011-12*	4.99	14.5	14.5	14.2
2012-13*	4.75	14.5	14.5	16.6
2013-14*	4.54	14.5	14.5	15.7
2014-15*	4.34	15	15	14.49
2015-16*	4.16	15	15	12.97
2016-17*	3.99	15	15	

Source: Authors' calculations based on Ministry of Finance, International Monetary Fund, Bangladesh Bank, 2012

During July-March 2012, import payments were USD 26944.50 million which were 11.22 percent higher than that of the corresponding period of the previous fiscal year because of the higher growth rate of fuel imports for the higher demand of quick rental power generation. In this period, except food grains and other than food items, crude petroleum, petroleum products have increased by more than 50 percent. However, the capital machinery increased by a small margin than that of the same month of the previous fiscal year. During July-February, the fresh LC opening of capital machinery decreased by 26.87 percent which might adversely affect the industrial sectors of the country.

However, import payment has reduced by 10.66 percent in March 2012 than that of March 2011 after taking a restrained monetary policy and devaluation of Taka against dollars. During the recent months of this current fiscal year, the imports of food grains with an expected bumper rice harvest. This may ease the pressure of trade deficits in the rest of this fiscal year and foreign exchange reserves as well.

Figure 10: Sector wise performance of imports over the months



Source: Authors' calculations based on Bangladesh Bank, 2012

Imports of food grains increased by 120.08 percent in FY 2010-11 than that of the previous fiscal year because of the increase in food inflation. However, the most satisfactory n is that the food grains reduced by 44 percent in July-March 2012 than that of July-March 2011 because of the various measures taken by Bangladesh Bank which discouraged the imports of consumption and luxurious goods.

5.1.2 Future scenario of import

In FY 2011-12, the projection of MTMF, MTBF, IMF-MEFP and the business as usual scenario on growth rates of import is at 15, 14, 18.1 and 4.86 percent respectively.

The projection of MTMF on percentage change of import exceeds than the projection of any other sources. In FY 2011-12, the projection of MTMF, MTBF, IMF-MEFP and the business as usual scenario on growth rates of import is at 15, 14, 18.1 and 4.86 percent respectively. In FY 2012-13, projection of the MTMF of percentage change of import was only 15 percent whereas the actual scenario was 4.64 percent. This also shows that the gap might increase in the upcoming fiscal years.

Table 2: Future scenario of Exports

	Business as usual scenario	MTMF	MTBF	IMF
2010-11	41.79	41.8	41.8	41.8
2011-12*	4.86	15	14	18.1
2012-13*	4.64	15	15	13.6
2013-14*	4.43	15	15	12.4
2014-15*	4.24	15.5	15.5	11.29
2015-16*	4.07	15.5	15.5	10.1
2016-17*	3.91	15.5	15.5	

Source: Authors' calculations based on Ministry of Finance, International Monetary Fund and Bangladesh Bank, 2012

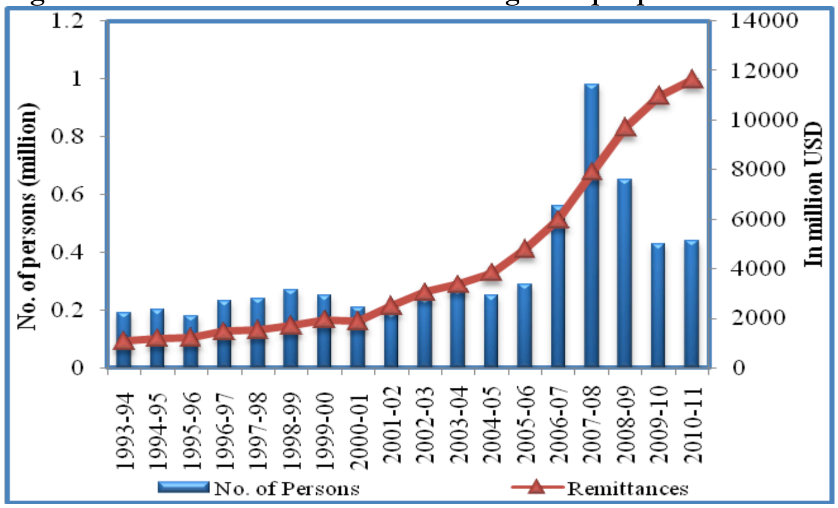
5.2 Remittance

Remittances are one of the most important sources of foreign earnings. Bangladesh emerged as the seventh largest remittance earner in FY 2010-11 with the amount of USD 11650.32 million.

During the first ten months of this current fiscal year, the remittance flow stood at USD 10615.75 million which was 10.43 percent higher than that of the previous fiscal year. In April 2012, remittance was USD 1083.89 million which is 2.27 percent lower than that of March 2012. Labour migration was 0.57 million up to April. If the current condition continues, remittance might reduce further to USD 1097.55 million by the end of this current fiscal year.

In FY 2010-11, the growth rate of remittance was only 6.03 percent. A total number of 0.44 million people migrated from the country which was only 2.33 percent higher than that of the previous fiscal year. The percentage of labour migration dropped down in FY 2010-11 because of the global economic recession, political instability in Middle Eastern countries and squeeze in the demand in labour markets.

Figure 11: Remittance and number of migrated people



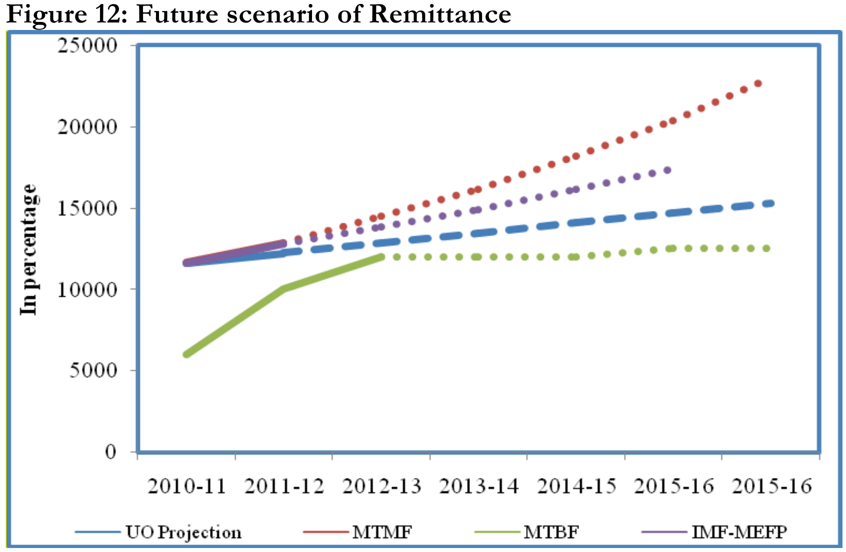
Source: Authors' calculations based on Bangladesh Bank, 2012

5.2.1 Future Scenario of Remittance

Under the business as usual scenario, remittance might stand at USD 12880.05 million in FY 2012-13 which might lower than that of the projection of MTMF, MTBF and IMF-MEFP respectively.

The projection of MTBF, IMF-MEFP and the business as usual scenario on remittance is lower than that of the projection of MTMF. In FY 2011-12, the projection of MTMF, IMF-MEFP, MTBF and the business as usual scenario on remittance was USD 12900 million, USD 12815 million, USD 10020 million and USD 12265.18 million respectively. However, under the business as usual scenario, remittance might stand at USD 12880.05 million in FY 2012-13 which might lower than that of the projection of MTMF, MTBF and IMF-MEFP respectively.

Figure 12: Future scenario of Remittance



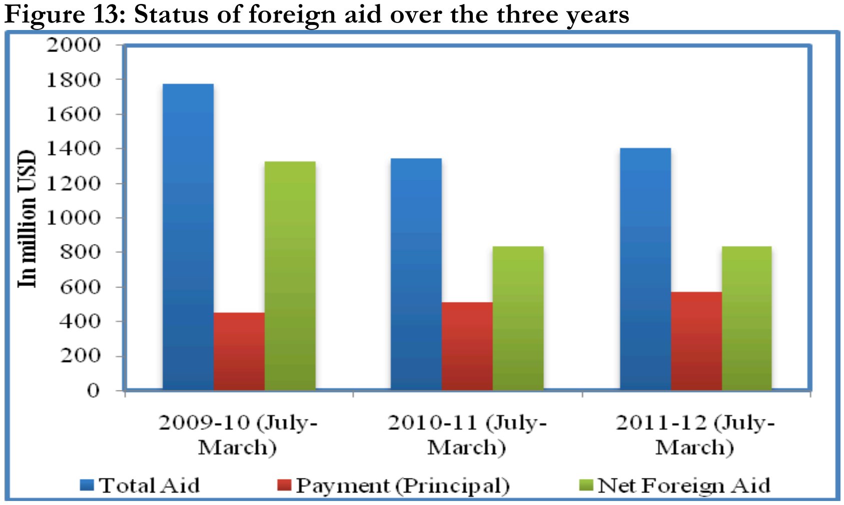
Source: Authors' calculations based on Ministry of Finance, International Monetary Fund, Bangladesh Bank, 2012

5.3 Foreign Aid

The growth rate of foreign aid has slowed down in recent fiscal years. An irregular trend of the flow of aid has shown over the last ten years. At the same time, a large gap between the flow of total foreign aid and net foreign aid is occurred due to the increasing trend of payments (principal) over the years.

During July-March FY 2011-12, total foreign aid increased by 4.55 percent and lowered by 20.89 percent than that of the same period of FY 2010-11 and FY 2009-10 respectively. During the same period, total payment (principal) and total net foreign aid increased by 11.91 percent and 0.03 percent than that of the same period of FY 2010-11. However, these were 26.41 percent higher and 37.04 percent lower than that of the same months of the FY 2009-10.

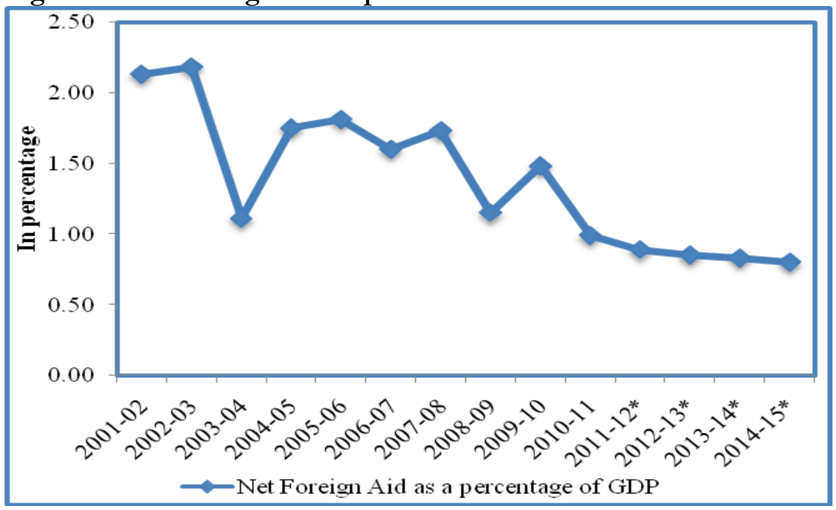
Figure 13: Status of foreign aid over the three years



Source: Authors' calculations based on Bangladesh Bank, 2012

In FY 2010-11, the flow of net foreign aid decreased by 28.94 percent than that of the previous fiscal year and net foreign aid as percent of GDP was only 0.99 percent, which was 1.48 percent in the previous fiscal year. Despite the increasing rate of food aid, the payment (principal) increased by 5.83 percent than that of the previous fiscal year and project aid decreased by 19.36 percent so that government had to finance a significantly larger proportion of the deficit through domestic borrowing, specifically through domestic banks. Under the business as usual scenario, the inflow of net foreign aid might stand at USD 1053.9 million and USD 1066.69 million in FY 2011-12 and FY 2014-15 respectively. If the current trend continues, the net flow of foreign aid as percent of GDP might decrease in the upcoming fiscal years such as it might stand at 0.89 percent in FY 2011-12 and 0.80 percent in FY 2014-15.

Figure 14: Net foreign aid as percent GDP

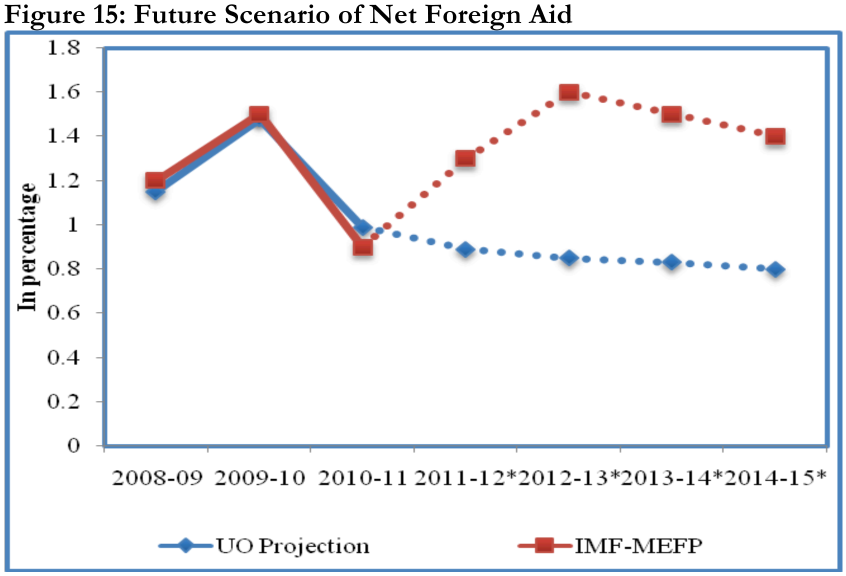


Source: Authors' calculations based on Bangladesh Bank, 2012

IMF-MEFP projected that net foreign aid might increase up to FY 2012-13. Instead of this projection, the business as usual scenario suggests that it might lower than that of the IMF-MEFP.

There is a huge difference between the business as usual scenario and IMF-MEFP of net foreign as percent of GDP. Unfortunately, there is no estimation of foreign aid in the MTMF and MTBF. The business as usual scenario suggests that net foreign aid as percent of GDP might stand at 0.89 percent and IMF-MEFP suggests that it might reach at 1.6 percent. IMF-MEFP projected that net foreign aid might increase up to FY 2012-13. Instead of this projection, the business as usual scenario suggests that it might lower than that of the IMF-MEFP.

Figure 15: Future Scenario of Net Foreign Aid



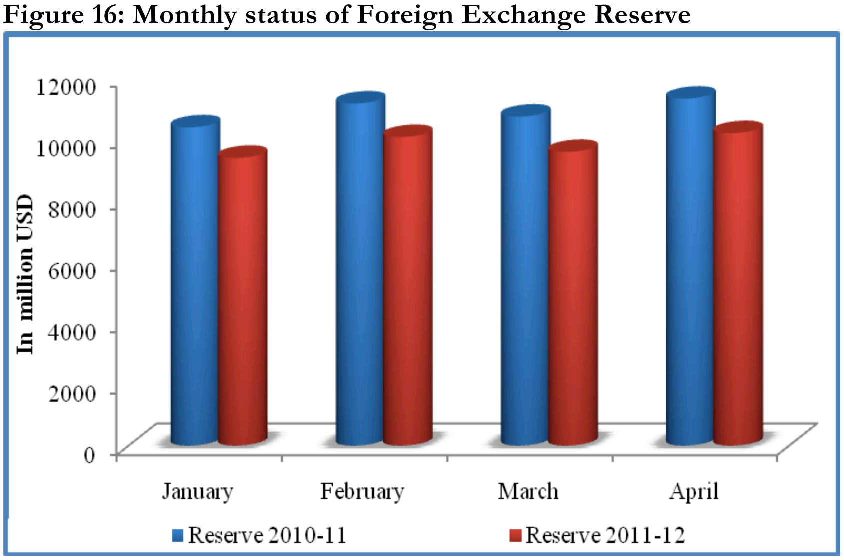
Source: Authors' calculations based on Ministry of Finance, International Monetary Fund, Bangladesh Bank, 2012

5.4 Foreign Exchange Reserve

In spite of the global financial crisis, economic slowdown and higher rate of inflation, reserve increased over the years but at a decreasing rate. In FY 2010-11, foreign exchange reserve increased by only 1.51 percent than that of the previous fiscal year. Foreign exchange reserve might shrink in the upcoming fiscal years due to the recent slower rate of remittance inflow and upward trend of petroleum imports.

During January-April 2012, reserve continued to lower than that of the previous fiscal year. In 22 May, 2012, foreign exchange reserve dropped by 7.39 percent to USD 9594.99 million against USD 10354.86 million in 22 May 2011. It was USD 10193.0 million in April 2012 which was 6.41 percent higher than that of the same period of the previous fiscal year. Reserve increased in April 2012 because of the first installment (USD 141 million) of USD 987 million has already disbursed by International Monetary Fund. However, the continuation of trend from July 2011 to April 2012 suggests that reserve might reach at USD 10155.4 million in June 2012, which is 6.93 percent less than that of June 2011.

Figure 16: Monthly status of Foreign Exchange Reserve



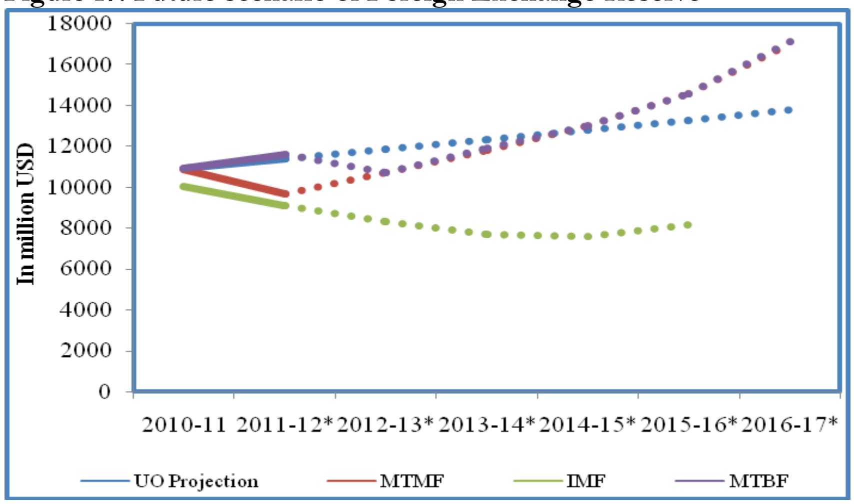
Source: Authors' calculations based on Bangladesh Bank, 2012

5.4.1 Comparison between UO, MTMF, MTBF and IMF-MEFP

The projection of MTMF and MTBF on foreign exchange reserve is higher than the projection of IMF-MEFP and the business as usual scenario. There is a far difference between the projection of reserve by MTMF and IMF-MEFP. In FY 2011-12, under the business as usual scenario, reserve might be lower than the projection of MTMF, MTBF but higher than the projection of

IMF-MEFP. Increase in debt and deficit, inflation, devaluation of currency and increase in import payments have reduced the foreign exchange reserves.

Figure 17: Future scenario of Foreign Exchange Reserve



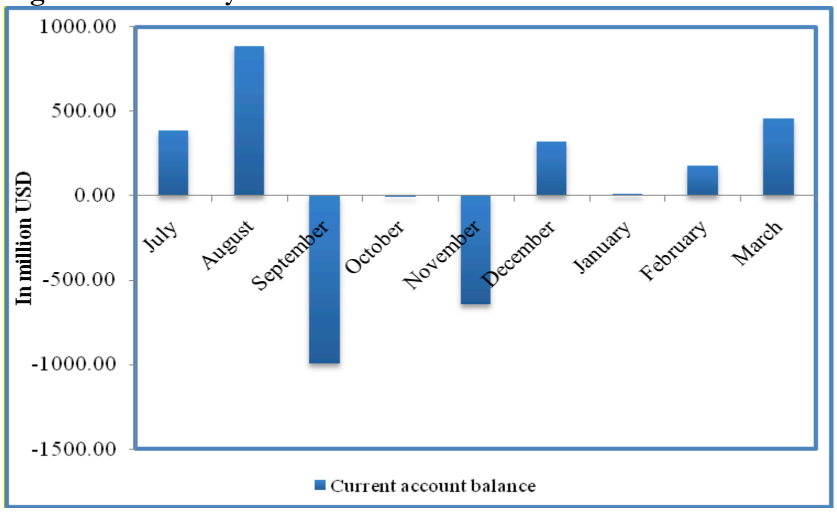
Source: Authors' calculations based on Ministry of Finance, International Monetary Fund, Bangladesh Bank, 2012

5.5 Current Account Balance

Instead of the continuous trade deficit, the current account balance (CAB) recorded a positive trend from FY 2001-02 to FY 2003-04 then again it increased from FY 2005-06 to FY 2010-11 but the incremental growth rate of current account balance is following an erratic trend over the years. In FY 2010-11, current account surplus was USD 995 million which was 73.37 percent lower than that of the corresponding previous fiscal year because of the negative trade balance with a deficit of USD 7328 million where imports surpassed the export earnings. According to the IMF-MEFP, one of the major causes of the pressure on the current account balance is the substantial rise in fuel prices on the international market.

The current account balance stood at USD 455 million in March 2012 which was USD 177.52 million in the previous month of this current fiscal year. During July-February 2012, current account surplus was USD 681 million which is 31.83 percent lower than that of the same period of the corresponding previous fiscal year. The slower rate of current account surplus occurred mainly due to the increase in deficits of trade, service and primary income. In the mean time, a larger deficit in trade, service and primary income was increased by more than 17 percent than that of July-February 2011. Along with the increasing trend of remittance inflow at 12.88 percent, increase in secondary income helped attain the current account surplus.

Figure 18: Monthly status of current account balance



Source: Authors' calculations based on Bangladesh Bank, 2012

The current account surplus might increase to USD 1055.2 million and USD 1235.9 million in FY 2011-12 and FY 2014-15 respectively.

Under the business as usual scenario, current account surplus might attain in the upcoming fiscal years, but the incremental growth might decrease. The current account surplus might increase to USD 1055.2 million and USD 1235.9 million in FY 2011-12 and FY 2014-15 respectively.

5.5.1 Future scenario of current account balance

According to the projection of MTBF and IMF-MEFP current account balance as percent of GDP might increase in the upcoming fiscal years but the projection of MTMF and under the business as usual scenario, it might increase at a positive rate. In FY 2011-12, IMF-MEFP, and MTBF projected that current account balance as percent of GDP might reach at a negative value as -0.7 percent and -0.2 percent respectively. But the projection of MTMF and the business as usual scenario suggest that it might reach at 0.4 percent and 1 percent respectively.

Table 3: Future scenario of Current Account Balance

	UO Projection	MTMF	IMF	MTBF
2009-10	3.74	3.7	3.7	3.7
2010-11	0.94	0.9	0.9	0.9
2011-12*	1	0.4	-0.7	-0.2
2012-13*	1.06	0.2	-0.9	0.2
2013-14*	1.12	0	-0.8	0
2014-15*	1.18	0	-0.5	0
2015-16*	1.24	0.1	-0.3	0.1

Source: Authors' calculations based on Ministry of Finance, International Monetary Fund, Bangladesh Bank, 2012

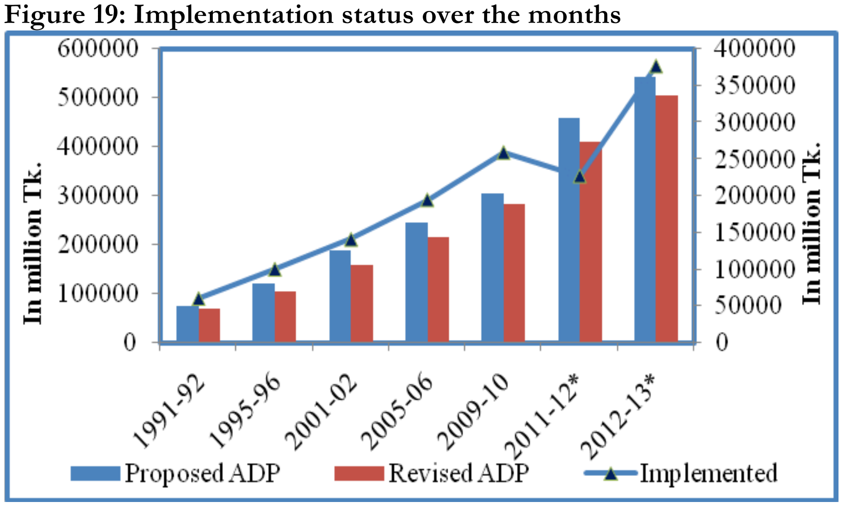
6. PRODUCTIVE CAPACITY BALANCE

6.1 Annual Development Programme (ADP)

In FY 2012-13, government has targeted to allocate Tk. 550000 million for proposed ADP. Under the business as usual scenario, at the end of the FY 2012-13 revised ADP and total implementation might stand at Tk. 513139.82 million and Tk. 376892.6 million respectively.

Positive relationship between implementation of Annual Development Programme (ADP) and economic development is seen in the development process. The expenditure on the ADP is continuously increasing over the last twenty years but implementation of ADP is much lower than its target. In FY 2012-13, government has targeted to allocate Tk. 550000 million for proposed ADP. Under the business as usual scenario, at the end of the FY 2012-13 revised ADP and total implementation might stand at Tk. 513139.82 million and Tk. 376892.6 million respectively. This suggests that total implementation as percentage of PADP and RADP might be 68.53 percent and 73.45 percent respectively. The percentage of RADP in PADP might be 93.29 percent.

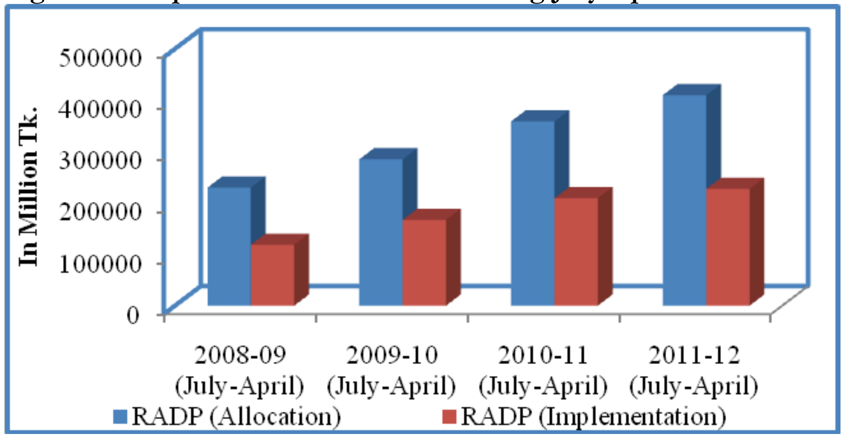
Figure 19: Implementation status over the months



Source: Authors' calculation based on Implementation Monitoring and Evaluation Division (IMED), Ministry of Finance, 2012 *ADP Implementation data available up to April, 2011-12.

It is observed that a large percentage of the ADP allocation was spent in a short time by the last few months of each fiscal year. In the FY 2011-12, the implementation of RADP is the lowest among the last three fiscal years. Though implementation capacity is not improved, a large amount of targeted ADP is very ambitious and myopic. Total expenditure of the RADP was Tk. 227100 million in FY 2011-12 (July to April). Total domestic allocation was Tk. 260000 million in PADP in which implementation was Tk.155730 million. On the other hand, total expenditure of foreign allocation is only 48 percent. In the first ten months of FY 2011-12, total implementation of ADP as percentage RADP was only 55 percent which is 3 percent and 4 percent less than that of the same time of the FY 2010-11 and FY 2009-10 respectively.

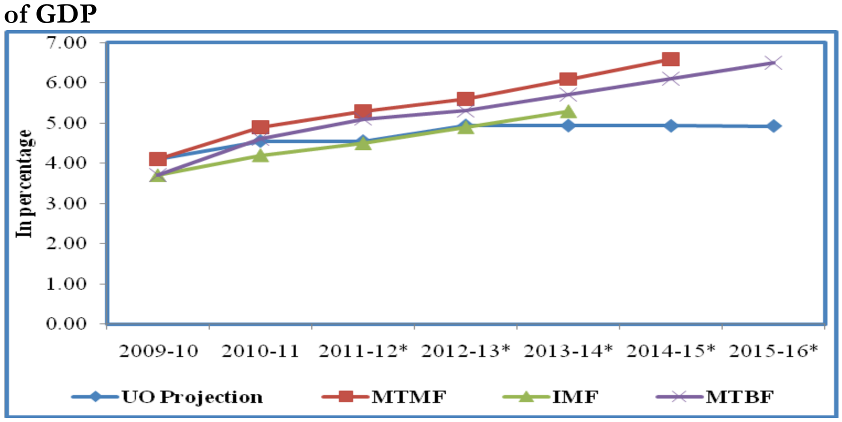
Figure 20: Implementation of RADP during July-April



Source: Authors' calculation based on Implementation Monitoring and Evaluation Division, Finance Division, Ministry of Finance, 2012

In the FY 2012-13, revised ADP might be Tk. 513139.82 million which might be 4.95 percent of GDP under the business as usual scenario. Though IMF-MEFP projection of RADP as percentage of GDP is only 4.9 percent, the projection of MTMF is 5.6 percent in FY 2012-13. In FY 2010-11, revised ADP as percent of GDP was 4.56 percent which was 46 percentage points higher than that of the previous fiscal year. The actual RADP as percent of GDP is far away from the projection of MTMF and IMF-MEFP. In FY 2009-10, the actual RADP as percent of GDP, projection of IMF-MEFP, MTBF and MTMF were at 4.1, 4.1, 3.7 and 3.7 percent respectively. The projection of it by MTMF, MTBF and IMF-MEFP might reach at 5.3, 5.1 and 4.5 whereas under the business as usual scenario, it attained at 4.56 percent in FY 2011-12. The business as usual trend shows that actual trend might reach at 4.49 percent in FY 2014-15 whereas MTMF and MTBF projection suggests 6.6 and 6.1 percent respectively in the same fiscal year.

Figure 21: Current scenario and future projection of ADP as percent of GDP

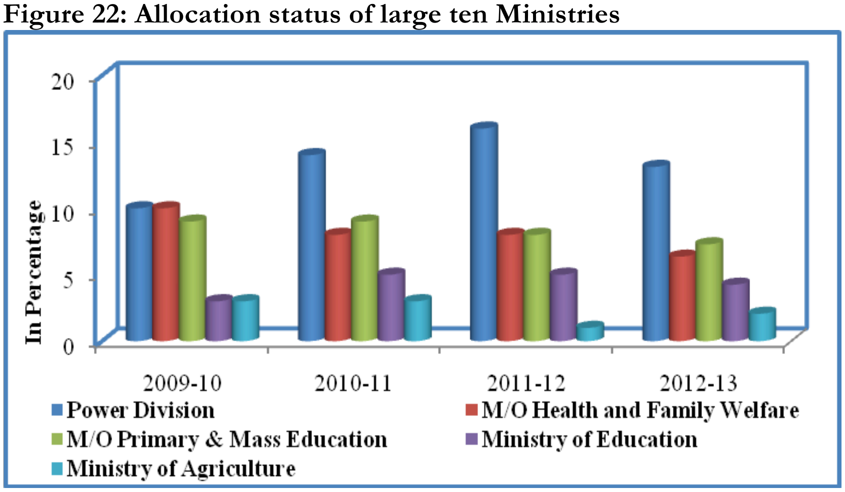


Source: Authors' calculation based on Implementation Monitoring and Evaluation Division (IMED), Ministry of Finance and International Monetary Fund, 2012

6.2.1 Allocation status of large ten ministries

By analysing the last three years' allocation status of the top ten ministries, the allocation of Ministry of Education, M/O Primary & Mass Education, and M/O Health and Family Welfare are decreasing. In the next fiscal year, a large share of development budget goes to power division which is Tk. 78900 million and 13.1 percent of total development budget. However, in FY 2012-13 the shares of development budget in the allocation of Ministry of Education, M/O Primary and Mass Education and M/O Health and Family Welfare are 4.2 percent, 7.3 percent and 6.4 percent which are 8 percentage points, 7 percentage points and 1.6 percent less than those of the previous fiscal year respectively. In FY 2012-13, the share of Ministry of Agriculture in development budget is 2.1 percent which is 1.1percent higher than that of the previous fiscal year.

Figure 22: Allocation status of large ten Ministries



Source: Authors' calculation based on Implementation Monitoring and Evaluation Division, Ministry of Finance and International Monetary Fund, 2012

7. REAL SECTOR

7.1 Agriculture

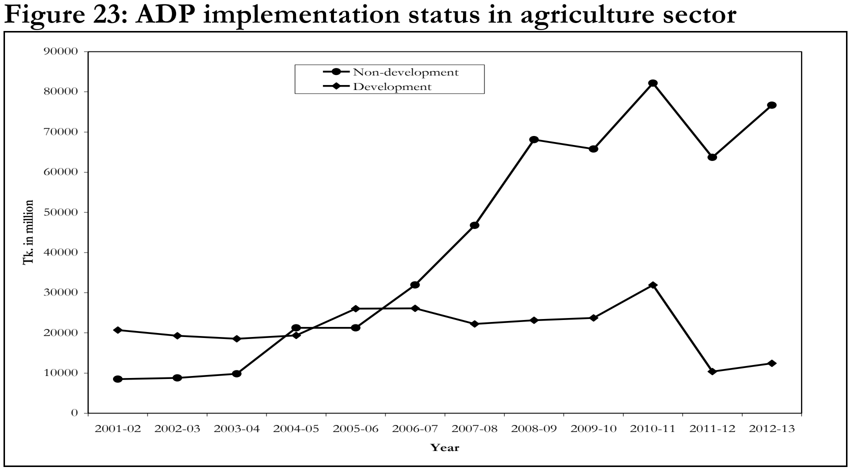
The important steps taken in the proposed budget of FY 2012-13 are to distribute 'Agricultural Inputs Support Card' among 14.0 million farmers across the country; increasing the seed supplies capacity through BADC; programmes to distribute organic, green, and bio-fertlisers among farmers; reducing the interest rate on agriculture credit and increasing its size; emphasis on extension of paddy cultivation flood, saline and drought prone area; creating Agricultural Research Fund; organising 'Farmers Marketing Group' and 'Farmers Club. However, in some cases, those initiatives may have not been realized due to the lack of sufficient fund for implementation, timely disbursement, as well as proper guidelines.

7.1.1 ADP allocation status in FY 2012-13

The sectoral share of gross domestic product (GDP as percentage) of the board agriculture is declining day by day with increasing allocation of ADP. However, this allocation was not sufficient to reduce the declining growth rate of this sector because of its, amount, implementation rate and its time of disbursement. In FY 2011-12, ADP implementation rate was 60 percent to the proposed budget (March, 2012) and it was 65 percent in revised budget (up to April, 2012).

In spite of government again setting aside a sum of ADP Tk. 89175.20 million in the proposed budget which is more than 20 percent (20.40 percent) compared to the last FY 2011-12 (proposed budget). From the analysis of the last 10 years data, it is found that ADP implementation may not be more than Tk. 55288.60 million. In addition, budgetary allotment on agriculture ADP is 16.20 percent to the total proposed ADP. Moreover, government has also proposed more than 86 percent of its total allocation for the non-development sector. Therefore, maximum allocation is going to the non-development sector which is one of the major constraints for development.

Figure 23: ADP implementation status in agriculture sector

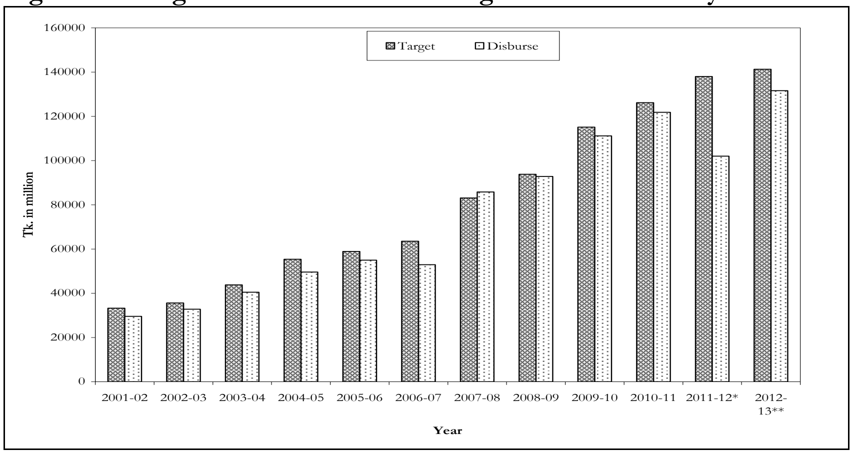


Source: Ministry of Finance, 2011 and budget speech, 2012-13

7.1.2 Credit disbursement and Subsidy

The government has increased the target of credit disbursement to this sector at Tk. 141300 million, a modest rise from outgoing fiscal's target of Tk. 138000 million. Therefore, target of credit disbursement in this sector has increased by about 2.40 percent. The gap between the target and actual disbursement is also following an increasing trend. On average, the disbursement rate as percentage during the last 10 fiscal years was not more than 93 percent. Accordingly, it is found that the actual disbursement of credit may not be more than Tk. 131613 million. Moreover, Finance Minister has proposed Tk. 60000 million as agricultural subsidy during the current fiscal year against Tk. 45000 million in the last FY 2011-12. Therefore, proposed subsidy in this sector will increase by more than 33.33 percent.

Figure 24: Target and disbursement of agriculture credit in year wise



Source: Bangladesh Economic Review, 2012, * disbursement up to April, 2012 and **authors' calculation based on Bangladesh Economic Review, 2012

7.1.3 Research

In FY 2012-13, government has created 'Endowment Fund' for agricultural research which may have an important contribution in overall agricultural research. However, the size of fund has not been mentioned in proposed budget likewise of FY 2011-12.

No new fund has been allocated in FY 2012-13 for agricultural research.

Bangladesh has been successful in adopting new technologies in agriculture including high yielding varieties (HYV), chemical fertilisers and irrigation. For sustainability of those managements, it is essential to allocate more funds to increase production level. However, no new fund has been allocated in FY 2012-13 for these purposes. In addition, target for production and distribution of high yielding seed for FY 2012-13 through BADC is 1,66,252 MT which is more than 15 percent (15.45 percent) compared to FY 2011-12. The government has also targeted to enhance the production and use of organic fertilisers alongside the use of inorganic fertilisers to improve the quality of soil health.

7.1.4 Food security

Government has distributed 1.2 million fair price cards among the poor farmers to ensure fair price of agricultural products and in the same time, government has enhanced the allocation and widened the coverage of social safety net programmes (OP, EP, LEI, OMS, FPC, FEW, TR, VGF, VGD, etc.) and the number of target beneficiaries of theses programmes is about 30 million. This is a good intention, but question is being raised about its implementation, because no fund has been allocated for distributing fair price cards in proposed budget FY 2012-13. Since, there is no allocation, there is a concern that it may not be implemented in future.

7.1.5 Sustainability of agriculture sector

Increasing crop production and yield along with cropping intensity might be assumed as one of good indicators for food security, but future sustainability remains questionable. Application of chemical fertilisers has increased several times in the last few years. Moreover, pesticide application has increased more than 7 times during the period of 1989 to 2003 and 70 percent of the total irrigated areas are covered by the ground water sources which are in contrast to the conception of sustainable agriculture. Therefore, an appropriate strategy is needed for improvement of surface water bodies for supplying irrigation water and developing new surface irrigation related projects. Nonetheless, there are no guidelines and budgetary allocation for sustainability of agriculture sector in proposed budget whereas to create an enable environment for sustainable growth of agriculture for reducing poverty and ensuring food security through increased crop production and employment opportunity are main pillars of draft National Agriculture Policy 2010.

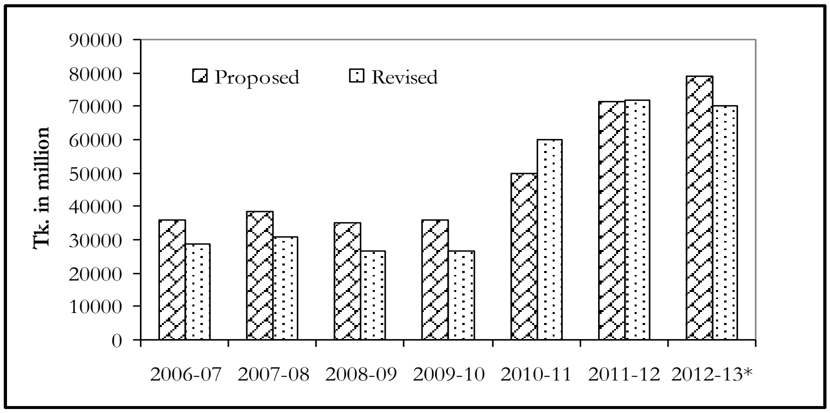
7.2 Power

The government has proposed to allocate Tk. 95440 million (development and non-development combined) for FY 2012-13 in power sector.

The present crisis in power is a national crisis. Therefore, the government has proposed to allocate Tk. 95440 million (development and non-development combined) for FY 2012-13. This allocation is 15870 million higher than the revised budget of the last fiscal year 2011-12 and as a percentage it is 0.10 percent lower than the proposed allocation of FY 2011-12. Additionally, in FY 2012-13, Tk. 78960 million is proposed to allocate for the power division which is Tk. 7040 million higher than the revised allocation of the previous fiscal year (Figure 25). Most of the time, the allocated amount of money has decreased after revision. This reduction in the revised budget has occurred at a time when the government is committed to ensure electricity for all by 2021.

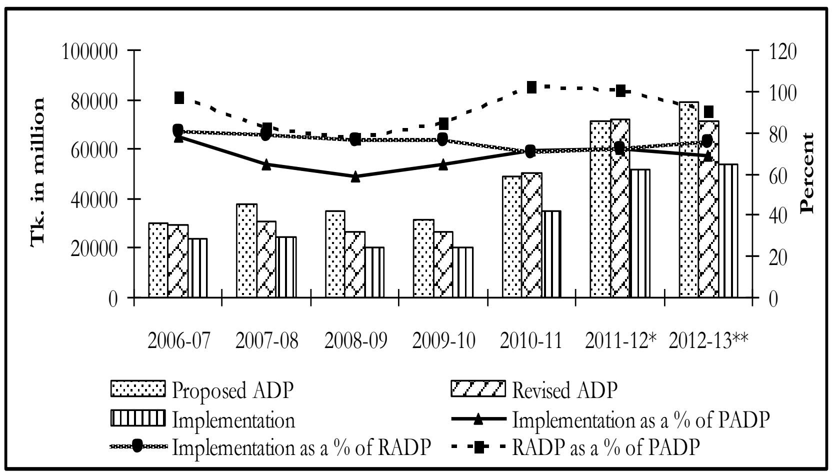
The proposed public investment in power sector has marked negative revision during most of the period between fiscal year 2006-07 and 2012-13 (Figure 26) as the data of previous years shows that on an average, 90.6 percent of the proposed ADP remains as revised ADP. Among these years, only two years (2010-11 & 2011-12) showed the increasing revised allocation than the proposed allocation. Through the weighted mean calculation, it can be predicted that from the proposed Tk. 78900 million ADP allocation in FY 2012-13 approximately Tk. 71498 million may remain as revised ADP of which Tk. 53977 million might be implemented.

Figure 25: Budgetary allocation for power division



Source: Authors' calculation based on the data from Ministry of Finance, 2012

Figure 26: ADP allocation for power division

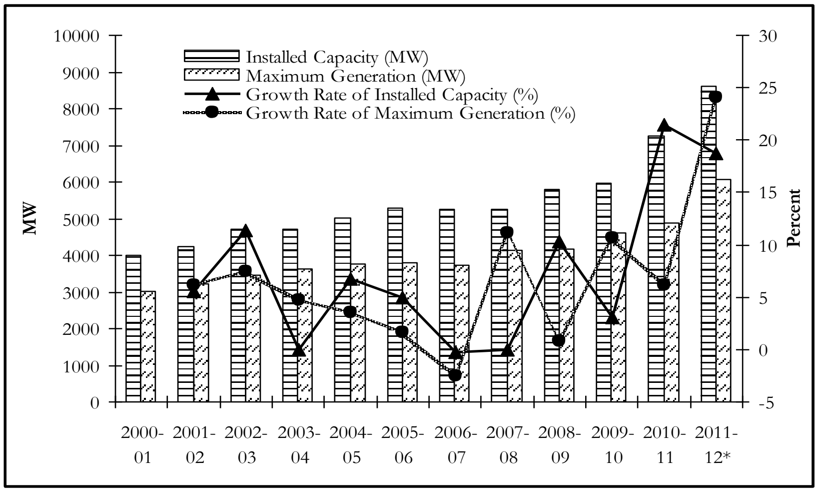


Source: Authors' calculation based on Implementation, Monitoring and Evaluation Division, 2012

*Notes: * Implementation for 2010-11 was till April*

Generation and supply of power is one of the most important challenges. However, the maximum generation has failed to reach the installed capacity over the years. In FY 2000-01, the total installed capacity was 4005 MW and the maximum generation was 3033 MW. Both the installed capacity and maximum generation have slightly increased over the time. In FY 2011-12, the installed capacity was 8625 MW whereas the maximum generation was 6066 MW (Upto March, 2012). The installed capacity as well as the maximum generation has increased at a decreasing rate compared to the FY 2002-03 (Figure 27). The growth rate of the installed capacity was higher in the FY 2010-11 (11.38 percent) whereas the growth rate of maximum generation was higher in the FY 2007-08 (11.08 percent). The real demand for electricity could not be met due to the shortage of available generation capacity. A good number of generation units have become antiquated and have been operating at reduced capacity. As a result, their reliability and productivity are also remaining poor. Besides this, a shortage in the supply of gas has resulted in some power plants being unable to utilize their generation capacity. Therefore, load-shedding has increased over the years.

Figure 27: Installed capacity and generation



Source: Authors' calculation based on Bangladesh Economic Review, 2012

Rental, quick rental and peaking plants were undertaken on a fast-track basis to address the nagging power crisis. Due to rental power plants with high per unit cost, the government has to bear huge cost per year for buying electricity from the private sectors To refuel these power plants, the additional cost for the current fiscal year, as projected by the World Bank, is between Tk. 52000 million and Tk. 56000 million, which is about 0.6 percent or 0.7 percent of the GDP (Energy Bangla, 2012). For doing that, the government has provided a huge amount of money as subsidy. According to official estimates, the government in the current fiscal year is set to spend Tk. 200000 million in subsidies for the power sector. The recent rise in electricity prices is the part of government's move to slash its subsidies for the electricity generation. However, frequent changes in prices of electricity are only creating inflationary pressures. When power tariff has risen, prices of essential consumer goods tend to make another jump. As all these are inter-related, therefore, the government needs to be creative in renewing and revising strategic approaches to reduce the power crisis. Separate allocation for the maintenance and modernization of age old power plants is urgently needed. In addition, it is high time to use the plentiful coal deposit that will create an opportunity in solving the power crisis with the desirable speed. However, no significant steps are taken to reduce the power crisis in this proposed budget.

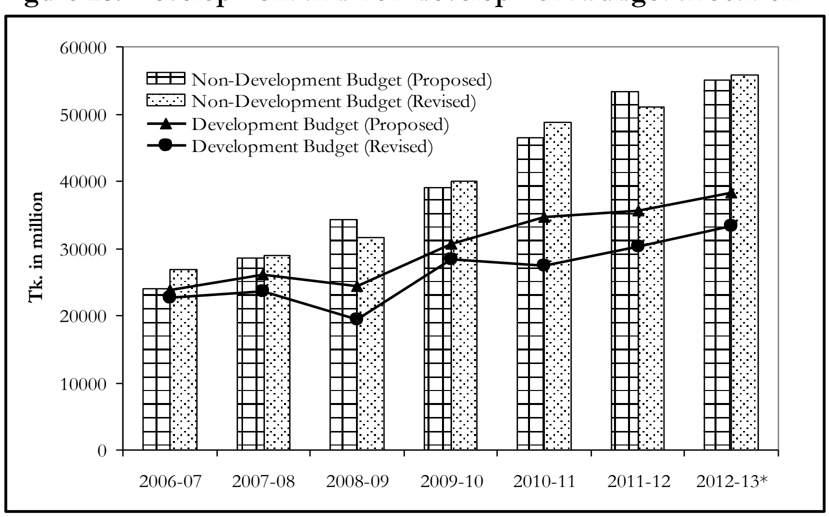
8. SOCIAL SECTOR

8.1 Health

The budgetary allocation in the FY 2012-13 for the health sector is Tk. 93,330 million (including development and non-development budget).

Ensuring better health facilities is largely dependent not only on the proper budgetary allocation but also on the proper implementation. Public allocation for health sector is not adequate as well as not properly utilized and managed. The budgetary allocation in the FY 2012-13 for the health sector is Tk. 93,330 million (including development and non-development budget). This allocation is Tk. 11,830 million greater than the revised allocation and as a percentage it is 0.18 percent lower than that of the revised budget of the FY 2011-12. However, there is an increase in the proposed budgetary allocation in health sector but a downward revision has been marked always over the years. More specifically, it is observed that on an average 98 percent of proposed budgetary allocation remains as revised allocation. Furthermore, it is observed that the development budget is increasing at a slower rate than that of the non-development budget. During the last five years, there was a significant gap between development and non-development budget allocation in health sector. Additionally, it is observed that, most of the time there is a positive revision of non-development budget while there is negative revision of development budget from the FY 2006-07. To achieve the government's commitments that they pledged to ensure quality health services for all, public investment needs to be increased.

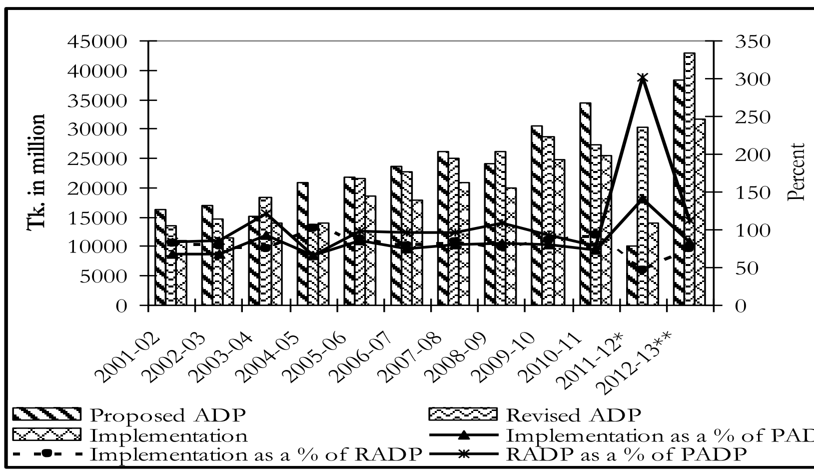
Figure 28: Development and non-development budget allocation



Source: Authors' calculation based on the data from Ministry of Finance, 2012

The proposed Tk. 93,330 million for its 148 million people is too small compared to the present requirements because the per capita allocation in healthcare is Tk. 631 in a year. That means, the daily allocation for healthcare is Tk. 1.72 which is not favourable for attaining the MDG goals as well as Vision-2021 targets of the present government. Additionally, the proposed public investment in health, population and family welfare sector has marked cut during most of the periods between fiscal year 2001-02 and 2012-13 (Figure 29). Through the weighted mean calculation, it can be predicted that from the proposed Tk. 38,250 million as ADP allocation in FY 2012-13, Tk. 31,794 million might be implemented. Furthermore, the implementation of allocated ADP at the last stage of a fiscal year is becoming a culture that reportedly may directly or indirectly be related to corruption.

Figure 29: ADP allocation in health and family welfare sector



Source: Authors' calculation based on Implementation, Monitoring and Evaluation Division, 2012

*Notes: * Implementation for FY 2011-12 was till April*

However, there are some progresses in health sector though the expected achievement in health sector remains elusive. It is found that most of the initiatives of the current budget are the continuation of incompleteness of last budget (2011-12) and there is an absence of creative proposals to achieve the desired targets regarding health.

8.2 Education

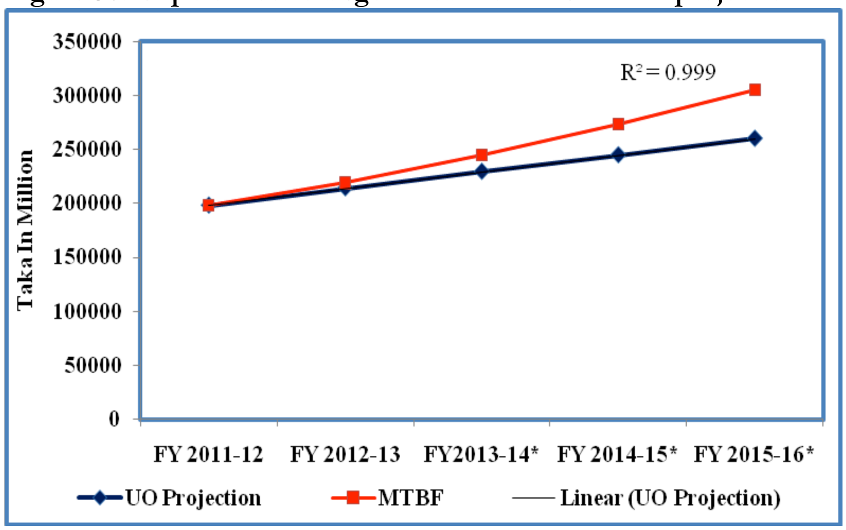
The Finance Minister has proposed an allocation of Tk. 214080 million in the budget for FY 2012-13, development and non-development combined, for the Ministry of Education and Ministry of Primary and Mass education. This allocation is 11.17 percent of the national budget of FY 2012-13 and 8.09 percent and 16.6

The government has proposed an allocation of Tk. 214080 million in education for FY 2012-13, development and non-development combined, for the Ministry of Education and Ministry of Primary and Mass education.

percent higher than that of the proposed budget and revised of FY 2011-12 respectively. It is a matter of fact that the overall allocation in education sector in FY 2011-12 could not pave the path for achieving the targets due to poor implementation status.

The gap between actual budget allocation in education and the target of the government articulated in Medium-Term Budgetary Framework (MTBF) 2012-13 to 2015-16 is on the rise and might grow sharply in the upcoming years.

Figure 30: Gap between budget allocation and MTBF projection

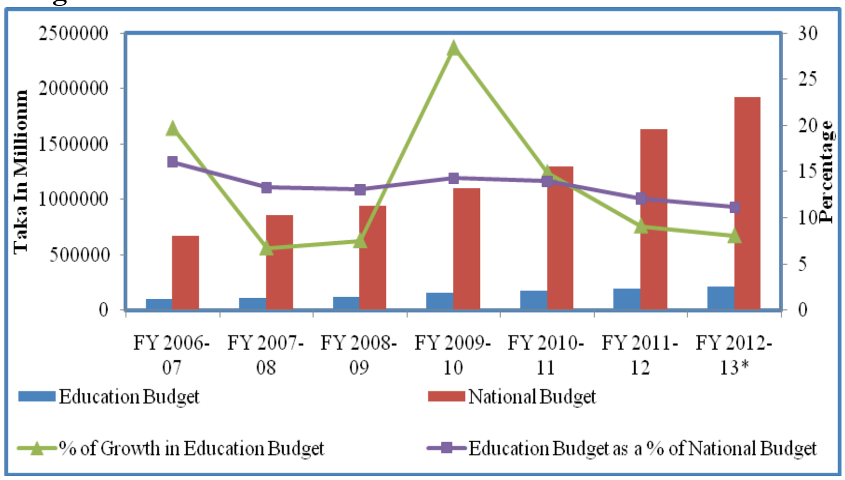


Source: Authors' calculation based on Ministry of Finance, 2012

In FY 2012-13, the budget allocation is Tk.214080 million for the Ministry of Primary and Mass Education and the Ministry of education than those of the MTBF projection that was of Tk. 218965.8 million indicating a gap of Tk. 4885.8 million. If the current trend prevails, the gap might increase further in FY 2015-16 and under the business as usual scenario, the education budget might stand at Tk.259924.3 million against the MTBF projection of Tk. 304887 million. The gap between actual allocation and MTBF projection in FY 2015-16 might increase to Tk. 44962.74 million.

In FY 2012-13, education sector has got Tk. 1,6020 million more than the allocation made for the sector last fiscal year. In 2011-12 Tk. 19,8370 million was allocated for the sector. In the FY 2012-13, total budget allocation is Tk. 1917380 million and total allocation on education is Tk.214080 million. Thus, education budget as a percentage of national budgets is found 11.17 percent. Education budget as a percentage of national budget was 12.11 percent in the FY 2011-12. Though government set education sector as a prioritised sector, education budget as a percentage of national budget has decreased at 94 percentage point in the present fiscal year compared to the previous fiscal year 2011-12.

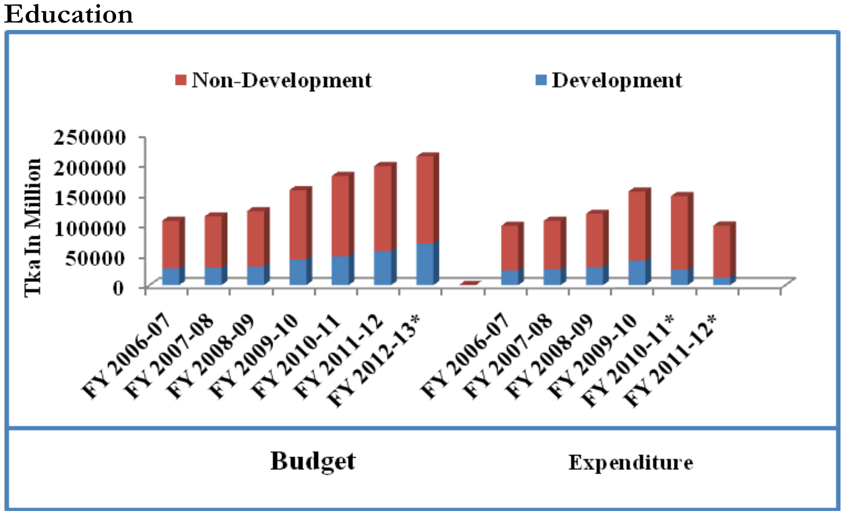
Figure 31: Growth of education budget and percentage of national budget



Source: Authors' calculation based on Implementation Monitoring and Evaluation and Finance Division, Government of Bangladesh (GoB) (December, 2011)

In the FY 2012-13 the development budget for education is Tk. 69360 million while non-development allocation is Tk. 144720 million. The education budget, both development and non-development has increased over the years but the expenditure statistics is much unsatisfactory.

Figure 32: Development & Non-development budget scenario, Education



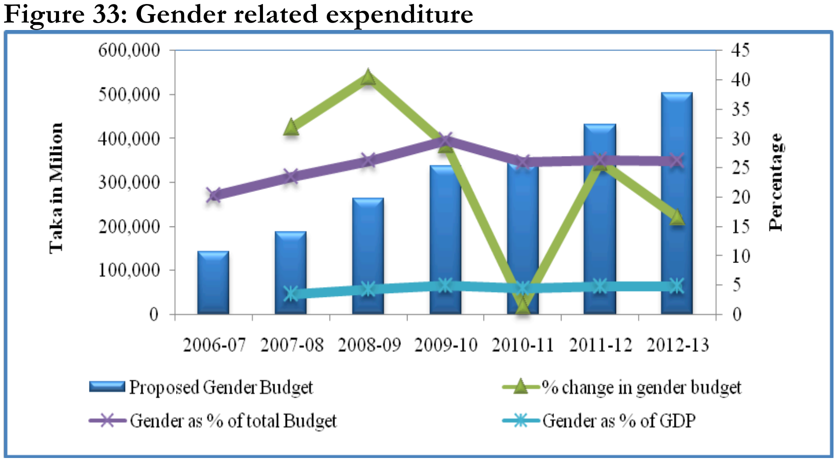
Source: Authors' calculation based on Implementation Monitoring and Evaluation Division and Finance Division, Government of Bangladesh (GoB) (December 2011)

Education sector has been provided with an allocation of Tk. 69360 million in the Annual Development Programme (ADP) in FY 2012-13. In FY 2011-12 the ADP allocation in education was Tk. 45432.6 million and revised ADP was Tk. 44361.6 million but total expenditure in education from July to April 2012 is Tk. 27183.59 million that is only 59.83 percent of total allocation. However, implementation of ADP was only 59.83 percent during last ten month exhibiting poor ADP implementation status in education sector in FY 2011-12.The average ADP implementation status in education sector from the FY 2002-03 to 2004-05 was 72.72 percent that might be 93.68 percent among the FY 2009 to 2011-12.

8.3 Gender

Gender responsive budget is indispensable to protect women from outer and inner distress. The percentage of change in gender budget has been shown from fiscal year 2007-08 to 2011-12 (Figure 33). Here, the peak point is found in fiscal year 2008-09 (40.44 percent) and dip point is found in 2010-11(1.37 percent). Though the amount of proposed gender budget increased from FY 2009-10, the percentage was comparatively very low in the following years.

Figure 33: Gender related expenditure



Source: Authors' calculation based on Ministry of Finance

In FY 2012-13, budget allocation for Ministry of Women and Children Affairs is Tk.13060 million.

In the last FY 2011-12, the total proposed budget allocation for gender related expenditure was Tk. 431940 million of which Tk.12370 million has been allocated for the Ministry of Women and Children Affairs. In FY 2012-13, budget allocation for Ministry of Women and Children Affairs is Tk.13060 million which is not that higher than the previous year. Government allocate for every ministries and division almost. Gender allocation in major ministries reflects actually growing consciousness about gender sensitivity.

In addition, Implementation Monitoring and Evaluation Division (IMED) 2012 stated Tk. 1215.6 million was allocated in M/O Women & Children's Affairs whereas Tk. 929.235 million is the expenditure amount till March 2012 and the total ADP implementation rate is 76 percent of allocation. In case of revised ADP, till July to April, 2012 Tk. 1431.044 million is the total expenditure whereas RADP allocation is Tk. 1845.9 million. This amount is 78 percent of the total allocation (IMED, 2012). Therefore, about 22 percent is still unused.

Table 4: Non development and development expenditure of Ministry of Women and Children Affairs (Taka in Million)

Fiscal year	Development		Non-Development	
	Proposed	Reviewed	Proposed	Reviewed
2006-07	1830	830	5660	5830
2007-08	940	810	7310	10290
2008-09	1400	1170	12150	10980
2009-10	2150	1570	11300	10580
2010-11	2090	2050	10310	9880
2011-12	1610		10750	

During fiscal year 2010-11, proposed budget was Tk. 2090 million where revised budget in development was Tk. 2050 million. Proposed budget is found higher than the reviewed budget. On the other hand, in FY 2011-12 revised budgets in development sector is higher than proposed budget, whereas, non-developmental expenditure in revised budget is little bit lower then proposed budget (Table 4).

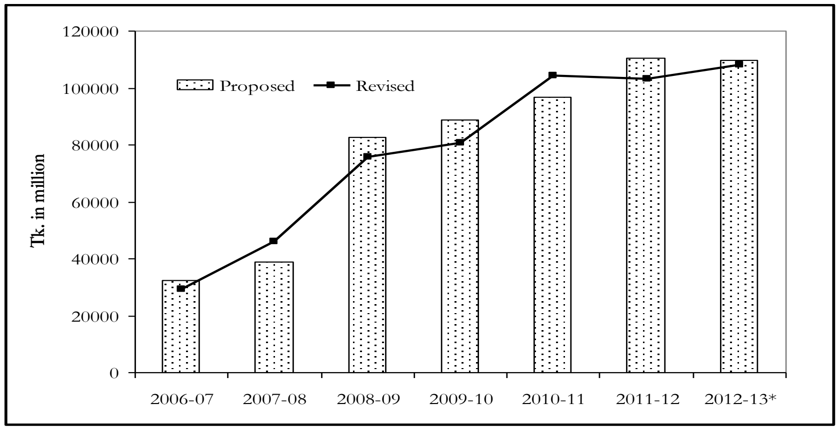
9. SOCIAL SECURITY

The constitution of the people's republic of Bangladesh recognizes the requirements for social security in the form of public assistance setting the targeted people as unemployed, disable, widow, orphan, elderly people or in other such cases (Article 15, the constitution of Bangladesh). The government of Bangladesh also pledges to promote and protect human rights of all its citizens as the member of United Nations commission for human rights. However, neither an inclusive conceptualization nor a comprehensive understanding in association with social security has been made in the national policy agenda of Bangladesh. In spite of constitutional obligation, no government had come forward to implement this constitutional commitment.

For the FY 2012-13, the government has proposed Tk. 109,810 million for social security and welfare sector.

Over the years, governments have proposed budgets for social security and welfare sectors. For the FY 2012-13, the government has proposed Tk. 109,810 million for social security and welfare sector. If the trend is examined, it can be seen that the proposed allocation for the social security and welfare sector has a negative revision in most of the period during FY 2006-07 to 2012-13. By calculating weighted mean, it can be predicted that the proposed Tk. 109,810 million in FY 2012-13 may remain approximately Tk. 108,321 million as revised allocation.

Figure 34: Allocation for the Social Security and Welfare



Source: Authors' calculation based on the data from Ministry of Finance

A large number of programmes have been initiated over the last few years in order to uplift the livelihood of poor people. Government has initiated different safety net programmes for improving social security and to protect the poor. In order to do so, there are cash transfer programmes, social empowerment programmes, food security programmes and microcredit programmes as well. The existing cash and food transfer programmes in safety nets may reduce starvation rate of limited number of people in some specific times but for improving social security situation (in its comprehensive sense) more specific measures addressing long term vulnerability must be taken. Moreover, the problem of limited scale and population coverage of SSNPs may initiate problems of leakage and misallocation which may go undetected because of inadequate programme monitoring. In this context, the main components of social safety net programmes require readjustments in terms of real-time budget allocation and implementation; and it is imperative to bring in long-term components to achieve the goals of these programmes. This proposed budget remains more or less likely to be a continuation of previous one. The following matrix (Table 5) reveals the instruments and methods of prevailing social security programme along with its defined objectives and identified target groups.