INVESTMENT INTRICACIES AND FISCAL FUZZ

A Rapid Assessment of National Budget 2013-14

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Economic Policy Unit
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1. INTRODUCTION

This rapid assessment primarily reviews the policy measures introduced for FY 2013-14 to ascertain whether these could stimulate economic recovery to create more jobs, reduce poverty and lessen inequality

The current budget is tabled in the backdrop of three major challenges: economic growth is decelerating due to stagnant investment and productivity growth, fiscal deficit is crowding out investment while not augmenting multiplier effect by removing supply side bottlenecks, and social sector spending is increasing but at a decreasing rate. This rapid assessment primarily reviews the policy measures introduced for FY 2013-14 to ascertain whether these could stimulate economic recovery to create more jobs, reduce poverty and lessen inequality. This also examines the feasibility of budgetary targets and probes into any possible sources of tensions between fiscal and monetary policies.

The seeds of the present challenges have been palpable and have been articulated in a number of Unnayan Onneshan publications. More specifically, the organisation's pre-budget annual publication on the state of economy for FY 2012-13 clearly identified the reasons for fall in gross domestic product (GDP) below the average rate of the last decade (Unnayan Onneshan 2013a). The old problems have also remained unabated over the years, while new ones have been added as time elapsed. In the post-budget assessment of FY 2012-13, the issues of faltering growth, investment squeeze due to fiscal composition and deficit financing, and implications of contractionary monetary policy have also been warned.[1] The specificities of labour, poverty and inequality, and debt and deficit have been highlighted in several studies (e.g., Unnayan Onneshan 2011a, 2012b, 2013b

The budget for FY 2013-14 is assumed to be implemented by three different regimes: the present government, the interim

[1] Unnayan Onneshan. 2012a, Faltering Growth: A Rapid Assessment of National Budget 2012-13, Bangladesh Economic Update, Volume 3, No. 5, Unnayan Onneshan, Dhaka, Bangladesh.

government and the government to be elected in January 2014. Thus, the tendency to opt for measures to placate the party stalwarts in an election year rather than to chart out structural solutions is visible in the current budget.

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

Several policy-induced macroeconomic challenges have severely restricted the maintenance of upward mobility of growth rate in the recent fiscal years and the continuation of progress in different social sectors

2. MACROECONOMIC CONTEXT

Several policy-induced macroeconomic challenges have severely restricted the maintenance of upward mobility of growth rate in the recent fiscal years and the continuation of progress in different social sectors. The challenges have partly been the result of lack of farsightedness and creativity in policy making, and partly the outcome of adhocism and expediency of the ruling elites[2].

2.1 Growth

The economy has been experiencing a decelerating rate of economic growth for the last two fiscal years. In FY 2010-11, the GDP growth rate was 6.71 percent, which later declined to 6.23 percent in FY 2011-12, and then further fell to 6.03 percent in FY 2012-13. Moreover, the growth rate observed in the previous fiscal year is 0.20 percentage points lower than the decadal average rate of 6.23 percent. The finance minister, however, asserted that "our projection for GDP this fiscal year

[2] Titumir, Rashed Al Mahmud and Kamal, Mustafa. 2013, *Emerging Trends: Exigency or Expediency*?, pp. 1–27. In Rashed Al Mahmud Titumir (ed.), Exigency or Expediency? State of Bangladesh Economy and Development, FY 2012-13. Unnayan Onneshan: Dhaka.

is within the range of 6.3-6.8 percent." Finally, the rate of ADP implementation stood at only 49 percent in the first nine months of the present fiscal year.

2.2 Investment and Savings

In the past, the country has failed to raise the level of investment at the required level. The investment's share in GDP reached 26.8 percent in FY 2012-13 and the share of private investment decreased from 20 percent in FY 2011-12 to 19 percent in FY 2012-13. At the same time, the economy observed a wide gap between national savings and investment, which stood at 2.7 percent percentages between FY 2011-12 and FY 2012-13, showing that the investment capacity has not been fully utilised.

The economy has been experiencing a decelerating rate of economic growth for the last two fiscal years. In FY 2010-11, the GDP growth rate was 6.71 percent, which later declined to 6.23 percent in FY 2011-12, and then further fell to 6.03 percent in FY 2012-13.

2.3 Fiscal Balance

The country's fiscal arm is afflicted with a number of key challenges. First, the revenue collecting authority, the National Board of Revenue (NBR) has fallen short of achieving the revenue collection target for the first time in FY 2012-13 since FY 2009-10. Second, a significant portion of the deficit financing is being used in subsides and transfer payments that do not have any direct effects on fiscal multiplier as opposed to direct government investment in sectors like infrastructure. Third, the county has a regressive tax structure, whereas the percentage of indirect tax to total tax accounted above 70 percent in the last three fiscal years. The seemingly politically motivated allocation of annual development programme (ADP) and its slow rate of implementation remain two other major problems in the use of public resources.

2.4 Inflation, Money and Credit Situation

The country is currently facing four major challenges in the monetary sector. First, there is a high rate of inflation even after the adoption of contractionary monetary policy, despite its drop from 10.96 percent in February, 2012 to 7.85 percent in April, 2013. Second, the contractionary monetary policy, on the other hand, has reduced credit demand of the private sector, which was 13.62 percent in July-March, FY 2011-12 and 6.98 percent in the corresponding period of FY 2012-13. Third, policies regarding the financial sector have failed to lower interest rate spread[3] and promote financial inclusion as private sector banks have not played their expected role. Finally, the capital market of the country has still remained depressed due to lack of confidence.

2.5 External Balance

The contractionary monetary policy had an adverse impact on the import of machinery goods and raw materials, which recorded a negative growth by 18.46 percent and 6.84 percent, respectively between July-February of FY 2011-12 (revised) and July-February of FY 2012-13 (provisional). Moreover, some important export items of the country, such as frozen food, raw jute and home textile also depicted negative growth in FY 2012-13. The country's terms of trade has been deteriorating in the past few years while the main export earning sector of the country, the garment sector, has been exposed to new vulnerability aftermath of a factory building accident at a time when the country has already been missing its export target.

The social sector has witnessed quantitative improvements in recent years, yet the budgetary allocations are plagued with multifarious blockages.

2.6 Real Sector

The real sector has been facing three main predicaments. First, the growth rate of agriculture sector has fallen rapidly in the last two years from 5.09 percent in 2010-11 to 2.46 percent in FY 2011-12, and to 1.18 percent in FY 2012-13. Second, the manufacturing sector observed a decelerating growth rate for the first time in the last four years to reach at 9.34 percent in FY 2012-13 from 9.37 percent in FY 2011-12. Finally, the investment demand in industry has slowed down in recent time due to contractionary monetary policy and insufficient infrastructure facilities.

The social sector has witnessed quantitative improvements in recent years, yet the budgetary allocations are plagued with multifarious blockages.

2.7 Social Sector

The social sector has witnessed quantitative improvements in recent years, yet the budgetary allocations are plagued with multifarious blockages. First, education and health sectors have been suffering from deficient budgetary allocation the public expenditure in these sectors have been increasing at a decreasing rate. For example, the budgetary expenditure in education observed an increase of 33.4 percent in FY 2010-11 to fall to 9.98 percent in FY 2011-12 and further to 6.76 percent in 2012-

[3] The difference between the lending and the deposit rates.

13. The poverty situation seems to be on track to accomplish the poverty related Millennium Development Goal (MDG) targets, but the country's own targets set in Five-Year Plan are still outside of reach. Inequality on the other hand, has worsened as the national Gini coefficient has moved in disfavour. Moreover, the rural-urban division has widened as the Gini coefficient in rural areas has increased from 0.428 in 2005 to 0.431 in 2010 whereas that of urban areas has decreased from 0.497 to 0.452 in the same period. In the labour market, the opportunity of employment in the formal sector has shrunk by 26.09 percent between 2002-03 and 2010 while total civilian labour force has grown by 23.32 percent.

FY 2013-14 being the election year, the tendency to political expediency has taken the front seat in the budget in the form of increased block allocation

3. OUTLOOK FOR FY 2013-14

The country's economic and social developments have been facing multiple challenges. Moreover, FY 2013-14 being the election year, the tendency to political expediency has taken the front seat in the budget in the form of increased block allocation, etc. The outlook for FY 2013-14 is being affected by what has been happening in different sectors of the economy.

3.1 Growth, Investment and Savings Scenario

The (GDP) growth target for FY 2013-14 has been set at 7.2 percent.

The (GDP) growth target for FY 2013-14 has been set at 7.2 percent. Successive elected governments in Bangladesh have been able to accomplish an average higher growth rate than their previous regimes since 1991 (Table 1). According to the BBS provisional estimate, the country has managed to maintain a real GDP growth rate at 6.03 percent in FY 2012-13. Moreover, FY 2012-13 is the fourth consecutive year that the country's real GDP growth stayed over 6.0 percent. This previous success has tempted the octogenarian finance ministry in the spirit of 'audaciously abundant optimism' to set the growth target of 7.2 percent in FY 2013-14.

Table 1: Average Growth by Elected Governments, FY 92-FY 13

Fiscal Year	Growth
FY 92-FY 96	4.65
FY 97-FY 01	5.34
FY 02-FY 06	5.71
FY 09-FY 13	6.16

Source: Ministry of Finance, 2013a, Ahmed and Islam, 2004

The major two drivers of GDP, the agriculture and the manufacturing sector have to register a high growth after the rapid contraction of both the sectors in FY 2012-13

The growth target of 7.2 percent seems ambitious because of a number of factors. First, in addition to the decelerating growth that has been observed in the last two fiscal years, the government has set up a trend of missing its growth target. For example, the country has missed the growth target of 7.0 percent in FY 2011-12 by 0.77 percentage points (revised) and 7.2 percent in FY 2012-13 by 1.17 percentage points (provisional). Second, with regard to the provisional growth estimate of FY 2012-13, the growth target for FY 2013-14 would require an increase in of growth rate by 1.17 percentage points whereas the highest increment in the last 10 years has been observed at 0.8 percent in FY 2010-11. Third, the major two drivers of GDP, the agriculture and the manufacturing sector have to register a high growth after the rapid contraction of both the sectors in FY 2012-13. Finally, in comparison to the countries like China and India, which have posted growth rates in double digits in the last decade, the investment rate in Bangladesh is rather unsatisfactory and is acting as a limiting factor for future growth prospect. For example, the government estimated that it would require an investment at 27.02 percent of GDP for attaining the 6.8 percent growth target in FY 2010-11. The actual amount of investment, however, stood at 25.02 percent (MoF 2009).

Moreover, the Incremental Capital Output Ratio (ICOR)[4] of the country has deteriorated continuously in the past few years, indicating that the country has not been able to boost productivity of investment. The government would require total investment rate to rise at 32.0 percent of GDP in FY 2013-14 if the ICOR remains constant at the level of the previous year (Table 2). On the other hand, if the investment rate remains constant to the level of FY 2012-13, the productivity of investment has to be enhanced and the ICOR has to reduce to 3.72 so as to make this growth possible. If the investment rate observes an increment of 0.8 percent in FY 2013-14, and the ICOR returns to the level of the fiscal year 2011-12, under this optimal scenario the maximum growth possible in FY 2013-14 is 6.49 percent.

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

Table 2: Trend of some selected variables in recent times

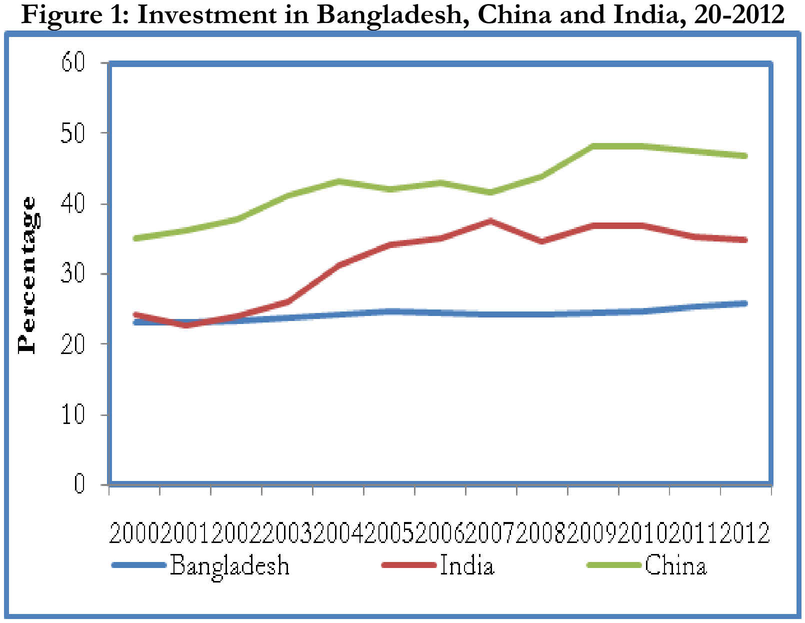
Fiscal Year	FY 2012	FY 2013	FY 2014
Growth	6.23	6.03	7.2
National Savings	29.2	29.5	
Consumption as percentage of GDP			
Investment as percentage of	26.5	26.8	32.0*
GDP	20.0	19	
Total	6.5	7.9	
Private			
Public			
ICOR	4.25	4.44	3.72**

*Note: * If the ICOR remains constant at the FY 2012-13 level*
*** If investment remains constant at the FY 2012-13 level*
Source: Ministry of Finance, 2013a

The achievement of the growth target in FY 2013-14 would largely depend on what happens in terms of investment, especially in case of private sector.

The achievement of the growth target in FY 2013-14 would largely depend on what happens in terms of investment, especially in case of private sector. The rate of increase of total investment has been stagnating. For example, in the last fiscal year, total investment recorded only a marginal increase. At the same time, private sector investment registered a negative growth and the gap between the national savings and the investment have widened.

Figure 1: Investment in Bangladesh, China and India, 20-2012



** The data for 2012 for Bangladesh indicate IMF staff estimates*
Source: International Monetary Fund, 2013

A close look at the World Economic Outlook Database of the IMF (2013) would reveal that the investment rate in Bangladesh was only 1.185 percentage points lower than that of India in 2000. The growth rate in India was then only 0.108 percentage points higher than that of Bangladesh. The investment rate in Bangladesh mostly remained stagnant since then, whereas India was able to make quick leaps in its rate of investment, and as a result, achieved growth at a much higher rate than Bangladesh. Similarly, China's high growth rate can mostly be attributed to high investment (Figure 1).

The prospect of investment growth does not seem bright in FY 2013-14

The prospect of investment growth does not seem bright in FY 2013-14. The highest increase in the country's investment growth since FY 2000-01 occurred in FY 2010-11, which was only by 0.80 percentage points. Moreover, the many of the plans suggested in the budget for FY 2013-14 have already been proved failure (e.g., the PPP initiative for infrastructure development). Based on the past trend, it could be predicted that the investment and savings situation are more likely to remain the same unless drastic measures are introduced which unfortunately are not suggested in the proposed budget.

3.2 Why Investment is Stagnating

A number of reasons can be identified for the stagnation of investment. These are organized and presented in this sub section.

The ICOR as already stated in section 3.1 has increase in the last few years. A major reason behind the rising ICOR has been that a large proportion of the working population is involved in the agriculture sector.

3.2.1 Rising ICOR

The ICOR as already stated in section 3.1 has increase in the last few years. A major reason behind the rising ICOR has been that a large proportion of the working population is involved in the agriculture sector. The agriculture sector is traditionally a low-value added sector compared to other sectors such as the industry. Moreover, the policies other countries followed, such as creating incentives for high-valued products through fiscal measures, high-tech industrial parks, etc, have mostly been absent in Bangladesh. The government's direct investment in research and technology, on the other hand, has not only remained extremely insufficient, but also has been reduced often. For example, in the original budget for FY 2012-13, total allocation for the Ministry of Science and Technology was estimated at merely Tk. 370 crore and has been lowered at Tk. 355 crore.

Table 3: The ICOR in selected years

Fiscal Year	ICOR
2004-05	4.11
2005-06	3.73
2006-07	3.81
2007-08	3.91
2008-09	4.25
2009-10	4.02
2010-11	3.76
2011-12	4.25
2012-13	4.44

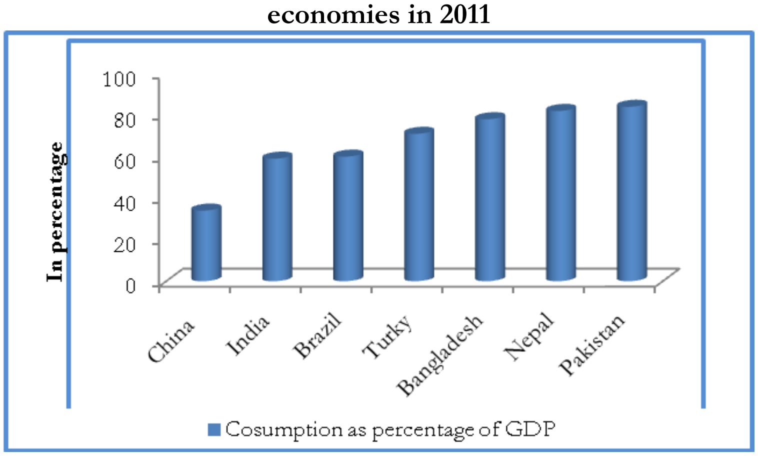
Source: Ministry of Finance, 2013a

3.2.2 Consumption-led Growth

Poor state of infrastructural services is one of the major reasons that have contributed to a low investment demand

The growth is mainly consumption-led and not investment-driven. The rate of household final consumption expenditure as percent of GDP is one of the highest among the developing countries (Figure 2). So far, the economic policies have not seen any major shift that can make it pro-investment.

Figure 2: Consumption as a share of GDP in some selected economies in 2011



Source: World Bank, 2013

3.2.3 Deficiency in Infrastructure

Poor state of infrastructural services is one of the major reasons that have contributed to a low investment demand. For example, the gap between installed capacity and maximum electricity generation increased from 1372 MW in FY 2009-10 to 2374 MW in FY 2010-11 and further to 2559 MW in FY 2011-12 (Table 4). The price of electricity soared at the same time in spite of the government's provision of more money in subsidies. For example, the price of electricity for small industries increased from Tk. 4.56 in February 2011 to Tk. 6.95 in September 2012, while subsidy increased from Tk. 40000 million in FY 2010-11 to Tk. 63570 million in FY 2011-12. In the gas sector, total gas production decreased from 708.90 BCF to 361.50 BCF and demand increased from 714.40 BCF to 962.0 BCF between December, FY 2010-11 and December, FY 2011-12 (Roy, 2013). Similarly, new additions to roads, railways and waterways have been marginal in recent years in the absence of any major infrastructure development projects.

The private sector investment traditionally accounts for more than 70 percent of total investment

Table 4: Gap between installed capacity and maximum electricity generation (in MW)

Fiscal Year	Installed Capacity	Maximum Generation	Gap
2004-05	5025	3751	1274
2005-06	5275	3812	1463
2006-07	5262	3718	1544
2007-08	5262	4130	1132
2008-09	5803	4162	1641
2009-10	5978	4606	1372
2010-11	7264	4890	2374
2011-12	8625	6066	2559

Source: Roy, 2013

Table 5: Additions to roads and railways in different years (in KM)

Year	Total Road (Roads & Highways Department)	Year	Total Route Kilometerage (Bangladesh Railway)
2005	21571	2004-05	2855
2006	21571	2005-06	2835
2007	21571	2006-07	2835
2008	21571	2007-08	2835
2009	20890	2008-09	2835
2010	20948	2009-10	2835
2011	21040	2010-11	2791
2012	21462	2011-12	2877
2013	-	2012-13	2877*

Note: Provisional

Source: Ministry of Finance, 2013a

3.2.4 Falling Private Investment

The private sector investment traditionally accounts for more than 70 percent of total investment. In the last two years, investment growth in the private sector mostly remained flat or declined than from the preceding year. On the other hand, public sector investment has increased from 4.7 percent in FY 2008-09 to 7.85 percent in FY 2012-13. However, the share of public sector in total investment is so small that this increase could not raise the total rate significantly.

Table 6: Public and private investment (in percent of GDP)

Fiscal Year	Public Investment	Private Investment
2004-05	6.2	18.3
2005-06	6.0	18.7
2006-07	5.5	19.0
2007-08	4.9	19.3
2008-09	4.7	19.7
2009-10	5.0	19.4
2010-11	5.6	19.5
2011-12	6.5	20.0
2012-13*	*7.9*	*19.0*

** Provisional*

Source: Ministry of Finance, 2013a

The national savings rate in the last decade has mostly been higher than the national investment rate by several percentage points.

3.2.5 Saving-Investment Gap and Capital Flight

The national savings rate in the last decade has mostly been higher than the national investment rate by several percentage points. In FY 2004-05, the savings-investment gap stood at only 1.3 percent. However, the gap quickly reached to the peak of 6.0 percent in FY 2007-08 and stayed mostly above 5.0 percent in the following two fiscal years. The gap subsequently declined and then remained at 2.7 percent in the last two fiscal years. Even after accounting for the fact that part of the savings could have converted into reserves, the destination of the other part still remains unclear. This provides an indication that capital flights from Bangladesh have been significant in the last decade (Financial Express 2012). The capital flight in FY 2012-13 has taken a perilous turn in the backdrop of uncertain political situation in the country, as a number of apparel exporters have started shifting funds to other countries (Hasan, 2013).

Table 7: The Gap between national savings and investment

Fiscal Year	Total Investment	National Savings	Gap
2004-05	24.5	25.8	-1.3
2005-06	24.7	27.7	-3.0
2006-07	24.5	28.7	-4.2
2007-08	24.2	30.2	-6.0
2008-09	24.4	29.6	-5.2
2009-10	24.4	30.0	-5.6
2010-11	25.2	28.8	-3.6
2011-12	26.5	29.2	-2.7
2012-13	26.8	29.5	-2.7

Source: Ministry of Finance, 2013a

A significant part of the budget in the last few years is spent for economic

3.2.6 Increased Revenue Spending on Rents

A significant part of the budget in the last few years is spent for economic rent[5]. For example, the government had to provide subsidy on the quick rental power plants. Total subsidies and transfer payments increased by 71.1 percent between FY 2008-09 and FY 2012-13 to reach Tk. 61,929 crore from the previous amount of Tk. 36,195 crore. Similarly, interest payment on government borrowing has risen from Tk. 23,630 crore in FY 2008-09 to Tk. 38,627 crore in FY 2012-13, representing an increase by 38.83 percent within five fiscal years. The government has proposed Tk.15443 crore as subsidy for FY 2014.

Table 8: Comparison of interest, subsidy and transfer payment with ADP expenditure

Fiscal Year (1)	Interest Payments (2)	Subsidies and Current Transfers (3)	Total (2)+(3)	ADP (4)
2008-09	12565	23630	36195	25600
2009-10	15808	25753	41561	30500
2010-11	14709	29753	44462	38500
2011-12	19796	37653	57449	46000
2012-13	23302	38627	61929	55000

Source: Ministry of Finance, 2013a

[5] Economic rent is the portion of income paid to a factor of production in excess of that which is needed keep it employed in its current use.

3.2.7 Indivisibility of Investment

A major challenge for a developing country like Bangladesh is that many of the investments required for further investment are well beyond the reach of private sector investors

A major challenge for a developing country like Bangladesh is that many of the investments required for further investment are well beyond the reach of private sector investors. In some cases, even the private sector is capable of making such investment; they are often unwilling to do so as widespread opportunity of accruing profits at a higher rate are possible in other areas through primitive accommodation. The state could address the issue in two ways. It itself could make the investment. It could direct investment at the desired sectors. Unfortunately, the authorities in Bangladesh have proved less effective in these areas. In the last decade, no major infrastructure development project has been introduced.

3.2.8 Nature of Accumulation

The rate of investment is inevitably linked with the process of capital accumulation in a country. The process of capital accumulation, however, has taken a primitive path. Such accumulation is ubiquitous, especially in cases of natural resources, common properties, and state subsidies. This bias created in favour of the rich could have been somewhat changed by appropriate state policies (e.g. fiscal measures) (Unnayan Onneshan, 2012b). Because of this nature of the accumulation, a large part of the population in the lowest income brackets is being disposed from their productive assets. Moreover, people belonging to the middle class are failing to graduate as their opportunities for investment is shrinking. Further investment in the country therefore has become dependent on the vagaries of a small class.

3.2.9 Lack of Policy Independence and Creativity

The policymaking is captive to a restrictive version of neo-classical economics, often promoted by international agencies like the IMF and the World Bank. Despite being non-evidence based, the country had to adopt these policies due to a loan contract with the IMF.

The fall in growth rate and persistence of high inflation have coincided with the pursuance of such policy regime.[6] For example, the government's following of the contractionary monetary policy at the diktat of the IMF has reduced the supply of credit to the private sector and reduced revenue income due to declined imports. For example, the supply of credit to the private sector declined from 13.62 percent in July-March, FY 2011-12 to 6.98 percent in the corresponding period of FY 2012-13. The import (C&F) has declined by USD 36.8 million between April, 2012 and April, 2013.

The country's use of fiscal incentives in shaping the economic development has long been less than creative

Moreover, the country's use of fiscal incentives in shaping the economic development has long been less than creative. The state has not been able to devise ways and means to transform the economy to a higher growth path – one that is more diverse, industrial and service sector dominated, and more resilient to external shocks.

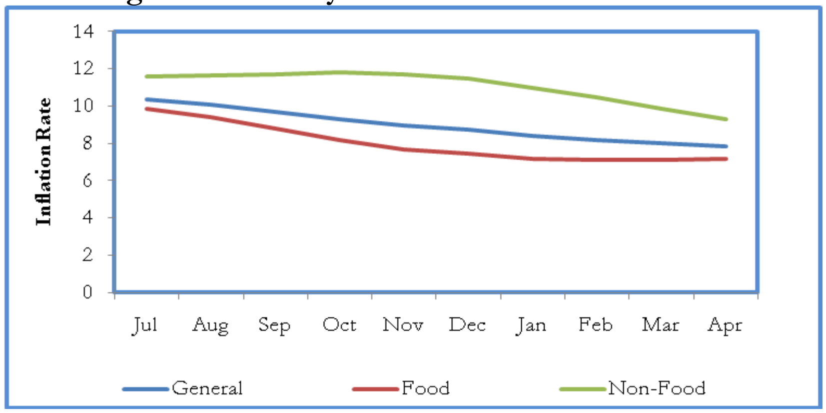
3.3 Inflation Scenario

The inflation rate has been projected at 7.0 percent in the proposed budget.

The inflation rate has been projected at 7.0 percent in the proposed budget. In the last two fiscal years, the government expected to bring down inflation rate to 7.5 percent. However, point-to-point general inflation (Base: 1995-96=100) was as high as 8.56 percent at the end of June, 2012. By the end of April 2013, point-to-point general inflation came down to 7.93 percent (Figure 3). According to twelve-month average basis, the non-food inflation stood higher than the food inflation in the entire period of July-March, FY 2012-13. The supply side causes of the inflation have mostly been unresolved. For example, the rise of international food and fuel price has inflationary effect on economy. The financing of budget deficit is also likely to cause inflation as the budget financing is increasingly being spent on consumption purposes. Moreover, as the fiscal policy is expansionary in nature, the inflationary pressure is likely to persist in FY 2013-14.

[6] Unnayan Onneshan. 2011b, IMF's Loan and its Implications on Bangladesh Economy, Bangladesh Economic Update, Volume 2, No. 2.,March 2011.Unnayan Onneshan, Dhaka, Bangladesh. Available at: http://www.unnayan.org/documents/Governance%20Capability/meu_Mar_2011.pdf [Accessed 30 May 2013]

Figure 3: Monthly inflation rate in FY 2012-13



Source: Bangladesh Bank 2013

Table 9: Why investment is stagnating in Bangladesh

Variable	Explanation
ICOR	Increased from 3.76 in FY 2010-11 to 4.44 in FY 2012-13
Poor state of infrastructure	- Compared to 2008, total road in 2012 has decreased by 109 kilometers, whereas total route in railway observed no addition in kilometers in the last two fiscal years. - The gap between installed capacity and maximum electricity generation increased to highest 2559 MW in 2012. - The gap between demand and supply of gas increased from 5.5 BCF in December, FY 2010-11 to 600.5 BCF in December, FY 2011-12.
Consumption-led growth	The rate of household final consumption expenditure as percent of GDP in Bangladesh is 78 percent, whereas that in India and China 59 percent and 34 percent, respectively.
Falling private investment	The public sector investment has gradually risen to reach from 4.7 percent in FY 2008-09 to 7.9 percent in FY 2012-13, while private investment in FY 2012-13 decreased at 19.0 percent to reach the level of FY 2006-07.
Saving-Investment Gap and Capital Flight	The severity of capital flight has increased, as the wide gap between savings and investment has persisted at 2.7 percent in FY 2012-13.
Increased Revenue Spending on Consumption and Rent-seeking	Proposed budgetary expenditure on interest payment, subsidies and transfer payments has been Tk. 241,596 crore between FY 2008-09 and FY 2012-13, as opposed to total ADP expenditure of Tk. 195,600 crore, with ADP expenditure falling short by Tk. 45,996 crore. The proposed subsidy for FY 2014 is Tk. 15443 Crore.
Indivisibility of investment	No large-scale infrastructure development projects which could have positive externality in the last few years.
Nature of accumulation	Primitive accumulation widens, reducing the ability of investment of the masses
Lack of policy independence and creativity	Adoption of contractionary monetary policy as conditionality to a loan has led to the reduction of credit to the private sector from 13.62 percent in July-March, FY 2011-12 to 6.98 percent in the corresponding period of FY 2012-13

4. EFFECTIVENESS OF FISCAL MEASURES FOR INCREASING PRODUCTIVITY

The fiscal policy is an important tool for achieving a number of government policies. For example, a prudent and efficient fiscal regime can significantly alter the level of investment, and hence growth and the distributional aspects of growth. The government, however, has planned a budget for upcoming fiscal year that is unlikely to achieve the fiscal targets regarding expenditure and revenue collection. Moreover, some of the proposed budgetary measures such as block allocation is likely to adversely affect the functioning of the economy.

The total public expenditure target for FY 2013-14 has been set at Tk. 2,22,491 crore (18.72 percent of GDP), which is 16.04 percent higher than the original target of the previous year

4.1 Feasibility of Fiscal Targets in FY 2013-14

The total public expenditure target for FY 2013-14 has been set at Tk. 2,22,491 crore (18.72 percent of GDP), which is 16.04 percent higher than the original target of the previous year. In the previous fiscal year (FY 2012-13), the total public expenditure was estimated at Tk. 191,738 crore (18.41 percent of GDP). According to the provisional data, the actual total expenditure at the end of FY 2012-13 stood at Tk. 189,326 crore, or 18.2 percent of GDP. Total revenue collection target for FY 2013-14, on the other hand, has been set at 19.9 percent higher than that of the previous year. For FY 2013-14, the revenue income is estimated at Tk. 167,459 crore, which requires revenue collection to increase to 14.1 percent of GDP. In contrast, the revenue collection target in the previous budget for FY 2012-13 was set at Tk. 1,39,670 crore (13.4 percent of GDP), which has remained unchanged in the revised budget as well.

The overall budget deficit for FY 2013-14 has been estimated at Tk. 55,032 crore, which is 4.6 percent of GDP(Table 10) . The revised budget for FY 2012-13 estimated a deficit of Tk. 49,656 crore (4.8 percent of GDP), which was Tk. 55,000 crore (5.0 percent of GDP) in the proposed budget. Since the revenue target of the government seems to be ambitious, the government may be forced to cut the spending level in FY 2013-14 to keep the budget deficit at the targeted level.

The three fiscal targets related to revenue earning, revenue expenditure and budget deficit thus fell short in FY 2012-13 and the government had to revise these by a significant margin. Even then, the targets for revenue collection and revenue expenditure in FY 2013-14 are set above the trend observed in the last several fiscal years. The fiscal targets in FY 2013-14 are unlikely to be achieved as well.

Table 10: Budget for FY 2013-14 at a Glance

Description	FY 13 (Proposed)		FY 14 (Proposed)		Growth
	Crore Tk.	% of GDP	Crore Tk.	% of GDP	FY 14 over FY 13
Revenue Earnings	1,39,670	13.4	167,459	14.1	19.9
Public Expenditure	191,738	18.4	222,491	18.7	16.04
Budget deficit	52,068	5.0	55,032	4.6	5.69

Source: Ministry of Finance, 2013b

4.2 Sources of Revenue Earning and the Implications

Bangladesh government has been facing a hard time in trying to boost its revenue earning. The revenue-GDP ratio and the tax-GDP ratio of the country stood at 13.46 percent and 11.25 percent, respectively in FY 2012-13 (revised budget), which although match with those of the South Asian counterparts, but are still far below those of many middle and high income countries. The government, therefore, has to capture the opportunity to strengthen its revenue to raise adequate money for financing.

For FY 2013-14, of the government's total revenue collection target of Tk. 167,459 crore, Tk. 1, 41,219 crore is supposed to be collected from tax revenue

For FY 2013-14, of the government's total revenue collection target of Tk. 167,459 crore, Tk. 1,41,219 crore is supposed to be collected from tax revenue. As a result, tax-GDP ratio is expected to increase to 11.88 percent in FY 2013-14 from the previous year's revised figure of 11.22 percent. The following two critical issues are needed to be addressed for the realization of the targets.

- **Tax net, tax avoidance and tax evasion**

The first concern is the prevalence of narrow tax net, which acts as a hindrance to having a stronger revenue base in the country. The problem of tax has two dimensions. First, a large number of people and business entities still do not pay taxes. According to a recent media report, at least 60 lakh people are eligible to pay the income tax in FY 2012-13, while the actual number income tax payers stood at 13 lakh. Similarly, in the same year, the number of business entities which of had a legal requirement to pay for the VAT was 5 lakh whereas the requirement was fulfilled by 60,000 business houses (New Age, 2013). Second, certain kinds of taxable income, such as the inheritance tax, have never been introduced in the country. Third, some structural issues are involved as well. The rise of employment in the informal sector and contraction of the formal sector, small size of economic entities and a large share of agricultural output in total output which is dominated by subsistence farming have a bearing on the income tax.

The incidence of tax avoidance, which results from the poorly constructed fiscal laws, is a source of concern.

The existing tax loopholes have created opportunities of tax avoidance and tax evasion. The incidence of tax avoidance, which results from the poorly constructed fiscal laws, is a source of concern. The evasion of taxes by the Multi-National Corporations (MNCs) through different transfer pricing techniques such as under-invoicing, capital flight, dividend transfer and profit shifting is extremely harmful for the economy.

- **Tax burden and tax progressivity**

The main four revenue sources in FY 2013-14 are projected as VAT (Tk. 49,956 crore), Taxes on Income and Profit (Tk. 48,297 crore), Supplementary Duty (Tk. 20,853 crore), and Import Duty (Tk. 14,629 crore

The second important concern involves the issue of tax burden and tax progressivity. The country's revenue collection depends on indirect taxes like the VAT. The main four revenue sources in FY 2013-14 are projected as VAT (Tk. 49,956 crore), Taxes on Income and Profit (Tk. 48,297 crore), Supplementary Duty (Tk. 20,853 crore), and Import Duty (Tk. 14,629 crore) (Table 11). Consequently, the indirect taxes like the VAT still occupy a dominant position among the sources of revenues in FY 2013-14, although income tax collection increased in the last several years.

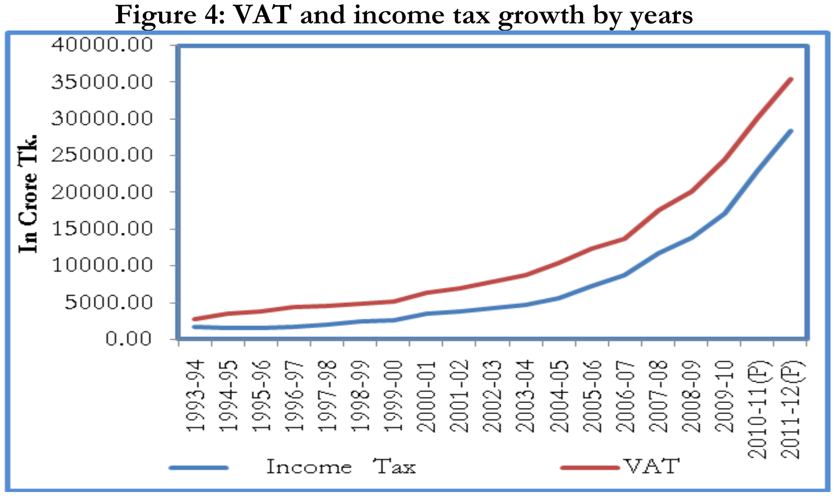
The main problem with indirect taxes is that they are regressive in nature. Indirect taxes can be made progressive as well if those are targeted at luxury items. However, the VAT structure that can be used to collect different amount of taxes from different income groups is missing in the country. Moreover, the poor have to spend a higher proportion of their income to consume goods than the rich.

Table 11: Details of revenue receipts in FY 13 and FY 14
(In Crore Tk.)

Description	FY 13 (Revised)	FY 14 (Proposed)
Tax Revenue		
NBR Tax		
Taxes on Income and Profit		
Value Added Tax (VAT)		
Import Duty	35,300	48,297
Export Duty	40,466	49,956
Excise Duty	14,528	14,629
Supplementary Duty	40	45
Other Taxes and Duties	997	1,310
Sub-Total	19,969	20,853
	959	1,000
Non-NBR Tax	**1,12,259**	**136,090**
Narcotics and Liquor Duty		
Taxes on Vehicles		
Land Revenue	70	70
Stamp Duty (Non Judicial)	1,100	1,155
Sub-Total	574	640
Total Tax Revenue	2,821	3,264
	4,565	**5,129**
	1,16,824	**141,219**
Non-Tax Revenue	**22,846**	**26,240**
Grand Total	**139,670**	**1,67,459**

Source: Ministry of Finance, 2013b

Figure 4: VAT and income tax growth by years



Source: Bangladesh Bank, 2013

4.3 Obstacles to Revenue Collection

The three major sources of revenue earning are income tax, VAT and customs duty. The main predicaments to increase the revenue collection especially in case of income tax emanate, from the country's structural and institutional rigidities revenue collection especially in case of income tax emanate, from the country's structural and institutional rigidities. The economic path has taken the route in which certain classes have gained most of the benefits of economic growth, and very often with the help of ruling class. The beneficiaries themselves have also accumulated political power, which allow them to enjoy free riding. The problem runs deeper as the revenue collecting authorities have also acquired the habit of rent seeking. As a result, the income tax base is low in Bangladesh. In case of customs duty, the government's freedom to impose duties on different products as per own necessities are compromised because of the trade liberalization. The government, therefore, has focused heavily on VAT, and has attempted to do little to make the VAT system more progressive.

For FY 2013-14 the allocated amount for non-development and other expenditure is Tk. 156,621 crore (13.2 percent of GDP) and ADP expenditure is Tk. 65,870 crore

4.4 Composition of Revenue Expenditure and the Implications

Of the total public expenditure target of Tk. 222,491 crore (18.7 percent of GDP) for FY 2013-14 the allocated amount for non-development and other expenditure is Tk. 156,621 crore (13.2 percent of GDP) and ADP expenditure is Tk. 65,870 crore (5.5 percent of GDP). In the previous fiscal year (FY 2012-13), ADP expenditure was Tk. 52,068 crore (5.0 percent of GDP). This original ADP was later revised to Tk. 49,656 crore (4.8 percent of GDP).

4.4.1. Total and Non-Development Public Expenditure

The priority for public expenditure has shifted in FY 2013-14. After the provision for the Interest payment, the Education and Technology has attracted the highest allocation of Tk. 26,093 crore in the proposed budget. The second highest allocation goes to the Transport and Communication sector with Tk. 20,596 crore. The Agriculture sector secures the third position with the allocation of Tk. 17,471 crore. This represents a contrast from FY 2012-13 when the top three fund receivers were Education and Technology, followed by Agriculture and Local Government and Rural Development.

In terms of growth in resource allocation, the Public Services tops in FY 2014, with a growth rate of 150.08 percent over that of FY 2012-13, followed by the Transport and Communication sector with a 55.1 percent growth. Negative growth is observed for two sectors, the Local Government and Rural Development (1.4 percent) and the Agriculture sector (11.9 percent) (Table 12).

Table 12: Sector-wise allocation of total revenue expenditure

Sector	FY 2012-13 (Revised) (In Crore Tk.)	FY 2013-14 (Proposed) (In Crore Tk.)	Growth (In percent)
Public Services	12,797	32,094	150.8
Local Government and Rural Development	15,004	14,800	-1.4
Defense Services	13,503	14,458	7.1
Public Order and Safety	9,713	10,537	8.5
Education and Technology	21,561	26,093	21.0
Health	9,130	9,470	3.7
Social Security and Welfare	11,269	12,366	9.7
Housing	1,393	1,779	27.7
Recreation, Culture and Religious Affairs	1,760	1,746	0
Fuel and Energy	9,993	11,351	13.6
Agriculture	19,842	17,471	-11.9
Industrial and Economic Services	2,737	3,206	17.1
Transport and Communication	13,238	20,596	55.1
Interest	23,347	27,743	18.8

Source: Ministry of Finance, 2013b

4.4.2 Block Allocation, Interest Payment and Subsidy and Transfer Payments

Among the different components of revenue expenditure, total subsidy in FY 2013-14 is projected at Tk. 15,443 crore, which has decreased by 7.52 percent from the previous fiscal year's revised budget of Tk. 16,808 crore. On the other hand, block allocations has observed a staggering increase of 346.10 percent from the revised amount of FY 2012-13.

Table 13: Non-development revenue expenditure in detail

Description	FY 2012-13 (Revised)	FY 2013-14 (Proposed)	Change (In Percent)
Pay and Allowances	24,867	22,530	10.37
Goods and Services-Total	15,828	13,847	14.30
Supplies and Services	11,740	9,984	17.59
Repairs, Maintenance and Rehabilitation	4,088	3,863	5.82
Interest Payments	27,743	23,347	18.83
Subsidies and Current Transfers-Total	43,145	42,746	0.93
Subsidies	15,443	16,808	-7.52
Block Allocations	1,887	423	346.10
Total Non-Development Revenue Expenditure	113,470	102,893	10.28

Ministry of Finance, 2013b

4.4.3 ADP Expenditure in Detail

ADP allocation on the Overall Communication has almost doubled, from Tk. 8,242 crore in FY 2012-13 to Tk. 15,216 crore in FY 2013-14 primarily due to block allocation on the Padma Bridge

Like the previous fiscal year, the Agriculture sector received the highest ADP allocation, although its share has fallen from 30.9 percent in FY 2012-13 to 25.4 percent in FY 2013-14. On the other hand, ADP allocation on the Overall Communication has almost doubled, from Tk. 8,242 crore in FY 2012-13 to Tk. 15,216 crore in FY 2013-14 primarily due to block allocation on the Padma Bridge.

Table 14: Sector-wise allocation of annual development programme

Ministry/Division	FY 2013-14 (proposed)	FY 2012-13 (revised)
human resources	15,140 (23.0)	12,310 (23.5)
overall agriculture	16,732 (25.4)	16,181 (30.9)
overall energy	11,308 (17.2)	9,947 (19.0)
overall communication	15,216 (23.1)	8,242 (15.7)

Source: Ministry of Finance, 2012

4.4.4 Budget Deficit and Financing

Compared to the previous year, budget deficit has observed 10.83 percent increase in FY 2013-14

The financing of fiscal deficit matters greatly for success of budgetary policies. Any government borrowing from domestic sources or from external sources involves some costs as well as some benefits. Of the Tk. 55,032 crore budget deficit in FY 2013-14 (4.6 percent of GDP), Tk. 23,729 crore is expected to be financed from external sources and Tk. 33,964 is to be collected from domestic sources. Compared to the previous year, budget deficit has observed 10.83 percent increase in FY 2013-14. Of the domestic financing, the government has planned to collect Tk. 25,993 crore from the banking sector and Tk. 7,971 crore from non-bank sources. In case of external borrowing, the main emphasis has been placed on concessional loans.

Table 15: Sources of financing for FY 2013-14

Particulars	FY 2012-13 (Proposed)	FY 2012-13 (Revised)	FY 2013-14 (Proposed)
Total Financing Requirement	46,024	44,376	48,362
External Financing (net)	12,540	11,903	14,398
Loan	20,398	19,951	23,729
Amortization	-7,858	-8,048	-9,331
Domestic Financing (net)	33,484	32,473	33,964
From the Banking System	23,000	28,500	25,993
From the Public	10,484	3,973	7,971

Source: Ministry of Finance, 2013b

As the share of grants in total aid has gone down, increase in external borrowings means that more money has to be paid in the form of interest and total debt obligation would go up. A major objective is to maintain the fiscal deficit at a sustainable level. If the government's borrowing from the external sources at strict conditions continues, the debt burden of the country could become unbearable. In the first nine months of FY 2012-13, for example, the borrows from domestic sources stood at Tk. 6,679 crore (49.75 percent) and external financing stood at Tk. 8,768 crore (50.25 percent), leading to greater interest payment on foreign borrowing . Moreover, the cost of foreign borrowing has not been limited to monetary values only. The country has also been paying its prices through loss of policies sovereignty. As already observed, a recent borrowing from the International Monetary Fund (IMF) has coincided with a number of important policy changes that have led to a contraction of the economy. (Unnayan Onneshan, 2011b).

The Finance Minister has proposed to allocate Tk. 17,471 crore in the budget for FY 2013-14 in the broad Agriculture sec

5. EFFECTIVENESS OF BUDGETARY MEASURES ON EXPANDING PRODUCTIVITY

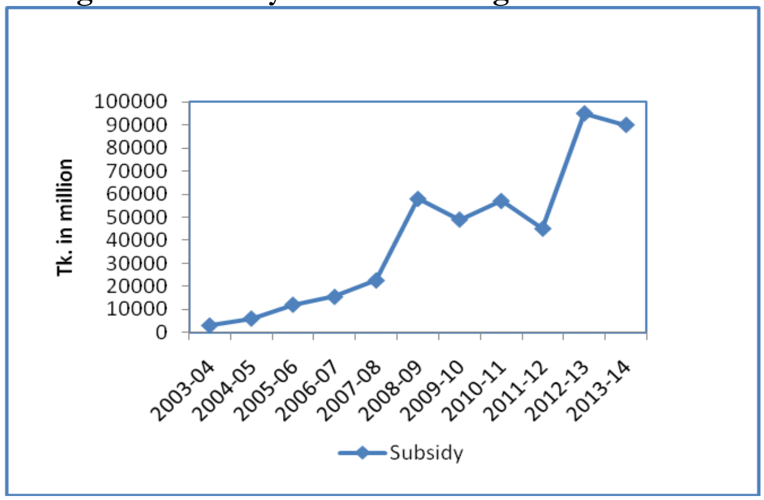
5.1 Real Sector

5.1.1. Agriculture Sector

The Finance Minister has proposed to allocate Tk. 17,471 crore in the budget for FY 2013-14 in the broad Agriculture sector. This represents a decrease by Tk. 2,371 crore from the revised budget for FY 2012-13. However, in the backdrop of falling growth rate in agriculture sector (Table 16), the doubt that arises if this amount would be sufficient to revive the sector.

Second, the non-development expenditure dominates the agricultural allocation, which has less do to with future productivity. For ensuring food security, the necessity of spending more on agricultural research and extension services are need of the house. Nonetheless, the allocation of funds for research and agricultural extension services in the budget for FY 2013-14 is meager.

Figure 5: Subsidy Allocation of Agriculture Sector



Source: Ministry of Finance, 2013a and 2013b

Third, the amount of subsidy to the agriculture sector proposed at Tk. 9000 crore, which is Tk. 3000 crore lower than the revised budget for FY 2012-13. Since the price of fuel is on the rise, this subsidy cut would hurt the agricultural production

Agriculture sector lacks specific proposals in the budget for FY 2013-14 about how to speed up the slow rate of ADP implementation,

Finally, agriculture sector lacks specific proposals in the budget for FY 2013-14 about how to speed up the slow rate of ADP implementation, which is a long characteristic of this sector. The ADP implementation in the first 9 months of FY 2012-13, for example, stood at 66 percent.

5.1.2 Industry Sector

The Industrial and Economic Services sector has received Tk. 3,206 crore in the budget. This equals an increase of Tk. 469 crore from the revised budget of the preceding fiscal year. However, like the agriculture sector, the challenge for the industry remains whether this allocated amount would be able to sustain the industrial growth, especially when the sector is burdened with multiple problems. In particular, the investment requirement is huge to shift the industrial growth to a more sustainable one.

Like the other sectors, the slow rate of ADP implementation is a problem for the industrial sector as well. Actually, the ADP implementation status of the industry sector is one of the worst as the rate of ADP implementation stood at merely 41 percent in the first 9 months of FY 2013-14.

The industry sector needs more specific proposal about how the sector can receive more funds, even if the government continues contractionary monetary policy.

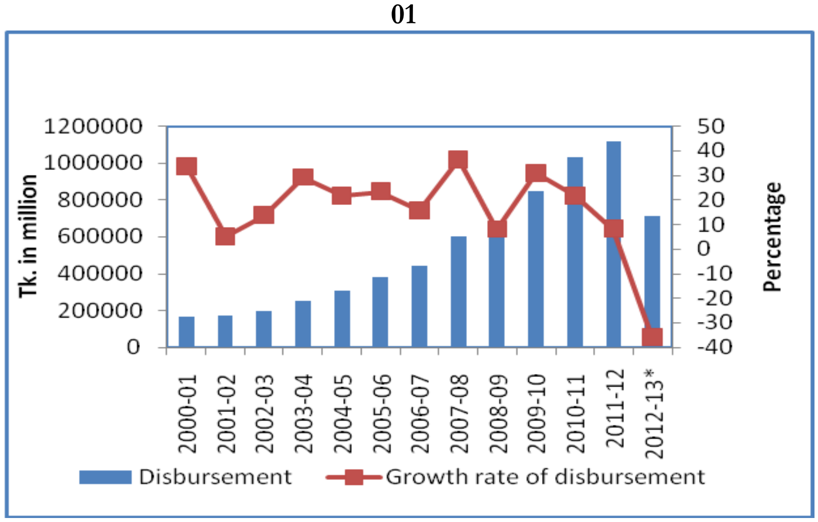
The pressing issue for the industrial sector seems to be the fall in investment demand from the private sector and the poor allocation of industrial term loans. For example, the industrial term loan has been experiencing a decreasing trend since FY 2009-10 (Figure 6). The growth rate of industrial term loan was 29.56 percent in FY 2009-10, which then decreased to 24.30 percent in FY 2010-11 and then plummeted to 9.68 percent in FY 2011-12 (Figure 6). Moreover, the industry sector needs more specific proposal about how the sector can receive more funds, even if the government continues contractionary monetary policy.

Table 16: Sectoral share and sectoral growth rate agriculture and industry
(In percentage, Base Year: 1995-96)

Sector	Sectoral Share				Sectoral Growth Rate			
	FY10	FY11	FY12	FY13*	FY10	FY11	FY12	FY13*
Agriculture and Forestry	15.81	15.58	15.02	14.33	5.56	5.09	2.46	1.18
Fishing	4.49	4.43	4.39	4.37	4.15	5.25	5.39	5.52
Mining & Quarrying	1.29	1.26	1.26	1.34	8.80	4.80	7.79	11.12
Manufacturing	17.94	18.42	19.01	19.54	6.50	9.45	9.73	9.34
Electricity, Gas & Water	1.60	1.60	1.69	1.73	7.28	6.63	12.03	8.57
Construction	9.10	9.09	9.20	9.37	6.01	6.51	7.57	8.05

Note: P=Provisional
Source: Ministry of Finance, 2013a

Figure 6: Disbursement of industrial term loans since FY 2000-01



Source: Bangladesh Bank, 2013b

5.2 Infrastructure and Power Sector

Special allocation for the Padma multipurpose Bridge is Tk. 6,852 crore and is included in infrastructure

Compared to the other sectors, the infrastructure sector (Transport and Communication) and the power sector are more capital centric. The proposed allocation in these two sectors stood at Tk. 20,596 crore and Tk. 11,351.20 crore respectively. These are higher than the allocation in the budget of FY 2012-13 by Tk. 7,358 crore and Tk. 1,358 crore, respectively. Special allocation for the Padma multipurpose Bridge is Tk. 6,852 crore and is included in infrastructure.

In terms of budgetary allocation, although the infrastructure sector has seen one of the highest increases in recent times, the effectiveness of this amount, however, would depend on how the money is capitalized. If the money is used to build new roads, railways, etc, the possibility of a greater fiscal multiplier would be created.

Moreover, one flaw in the government's infrastructure development plan is its reliance the PPP initiative, which has already failed to produce real results. For example, despite allocating Tk. 30 billion for 16 PPP projects in FY 2011-12, the funds remained unspent.

6. EFFICACY OF SOCIAL SECTOR SPENDING

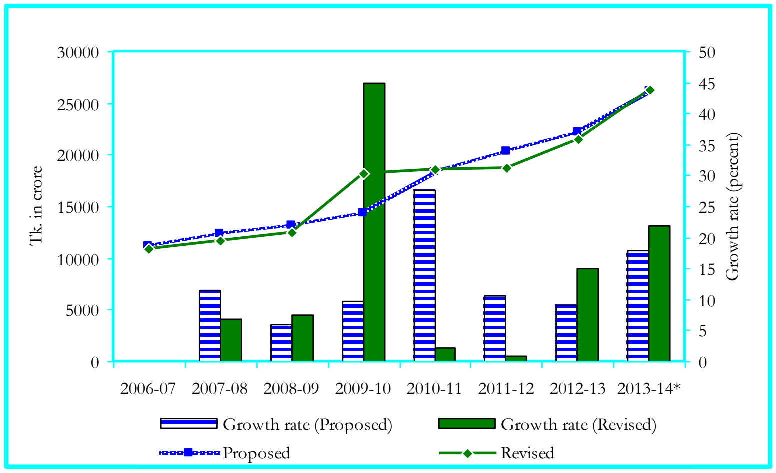
The proposed public investment in education and health sector has negative revision during most of the period between fiscal year 2006-07 and fiscal year 2013-14

6.1 Education and Health

Public expenditure in education and health has been primarily suffering from two sides at the same time. On the one hand, expenditure in these sectors is inadequate for achieving the objectives of the government. On the other hand, the rate of utilization of the funds has been poor (only 64 percent and 42 percent of allocated ADP was implemented during the last 10 months of the FY 2012-13 in education and health sector respectively). The proposed allocation for education and technology in the budget of FY 2013-14 is Tk. 26093 crore (including development and non-development budget), whereas the proposed budget for the health sector was Tk. 9470 crore (including development and non-development budget). These represent increase of Tk. 3948 crore and Tk. 137 crore for education and technology sector and health sector respectively from the preceding year. However, the rate of growth in education sector has increased but in health sector it has slowed down than that of the last fiscal year (2012-13).

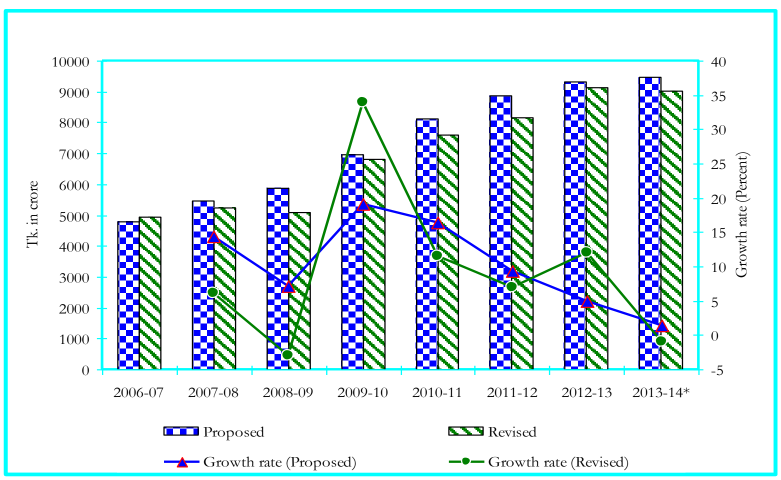
The proposed public investment in education and health sector has negative revision during most of the period between fiscal year 2006-07 and fiscal year 2013-14 (Figure 7 and 8). Through the weighted mean calculation it can be forecast that from the proposed Tk. 26093 crore and Tk. 9470 crore as in FY 2013-14 approximately Tk. 26286 and Tk. 9036 crore may remain as revised allocation for education and health sector.

Figure 7: Public Investment in Education and Technology



Source: Finance Division
Note: * indicates Unnayan Onneshan's estimates

Figure 8: Public Investment in Health and Family Welfare Sector



Source: Finance Division
Note: * indicates Unnayan Onneshan's estimates

6.2 Employment

The formal sector in Bangladesh has long been unable to absorb new labourers. In addition, its size has been shrinking over the years. Total civilian labour force in Bangladesh grew from 46.3 million in 2002-03 to 57.1 million in 2010, or by 23.32 percent, the employment in the formal sector declined from 9.2 million labours in 2002-03 to 6.8 million labours 2010, representing a 26.09 percent decrease. On the other hand, the informal sector grew by 34.76 percent between 2002-03 and 2010 to accommodate a colossal 47.3 million labours, against a total of 35.1 million labours (BBS, 2011).

The proposed budgetary allocation for the reduction of poverty and social security and welfare in current fiscal year is Tk. 115237 crore and Tk. 12366 crore respectively

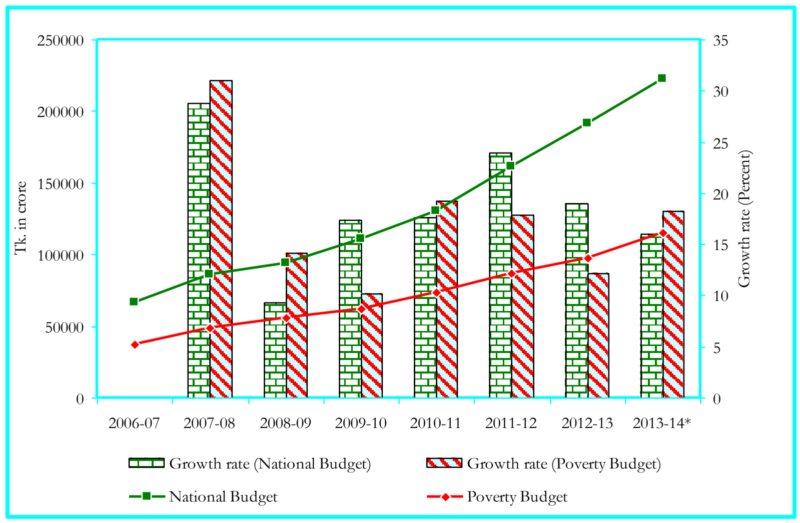
In addition, total unemployment rate in the country worsened from 4.32 percent in 2002-03 to 4.55 percent in 2010. It is to be noted that many of the employed persons are actually involved in disguised employment. Thus, the actual unemployment scenario is much worse than what the official statistics show.

6.3 Poverty, Inequality and Social Security

The country has made a substantial progress in reducing poverty over the last few decades, yet the rate of decrease has slowed down in the recent years. Thus the number of population living under the poverty line is still increasing. The slower rate of poverty reduction is the result of inequality, low public expenditure in the recent years, increase trend of unemployment, rural urban differentials and a tendency of increased non-development expenditure over development expenditure.

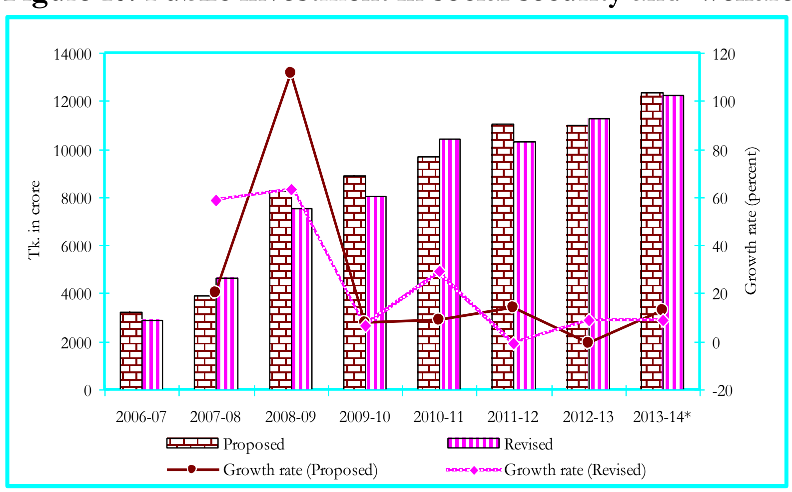
The main tool that the government uses for a social security purpose for the poor is the provision of social safety net programmes (SSNPs). These SSNPs are mainly delivered on an ad-hoc basis to cope with sudden vulnerabilities. It is observed that reasonable growth rates have led to declines in the percentage of poor but actual numbers of the poor have not declined at the same time expenditures on safety nets have fallen. Though safety net programmes are important components of the government's social protection strategy, expenditure on the programmes are fairly low. It is urgent to shift the social safety nets to social protection. The proposed budgetary allocation for the reduction of poverty and social security and welfare in current fiscal year is Tk. 115237 crore and Tk. 12366 crore respectively. Based upon historical track record, in most of the cases, the proposed budgetary allocation has witnessed a negative revision. By calculating weighted mean it might be said that the proposed allocation for social security and welfare would be approximately Tk. 12268 crore as revised allocation (Figure 9 and 10). On the other hand, the current budget shows fiscal year (FY 2013-14) is 51.79 percent in relation to poverty reduction. This allocation as a percentage of total budget is lower than that of the previous year (FY 2012-13) which was 52.68 percent.

Figure 9: National budget and poverty budget



Source: Ministry of Finance, 2013b
Note: * indicates Unnayan Onneshan's estimates

Figure 10: Public investment in social security and welfare



Source: Ministry of Finance, 2013b
Note: * indicates Unnayan Onneshan's estimates

7. CONCLUSION

The fiscal measures fall short of augmenting the required investment and productivity growth to achieve the targeted growth of 7.2 per cent for the next fiscal year.

The country has been waiting for prudent actions to steer an economic recovery for continuation of economic and social progress. The authorities could have embarked on a two-pronged strategy, comprising a short-run one to revert the economic slow down and a medium-term strategy of addressing structural bottlenecks. The fiscal measures fall short of augmenting the required investment and productivity growth to achieve the targeted growth of 7.2 per cent for the next fiscal year. The proposed actions are inadequate to bring fiscal discipline in the management of deficit, debt and subsidy one the one hand and to increase income in the absence of radical reforms in the tax system on the other. The regressive tax structure is ridden with low base, avoidance and evasion. There is huge missing of distributive justice, characterized by widening income, spatial and male-female inequalities, driven by jobless growth.

There is need for a pro-active state. Like the previous budgets, policies that focus mainly on stabilization, but pays little attention to proper allocation and distribution is more likely to even fail in stabilization of the economy as well. Second, numerous un-coordinated seemingly less than effective programmes relating to social safety nets need to shift its emphasis on social protection through innovation in social policies. Third, given the vulnerabilities existing in the external sector, breaking into the high-value global supply chain has become important for the country.

More specifically, a set of alternative proposals could be pursued to address the current situation:

First, to stabilize the growth rate and increase the investment rate, any form of contractionary policy, whether it is fiscal or monetary, has to be revised. Reductionist policies only cut down investment demand creates unemployment and in turn hampers growth. Therefore, the monetary policy has to be properly adjusted.

Second, to improve the fiscal balance of the country, the thrust of the tax reforms has to shift from the adhocism to a structural one, comprising the principles of instituting progressive tax structure, avoidance of tax evasion and strengthening institutional capacity. For growth to continue the economy requires increased public expenditure in physical and socio-economic infrastructure as they ensures greater multiplier effects.

Third, to enable a structural shift from agriculture to industry and service and greater and to initiate rapid growth in manufacturing, augmented public spending on catching up processes such technological advancement, research and development is required so is the increasing investment in education and health sectors.

There is a need for overhauling of the banking system to root out its structural defects such as high interest rate, high interest rate spread and debt default

Fourth, there is a need for overhauling of the banking system to root out its structural defects such as high interest rate, high interest rate spread and debt default. The overemphasis on reforms based on the ideological lines of deregulation, liberalization and privatization have not been root out the basic faults. This requires actions by being informed by the politico-economic variables such as political settlement, celientelism and rent. This would also require resorting to high degree of regulation and stringent oversight for reduction in moral hazards and adverse selections.

Fifth, Bangladesh requires dealing with post-green revolution challenges, becoming evident in the forms of declined soil fertility, over extraction of ground water, increased requirement for fertilizer. Simultaneously, the country is plagued with structural factors. For instance, small sizes of agricultural lands due to fragmentation from demographic changes and inheritance have been arresting productivity in the agriculture sector in Bangladesh. The solution could be the allocation of more money on agricultural research for the first issue and the introduction of agrarian reforms, including cooperative farming, for the second issue. For the industry sector, a state governed mechanism has to be established that will work with the private sector for dissemination of technological knowledge for diversification of production.

In creating employment opportunities, the government should strengthen employment generation and capability enhancement activities for the labour force through employment guarantee schemes

Sixth, in creating employment opportunities, the government should strengthen employment generation and capability enhancement activities for the labour force through employment guarantee schemes. In this regard, the government has to expand productive activities under its own capacity and promote non-agricultural employment in rural areas. The government will also have to increase its expenditure on human resources development, especially in education and health.

A progressive tax system could reduce inequality on the one hand and increase revenue collection on the other

Seventh, for health and education sectors, in addition to increasing government expenditure, an evaluation mechanism should be established to compare effectiveness of different interventions.

Eighth, a progressive tax system could reduce inequality on the one hand and increase revenue collection on the other. In addition, the government should also address the root causes of poverty and inequality: unequal distribution of resources (especially land), primitive accumulation techniques and market failures. A broader range of employment generation and capability enhancement activities, especially in rural areas, would also help reduce poverty and inequality.

Ninth, even the mainstream economics has always emphasized on the role of government as a provider of infrastructure. The government therefore should realize its importance in infrastructure development and make major strides in this regard.

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