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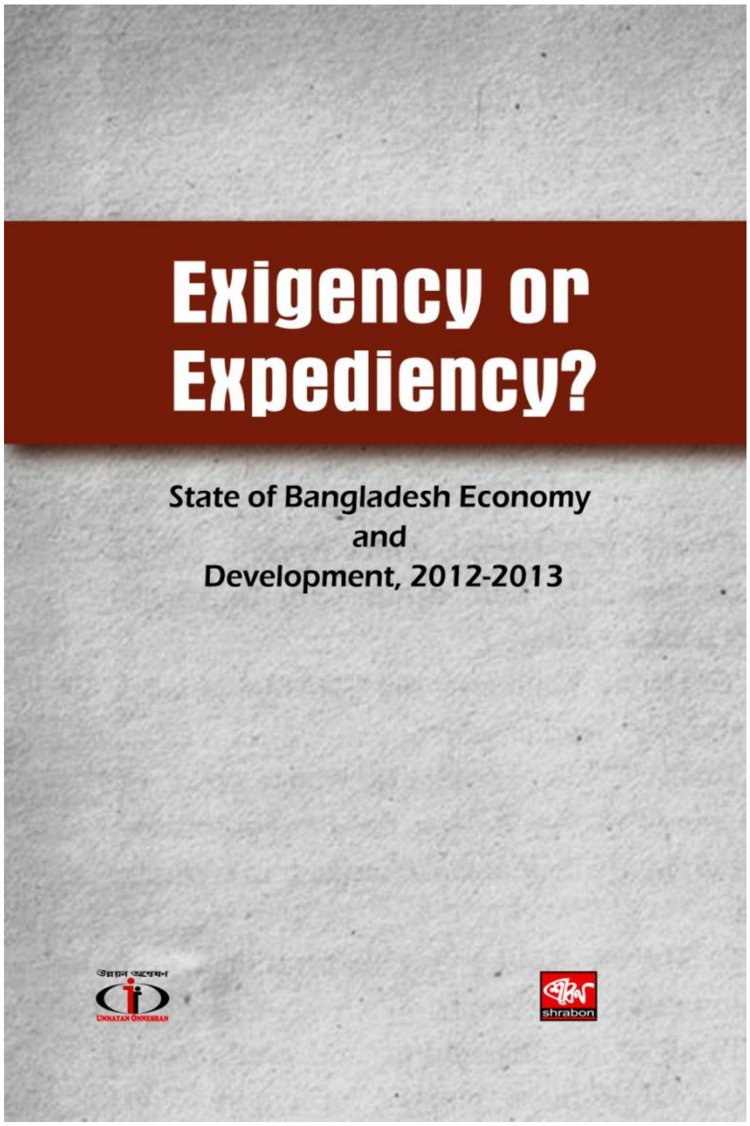

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UNNAYAN ONNESHAN
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ANNIVERSARY

*This report has been prepared as a chapter for a forthcoming book "*Exigency or Expediency: State of Bangladesh Economy and Development 2012-2013*", edited by Rashed Al Mahmud Titumir to be published by Shrabon Prokashani, Dhaka in May 2013*

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1. INTRODUCTION

The policy-induced macroeconomic challenges loom large on the maintenance of decadal average growth rate of six percent in the current year. The continuation of progress, despite all odds, in poverty reduction, education, health and other sectors is contingent upon sustenance of growth in national output. The lack of farsightedness and creativity in policy making has exposed Bangladesh economy in recent times to several risks, which have substantially altered the favourable conditions prevailing in the economy and in the society. The conceding to politically expedient allocations to placate the ruling party stalwarts in an election year has further compromised the policymaking. The inability of finding a mechanism of overseeing the election for transfer of power and other political contestations have bearing on the necessary conditions for the economy and the social sectors to progress.

These new challenges have given rise to a number of concerns and questions. The key immediate questions are: will the policymaking resort to exigent measures to halt and reverse the trends that have set in or travel along the expedient course that it has yielded in recent times? Will Bangladesh be able to maintain her path of progress or will the economy start to decline from now on? Will the country's achievements in the social sector accelerate or decelerate? Is this the end of Bangladesh's growth story or is it just an aberration? Answering such questions require a thorough understanding as to how the present situation has been created.

In seeking answers to the questions, this chapter begins with identification of the emerging trends. The following sections, delving into several sectors and clusters, present outcome, evidence and reasons of how the complications brew and how the government policies bent the issues. The chapter ends with certain recommendations and actions the country may opt for overcoming the present predicaments.

2. EMERGING TRENDS: A SNAPSHOT

There are numbers of ways to identify and to cluster[1] the issues at stake. The chapter emphasises on ten issues, which have emerged as challenges before the Bangladesh economy in recent time.

First, doubts have been expressed on the achievement of targeted 7.2 percent rate of growth of gross domestic product (GDP) in the present fiscal year and most of the

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[1] The clustering has shortcomings too, as certain issues may not be adequately discussed.

forecast on the prospect of yearly growth is around or lower than 6 percent.[2] Given the projections, this would be the second consecutive year that the country's growth rate would be falling below that of the preceding year. The rate of growth predominantly depends on the rate of growth in investment. The fiscal and monetary policies have not induced rather decelerated the growth in investment demand. The private investment demand has been depressed due to contractionary monetary policies and inadequate availability of infrastructure primarily owing to reduced public investment, as the government has been diverting resources to service deficits and debt service liabilities. This result is not surprising since public investment acts complementarily with private investment in developing countries, especially if spent on infrastructure development. The country has also not been able to convert her national savings into investment while growth of the private sector investment has actually declined.

Second, Bangladesh government has continued with a deficit budget in FY 2012-13, yet the key issue is that such deficit has not been meant to augment multiplier effects in the economy rather has financed consumption as opposed to pay for infrastructure to remove supply side constraints. This continuation of present deficit has its roots in maverick decision to install rental and quick rental power plants at the cost of long run solutions. A part of the deficit is financed by borrowing from the domestic banking sector and this has reduced the banking sector's capacity to make available credit to the private sector. The amount of foreign lending has also increased in this period, consequentially requiring a large amount for payment as interest. In the wake of less availability of resources due to service debts and subsidy payments, the government's capacity to invest in physical and social infrastructure has also decreased.

Third, high inflation, though the level has reduced from the peak of previous years, continues to persist in the current year, despite adoption of contractionary monetary policy. The contractionary monetary policy has also shrunk credit supply to the private sector, on the other hand. The financial sector is mired with high rate of interest rate and high interest rate spread – the difference between the lending and the deposit rates. The goal of financial inclusion remains rhetorical as the inequality between the rich and the poor as well as the rural and the urban areas widens.

Fourth, the import prices have been rising more rapidly than the export prices of Bangladeshi goods, leading to a deteriorating terms of trade. In addition, some long-standing export items are registering negative growth rates in the present fiscal year. These factors in combination may lead to non-achievement of export targets this year. The recent collapse of a factory-building and the fire that killed many workers are exerting mounting pressures on the garment industry of Bangladesh which fetch 80 per cent of export earning. The external sector may in future be also exposed to shocks as borrowing by the private sector from external private sectors has increased in massive proportion and the government has also resorted to high interest bearining short-term loans.

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[2] The Unnayan Onneshan projects a growth rate of 5.75 percent (Hossain, 2013) while the Asian Development Bank (2013) forecasts 5.7 per cent and World Bank (2013) suggests around 6 percent.

Fifth, the real sectors of Bangladesh have been burdened with three major problems. First, contraction in the share of the agriculture sector in total GDP has been higher in the last few years than the rate at which the industry sector has been increasing. Second, the average growth rate of industry sector has been lower in the past five years compared to the average growth rate in the preeceding five years. Third, the government's contractionary monetary policy along with poor infrastructure situation have been found to be suppressing investment demand in the industry sector.

Sixth, poor infrastructure services have been adversely affecting investment demand in Bangladesh. Shortage of power has been hampering production in the country and insufficient transport facilities have been creating bottlenecks in mobility of people and goods. The growing population of the country has further been aggravating the availability of infrastructure.

Seventh, in the labour market, the opportunity of employment in the formal sector has been declining in Bangladesh, leading to more informalisation of employment. There has been a high growth in economically active population (i.e. growing youth labour force), yet the creation of employment has not matched the growth of people looking for employment. Moreover, unemployment rate has worsened in the country and the problem of disguised unemployment remains as severe as ever.

Eighth, expenditure in social sectors like education and health has been increasing in nominal terms. The rate of increase, however, has slowed down in the last several years. In addition, these two sectors have been suffering from insufficient budgetary allocation as well as from the slow rate of implementation of the Annual Development programme (ADP). The declaration in allocation is attributed to the diversion of resources to meet up growing payment on account of principal and interest (this has become the largest expenditure item in the revenue budget of the country) and rent-accruing subsidies.

Ninth, without complementary economic policies, the country's ability to reduce poverty at a higher pace has been restrained in recent times and the country is in the risk of falling short of its own set targets. At the same time, inequality situation in the country has worsened over the years.

Tenth, the policymaking in Bangladesh has remained fraught with dependence and lack of creativity despite economic and social progress. The inability to assert her policy sovereignty has cost the growth of the economy, progress in social sectors and the nation in general. For example, the contraction in national output coincides with the three-year reform programme agreed with the International Monetary Fund (IMF). The agreement limits the policy choices.

3. MACROECONOMIC DEVELOPMENTS

3.1 Growth, Savings and Investment

For the second consecutive year (FY 2012-13), the economy is projected to experience a falling growth rate of GDP. Moreover, the country's GDP growth rate for FY 2012-13 is estimated at below than the decadal average of 6.16 percent. Between FY 2010-11 and FY 2011-12, the GDP growth rate of Bangladesh slipped from 6.71 percent to 6.32 percent. It is projected that the GDP growth rate of the country could fall even further at only 5.75 percent in FY 2012-13 while the government's target has been set at 7.2 percent (Hossain, 2013).

The growth target of 7.2 is rhetorical, considering the country's past GDP growth rate and the recent worries in several fronts. The expectations by the government that a recovering global economy would boost exports, a consistent flow of credit would increase investment and further outlay in energy and infrastructure sectors would improve the investment have not been materialized. Furthermore, the policymaking in the country has not been able to create positive externalities out of situations such as bumper rice production, growing remittance and increased supply of costly power.

Growth has been constrained in Bangladesh as investment in the country has not been increasing at a satisfactory rate, especially by the private sector. Although investment as a share of GDP grew by 30 percentage points to reach 25.4 percent in FY 2011-12, the share of private investment actually decreased by 0.4 percentage points. At the same time, the growth of public sector investment went up by 0.7 percentage points to reach 6.3 percent as a share of GDP. The role of public investment in total investment, however, has been so meager that the rise of public investment could not pull the total investment upward. On the other hand, the exact opposite trend was observed for domestic savings, where public savings decreased from 1.38 percent in FY 2010-11 to 1.36 percent in FY 2011-12, while private savings went up from 17.91 percent to 18.01 in the same period. Moreover, national savings in the country has long been exceeding its total investment, depicting the country's inability to transform savings into investment. In the previous three years, for example, this gap stood at 5.61 percent in FY 2009-10, 3.63 percent in FY 2010-11, and 3.95 percent in FY 2011-12 (Table 1).

Table 1: Growth, savings and investment, FY 09-FY 12

	FY 09	FY 10	FY 11	FY 12(P)
Growth in GDP (Percent)	5.74	6.07	6.71	6.32
Investment (Percentage of GDP)				
Total	24.37	24.41	25.15	25.45
Public	4.70	5.01	5.64	6.30
Private	19.67	19.40	19.51	19.14
Domestic Savings (Percentage of GDP)				
Total	20.09	20.10	19.29	19.37
Public	1.32	1.35	1.38	1.36
Private	18.77	18.75	17.91	18.01
National Savings (Percentage of GDP)	29.57	30.02	28.78	29.40
Total Consumption	79.91	79.90	80.71	80.63
Gap between Investment and National Savings	5.20	5.61	3.63	3.95

Note: P = Provisional

Source: Authors' calculation based on Bangladesh Bank, 2013a, Ministry of Finance, 2012a

Several factors have contributed to a low investment demand in Bangladesh. The failure of the government to provide effective infrastructure facilities is one of these bottlenecks. Moreover, the harmony between public and private investment is missing in Bangladesh, whereas public investment in infrastructure or removing supply side constraints not only directly affects growth, but also increases the rate of return for private investment and thus encourages the private sector to undertake more productive activities. High private consumption demand has also been observed at the same period probably influenced by higher remittances, creating more pressure on investment demand. A major contributing factor has been the decision to follow a contractionary monetary policy, which has decreased supply of credit to the private sector and has diminished the private sector's ability to invest.

3.2 Fiscal Balance

The key question facing the public expenditure in recent time is whether such spending has been able to create multiplier effects in the economy. There are two major problems. First, the deficit has arisen because of financing consumption as opposed to paying for infrastructure, which not only would have augmented investment demand but also would not have crowded out private investment. Second, the policies have not been targeted to structural deficits, which could have improved investment demand.

The country has been operating on a sizable fiscal deficit over the last few years. This has led to borrowing by the government from the banking sector, which has crowded the private sector out. In addition, the regressive nature of the tax structure, limited tax net, avoidance and evasion of taxes and the politically motivated allocation and the slow implementation of ADP remain two major teething troubles in mobilisation and use of public resources.

The total revenue collection target for FY 2012-13 has been set almost 18 percent higher at Tk.139670 crore than the previous fiscal year. Therefore, revenue collection has to reach at 13.4 percent of GDP to achieve the revenue target for FY 2012-13. This is a rate which is much higher than the revenue collection target Bangladesh set in the previous fiscal year. The country is unlikely to achieve its revenue collection target in FY 2012-13 because of lesser collection of taxes by the revenue board.

On the expenditure side, total expenditure target for FY 2012-13 has been set at Tk.191738 crore (18.1 percent of GDP), which is almost 19 percent higher than the preceding fiscal year and one percentage point greater than the growth rate expected in terms of revenue collection. The total public expenditure in FY 2011-12 was estimated at Tk. 163589 crore (18.2 percent of GDP) and the allocation for ADP was Tk. 46000 crore (5.00 percent of GDP), which was later revised to Tk. 161213 crore (17.6 percent of GDP) and Tk. 41080 crore (4.49 percent of GDP), respectively. In FY 2012-13, the allocated amount for non-development and other expenditure is Tk.136738 crore (13.1 percent of GDP) and for ADP expenditure is Tk. 55000 crore (5.3 percent of GDP).

In the first five months of FY 2012-13 actual budget deficit stood at 0.31 percent of GDP, which is not only lower than the corresponding period of FY 2011-12, but also much smaller than the budgetary target set for the present year. The budget for FY 2011-12 aimed at a deficit of 5 percent of GDP, although it was later increased to 5.1 percent. This 5.1 percent was divided into domestic sources (3.8 percent) and external sources (1.3 percent). In the same way, the budget deficit for FY 2012-13 is estimated to be Tk.52068 crore, which is 5.0 percent of GDP. Of this amount, Tk. 18,584 crore (1.8 percent of GDP) is expected to be financed from external sources and Tk.33484 crore (3.2 percent of GDP) is anticipated to be collected from domestic sources.

During this period of five months, total revenue earning grew by 26.1 percent compared to the same period of the preceding fiscal year. Non-tax revenue’s growth was more significant in this period, which was around 73 percent higher than that of the corresponding period of the previous fiscal year. However, the most important component of revenue earning, the tax revenue, increased at a rate of 16.6 percent compared to the corresponding period of FY 2011-12, which is about 1.4 percent lower than the revenue collection target for FY 2012-13 (Table 2). According to media reports, revenue collection, between July-March of the present fiscal year, has experienced a deficit of Tk. 4783 crore. The revenue collection target for this period was Tk. 78000 crore, whereas the actual revenue collection was Tk. 73217 crore. The actual growth rate in revenue thus stood at 15.73 percent (Prothom Alo, 2013).

Total public expenditure in the first five months of FY 2012-13 registered a much sluggish pace of realization. Total public expenditure (including both current and ADP expenditure) increased by 12.8 percent between July-November 2012 and July-November 2013. Compared to the planned increase of around 19 percent, this is a slower rate of implementation. As a result, total public expenditure as a percentage of GDP slightly declined from 5.23 percent in the first five months of FY 2011-12 to 5.18 percent in the corresponding period of FY 2012-13. Of all current spending in FY 2012-13, interest payment increased by 32.69 percent, followed by subsidies and current transfer by 21.29 percent (Table 3).

Table 2: Revenue earning (Taka in Crore)

Description	Tax Revenue		Non-Tax Revenue	Total Revenue
	NBR	Non-NBR		
2010-11	76248.3	3299.9	13444.7	92992.9
2011-12	91596.0	3633.0	18550.0	113779.0
Growth (Percent)	20.1	10.1	38.0	22.4
July to November, FY 12	32034.0	1328.0	6847.0	40210.0
July to November, FY 13	37388.0	1512.0	11814.0	50714.0
Growth (Percentage) over July to November, FY 12	16.7	13.9	72.5	26.1

Source: Ministry of Finance, 2012b

The problem with fiscal deficit in Bangladesh remains that interest payment and subsidy account hold larger shares of total expenditure and these have not been able to steer multiplier effect in the economy. Meanwhile, the share of external financing went up to Tk. 81 crore in the first five months of FY 2012-13 from Tk. -1297 crore in the corresponding months of FY 2011-12, which has significantly increased the country's payments on interest (Ministry of Finance, 2012b). Moreover, since a large portion of government spending falls under public consumption in Bangladesh, such spending has crowded out private demand.

The composition of revenue items has been creating further complications. The Value Added Tax (VAT) and other indirect taxes account for a much larger share of revenue earning than the direct taxes, which is a serious flaw in the design of the tax structure. For example, in the last three years the percentage of indirect tax to total tax stood at 71.9 percent in FY 2009-10, 70.5 percent in FY 2010-11, and 72.5 percent in FY 2011-12 (until March) (Ministry of Finance, 2011, 2013).

Additionally, slow realisation of public expenditure is observed in teems of implementation of ADP. Although implementation of ADP for FY 2012-13 has improved compared to the previous four years, it still cannot be considered a satisfactory level as total ADP implementation during July-January period of FY 2012-13 has stood at Tk. 210.39 billion or only at 38 percent of the total allocation (Ministry of Finance, 2012).

Table 3: Public expenditures (Taka in Crore)

	2011-12 July to November	2012-13 July to November	Growth (Percent) over July to November, FY12
1. Current Spending	31154	36720	17.87
Pay and Allowances	9429	9819	4.14
Goods and Services	2638	2977	12.85
Interest Payment	6871	9117	32.69
Domestic	6515	8373	28.52
Foreign	356	744	108.99
Subsidy and Transfer	12165	14755	21.29
Others	51	52	1.96
2. Food Accounts	3879	2546	-34.36
3. Non-ADP Capital & Spending	5012	4438	-11.45
Non-ADP Capital	767	1319	71.97
Net Lending	4186	3039	-27.40
Non-ADP Project	0	48	-
FFW	27	0	-
Structural Adjustment	0	0	-
Development Expenditure under Revenue Budget	32	31	-3.12
4. Development Spending	7800	10263	31.58
Total (1+2+3+4)	47845	53967	12.80
Total Spending (Percent of GDP)	5.23	5.18	

Source: Ministry of Finance, 2012b

For increasing the rate of revenue collection and developing a sound fiscal structure, the government needs to plan to introduce reforms in three areas: legal, procedural and structural. Nonetheless, specific proposals in the budget speech of FY 2012-13 were limited within the establishment of a new mechanism for dispute resolution and re-fixation of the rates of NBR and non-NBR tax revenue. But the real problems have not been addressed. Indirect taxes like VAT are regressive in nature, as this requires both the rich and the poor to pay at the same rate. The government has not tried altering those taxes with more progressive ones. Thus, top-income earners continue to benefit disproportionately and tax loopholes continue to exist. Similarly, although targeted transfers have been increasing, they have been affected by political influence and corruption. Hence, it can be said that the changes that are required to make the tax structure pro-poor and pro-growth has been missing.

3.3 Monetary Balance

Bangladesh is currently facing four major challenges in the monetary sector. First, the country has been experiencing a high inflation rate, especially in terms of non-food items. Second, the contractionary monetary policy along with some other factors have created new complications in the economy, particularly in the form of slow credit growth to the private sector rather than solving the problem of inflation. Third, the financial liberalisation and other policies in Bangladesh have not been able to lower the rate of interest, reduce interest rate spread and promote financial inclusion. Fourth, the continuity in erosion of confidence in the capital market has kept the market depressed.

Although inflation has been cut by 2.37 percentage points and food and non-food inflation by 2.76 percentage points and 1.72 percentage points, respectively between July and March of FY 2012-13, the inflation rate is still high. The rate of inflation had been on the rise since FY 2008-09, and reached a peak of 10.62 percent in FY 2010-11. However, again a downward trend was observed since February 2012. Since then the inflation rate fell to reach at 8.00 percent in March 2013. Although food inflation in March 2013 declined to 7.11 percent, non-food inflation however was still as high as 9.85 percent (Table 4).

Table 4: Twelve-months average inflation (Base: FY1995-96=100)

FY	National	Food	Non-Food
2006-07	7.20	8.11	5.90
2007-08	9.94	12.28	6.32
2008-09	6.66	7.19	5.91
2009-10	7.31	8.53	5.45
2010-11	8.80	11.34	4.15
2011-12	10.62	10.47	11.55
2012-13			
July	10.37	9.87	11.57
August	10.08	9.41	11.62
September	9.69	8.77	11.70
October	9.33	8.16	11.81
November	8.98	7.68	11.71
December	8.74	7.43	11.45
January	8.40	7.14	10.99
February	8.19	7.10	10.44
March	8.00	7.11	9.85

Source: Bangladesh Bank, 2013b

Domestic credit growth has also experienced setbacks in FY 2012-13. Domestic credit recorded a slower growth rate of 7.03 percent during the period July-February of FY 2012-13 against the increase of 12.88 percent in the corresponding period of FY 2011-12. Among the main components of domestic credit, credit to the private sector recorded a growth rate of 6.31 percent during July-February of FY 2012-13, which was almost double during the corresponding period in FY 2011-12. Net credit to the government also went down by about four times in the same period. In the public sector, credit declined from 17.27 percent in July-February of FY 2011-12 to 9.72 percent in July-February of FY 2012-13 (Bangladesh Bank, 2013b).

Similarly, the disbursement of credit to various productive sectors may fall short of the target if the present rate persists. In the first eight months of the present fiscal year, the disbursement of agricultural and non-farm credit amounted to only 62.18 percent of the target of TK. 14130.00 crore. However, compared to July-February of FY 2011-12, disbursements of agricultural credit and non-farm rural credit in the corresponding period of FY 2012-13 has increased by 15.77 percent and by 4.59 percent, respectively. Similarly, loan disbursement to small and medium enterprises (SMEs) increased by Tk.19713.97 crore or by 24.31 percent at the end of December 2012 over the corresponding period of the previous year (Bangladesh Bank, 2013b).

In case of reducing interest rate spread and promoting financial inclusion, Bangladesh has hardly achieved success in the last several years. Average interest rate spread in Bangladesh in the first two months of 2013 has been slightly lower than any months of 2012, but higher than the corresponding period of 2011 (Bangladesh Bank 2013c). The problem appears more serious in cases of private commercial banks and foreign commercial banks since they accrue higher than that of state owned commercial banks. Similarly, the government's avowed strategy of promoting financial inclusion has witnessed little realization as private and foreign banks have made hardly any progress in setting branches in remote and rural areas of the country though they control almost 75 per cent of the banking sector. For example, between June 2011 and December 2011, the percentage of bank branches in rural areas declined from 57.39 percent to 57.17 percent, whereas the share of bank branches in urban areas increased from 42.61 percent to 42.83 percent (Ministry of Finance, 2012a). Disparity also exists between the level of commitment of state owned commercial banks and that of private and foreign commercial banks. As of December 2011, for example, 63.78 percent branches of state owned commercial banks were located in rural areas, as opposed to only 36.63 percent branches of private commercial banks. The foreign banks have yet to establish any branch in rural areas (Ministry of Finance, 2012a).

Finally, the stock markets collapsed and have not recovered since observing a surge in investment between FY 2008-09 and FY 2010-11. For example, the market capitalization ratio of the Dhaka Stock Exchange (DSE) rose sharply from 21.4 percent at the end of June FY 2008-09 to 39.0 percent at the end of June FY 2009-10, and then to 41.00 percent at the end of June FY 2010-11. The value then fell to 33.77 percent at the end of April FY 2011-12 (Ministry of Finance 2012a). It is alleged that a small group of investors first created market hype in the absence of effective government regulations. As a result, investment in the stock markets increased rapidly and stock prices rose accordingly. Again the same group of investors assumed a different role of siphoning off the resources. Consequentially, the market collapsed. The regulators seemed to let the manipulation continue unabated. The absence of confidence has been persisting as the government is yet to bring the perpetrators of two crushes to book and the regulatory regime is fraught with mechanisms that allow, amongst others, activities such as over-valuations of stocks, non-compliance of the listed companies with the mandatory disclosure requirements, defective audit opinions.

Certain reasons can be attributed to the recent movement of the four important indicators: inflation rate, credit growth, interest rate spread and financial inclusion. High inflation can partly be attributed to supply side and to overall structural imbalances of the economy. First, the slow growth of agriculture since FY 2009-10 has been affecting the food price. Second, global commodity prices, especially the rising oil price, have created inflationary pressure on the Bangladesh economy. Third, foreign remittances have been fuelling consumption demand in the country. Finally, the growing income inequality in Bangladesh has also been leading to soaring non-food inflation.

Similarly, factors involving both the supply and the demand sides have contributed to the slower credit growth. The government's contractionary monetary policy has raised the price of investment, and thus also decreased the credit demand of the private sector. The lack of matching level of availability of infrastructure has also reduced the investment demand. The banks too have become cautious about loan defaults against the background of recent large-scale corruption cases in the banking sector.

Since the early 1980s, the government has been promoting liberalisation and deregulation policies with regard to the financial sector. Many types of market failures, however, exist in the financial sector in Bangladesh. Therefore, government has to intervene in the market and manage it extremely carefully. The government, however, not only has detached itself from playing a role in the financial sector in the name of financial liberalization, but it has also failed to establish effective regulations. The results have undoubtedly been reflected in negative outcomes like high interest rate spread and exclusion of a large majority of people from the opportunities of accessing any financial services.

3.4 External Balance

The balance of payment in the first seven months of FY 2012-13 seems to be in a better position compared to corresponding period of the preceding year, yet there are a number of complications. This has been achieved by reducing imports of raw materials, capital machinery and intermediate goods on the hand and increased inflow of foreign loans and remittance, on the other. Moreover, negative growths have been observed in some of the country's leading exports items in this period along with the country's probable failure to meet its export target. The country's largest export sector has entered into a difficult trajectory after several accidents. Finally, the deteriorating terms of trade of the last few years continued in the same fashion during the first seven months of the present fiscal year.

Trade balance recorded a deficit of USD 4707 million in the first eight months of FY 2012-13, as compared to the deficit of USD 6384 million in the corresponding period of FY 2011-12. Exports increased by 10.16 percent to equal USD 19703.94 million during July-March of FY 2012-13 than the export value of the corresponding period in 2012.

Import payments from July-February of FY 2012-13 on the other hand decreased by 6.38 percent to reach USD 22418.50 million against the position of July-February of 2012. The current account surplus stood at USD 1355 million, while the current account balance recorded a deficit of USD 660 million in the previous fiscal year. Finally, the overall balance recorded a surplus of USD 3506 during the period July-February of FY 2012-13 against a deficit of USD 516 million over the same period of FY 2011-12 (Table 5).

Table 5: Balance of Payments (In million USD)

Particulars	FY2011-12(R) July-February	FY2012-13(P) July-February
Trade Balance	-6384	-4707
Current Account Balance	-660	1355
Capital Account	331	301
Financial Account	1104	1755
Overall balance	-516	3506

Note: R=Revised, P=Provisional

Source: Bangladesh Bank, 2013b

Foreign aid inflow and remittances performed better in the first eight months of FY 2012-13 than in the corresponding months of FY 2011-12. Total aid disbursements during July-February of FY 2012-13 amounted to USD 1577.07 million, which is higher by USD 361.33 million or by 29.72 percent than the amount of aid disbursements in July-February of FY 2011-12. Net foreign aid during July-February of FY 2012-13 stood higher by USD 230.55 million or by 33.10 percent to equal USD 926.99 million, which was only USD 696.44 million during July-January, 2012. Similarly, the growth rate of remittances during July-March of FY 2012-13 increased by 16.68 percent and reached to USD 11121.31 million. The corresponding increase in the growth rate of remittances in FY 2011-12 was 10.69 percent (Bangladesh Bank, 2013b).

The gross foreign reserves at the end of March 2013 stood at USD 13971.14 million (with ACU liability of USD 354.55 million), which was USD 13848.33 million at the end of February of the same year (with ACU liability of USD 784.44 million). The gross foreign reserves without ACU liability was equivalent to import payments of 4.83 months based on the preceding 12 months average (Bangladesh Bank, 2013d).

Bangladesh in the first seven months of FY 2012-13 missed her export target by USD 330 million (Nibedita, Mahmud and Hossain, 2013). Commodity-wise breakdown of export-import data reveals additional problems for the country in the form of negative growth in important export items and negative import growths of capital goods. Among the major categories, overall exports of frozen food declined during July-February of 2012-13 (provisional) over July-February of 2011-12 (revised) by 17.09 percent. Similarly, the exports of raw jute and home textile registered a negative growth rate of 9.97 percent and 10.05 percent, respectively during the same period. Commodity-wise import statistics show a fall in the imports of food grains by a massive 51.43 percent. Edible oil and fertilizer import also declined by 11.97 percent and 22.89 percent between

July-February of 2011-12 (revised) and July-February of 2012-13 (provisional), respectively. But the most important aspect was the negative growth of capital machinery at a rate of 4.79 percent between July-February of 2011-12 (revised) and July-February of 2012-13 (provisional) (Bangladesh Bank , 2013 e and f).

The garment sector of Bangladesh, which is single-handedly responsible for around 80 percent of export earning and employs about 4.5 million workers (Chalmers 2013), has been exposed to renewed pressure after the collapse of a factory building on April 24, 2013 as buyers have been considering pulling out of the country. The Walt Disney Company, the world's largest licenser, has decided not to place orders due to a fire incident that killed 112 people in November, 2012. Moreover, the United States and the European Union have warned of revision of preferential status. Many buyers, companies, labour organisers and international organisations (e.g. ILO) have expressed the opinion that the companies should continue their business in Bangladesh with more consciousness to improve labour conditions.

The terms of trade of Bangladeshi goods have been deteriorating and interest payments on external borrowing have been increasing over the years. For example, the terms of trade in January 2013 stood at 81.9 percent, which was 13.90 percentage points lower than the terms of trade of December, 2012. Similarly, among the last 12 months, the average terms of trade in the later six months stood at 77.15 percent against the rate of 83.09 percent in the first six months. The interest payments during July-December of FY 2012-13 increased by USD 12 million against the interest payments over the corresponding period of FY 2011-12 (Nibedita, Mahmud and Hossain, 2013).

The weaknesses in the country's external sector can also be attributed to liberalisation and deregulation. Bangladesh has followed an active trade liberalisation policy since the early 1980s, with the government removing its controls. Some governments played a cautious role in the liberalisation process. These governments resorted to various measures in supporting specific commodity bundles for exports in line with their comparative advantages. Not only that, they have actually created new competitive advantages by heavily investing in human capital and thus have successfully managed to move up to the production of more sophisticated export items. But the policymakers of Bangladesh still seem not to have realised this aspect.

4. REAL SECTOR

The industrial sector in Bangladesh has not been able to offset the declining agriculture sector with its own performance. Although the industry sector has observed positive growth rate over the years, the average growth rate of the industry has been declining in recent years. Finally, contractionary monetary policy and poor state of infrastructure facilities have led to lower invest demand.

The industry sector grew at a rate of 37 percentage points per year between FY 1997-98 and FY 2011-12, whereas the agriculture sector declined at an even higher rate, by 40 percentage points (Nibedita, Mahmud and Hossain, 2013). Moreover, the average growth rate of the industry sector in the last five years stood at 7.92 percent, which was 8.51 percent in the preceding five years.

Like the previous years, the agriculture's share of GDP declined from 20.01 percent in FY 2010-11 to 19.29 percent in FY 2011-12. Within the broad agriculture sector, all the subsectors' (i.e., crops and horticulture, animal farming, forests and related services, and fisheries) contributions decreased in FY 2011-12 compared to the preceding year. In terms of growth rate, two sub-sectors depicted positive growth rate: the forests and related services sub-sector from 3.90 percent in FY 2010-11 to 4.42 percent in FY 2011-12 and the fisheries subsector from 5.25 percent in FY 2010-11 to 5.38 percent in FY 2011-12. But the positive growth in these two sub-sectors could not offset the fall that was observed for the crops and horticulture sub-sectors. The growth rate of the crops and horticulture sub-sector plummeted from 5.65 percent in FY 2010-11 to only 0.94 percent in FY 2011-12. In addition, the livestock sub-sector also registered a negative growth rate from 3.48 percent in FY 2010-11 to 3.39 percent in FY 2011-12 (Table 6).

Unlike the agriculture sector, the industry sector has established a positive trend in terms of contribution to total GDP. Its share in total GDP has been increasing for more than decades, and reached from 30.38 percent in FY 2010-11 to 31.26 percent in FY 2011-12. Among the four sub-sectors of the broad industry sector, the contribution of the manufacturing sub-sector to GDP was the highest, which was estimated to equal 19.01 percent in FY 2011-12. In FY 2011-12, the contribution of the mining and quarrying sub-sector in total GDP remained constant. Apart from these two, the electricity, gas and water sub-sector and the construction sub-sector recorded a moderate increase in their contribution from 1.60 percent and 9.09 percent in FY 2010-11 to 1.72 percent and 9.27 percent in FY 2011-12, respectively. In terms of growth rates, the electricity, gas and water sub-sector made the biggest leap in FY 2011-12 and achieved a growth rate of 14.11 percent, which was only 6.63 percent in the preceding year. Within this sub-sector, electricity production almost doubled during this period, while gas production almost quadrupled. Water production also recorded a significant growth (Ministry of Finance, 2012a).

Among the manufacturing sub-sectors, small and cottage industries maintained the growth in FY 2011-12 while the growth rate of medium and large industries slowed down, as the BBS provisional estimates report. While the growth rate of medium and large industries declined from 10.94 in FY 2010-11 to 10.78 in FY 2011-12, the growth of small and cottage industries increased from 5.84 in FY 2010-11 to 7.18 in FY 2011-12 (Ministry of Finance, 2012a).

Table 6: Sectoral share and sectoral growth rate of GDP at constant prices (in percentage, Base Year: 1995-96)

Sector	Sectoral Share		Sectoral Growth Rate	
	FY11	FY12(P)	FY11	FY12(P)
1. Agriculture and Forestry	15.58	14.90	5.09	1.72
2. Fishing	4.43	4.39	5.25	5.38
3. Mining & Quarrying	1.26	1.26	4.80	6.25
4. Manufacturing	18.42	19.01	9.45	9.76
5. Electricity, Gas & Water	1.6	1.72	6.63	14.11
6. Construction	9.09	9.27	6.51	8.51
7. Wholesale & Retail Trade	14.33	14.26	6.31	5.88
8. Hotel & Restaurant	0.73	0.74	7.55	7.60
9. Transport, Storage & Communication	10.70	10.72	5.69	6.58
10. Financial Intermediations	2.01	2.07	9.64	9.52
11. Real Estate, Renting & other Business Activities	7.00	6.85	3.96	4.05
12. Public Administration and Defence	2.92	2.91	9.67	6.07
13. Education	2.78	2.84	9.36	8.61
14. Health and Social Work	2.42	2.45	8.35	7.94
15. Community, Social and Personal Services	6.71	6.61	4.70	4.76

Note: P=Provisional

Source: Ministry of Finance, 2012a

Loans provided to the industry sector have declined in the last few years. For example, the growth of industrial term loan significantly went down from 29.56 percent in FY 2009-10 to 24.30 percent in FY 2010-11, and then reaches quickly to 9.68 percent in FY 2011-12. Similarly, in the first three months of the present fiscal year, the disbursement of loan in the industry sector stood at Tk. 97203 million , which was Tk. 199727 million, Tk. 258757 and Tk. 321632 million, respectively in the corresponding periods of FY 2008-09, FY 2009-10, and FY 2011-12 (Nibedita, Mahmud and Hossain, 2013).

The aim of the government with regard to the agriculture sector in the budget of FY 2012-13 was to improve agricultural productivity, crop intensity and agricultural diversification by producing flood-draught-salinity resistant seeds, by providing uninterrupted power supply for irrigation, by increasing the flow of agricultural credits and by ensuring better targeting of such credits. However, the government's steps have proved insufficient to stabilize the growth of this sector. A noteworthy reason lies with the government's unwillingness to address long-term structural issues, e.g., to come up with a plan that can ensure better land use and to provide more money for agricultural research. Agrarian land reforms also have been sought for long, which the government continues to neglect in fear of adverse political repercussions.

Similarly, the industry sector has been facing several problems in recent times that have significantly affected its performance. First, the government's contractionary monetary policy to curb inflation has taken its toll on the industry sector by raising the price of investments. Second, in the industry sector, the government has flooded with rhetoric on the importance of diversification, entrepreneurship development, etc., yet hardly there are specific policies that target promoting and facilitating diversification and technological advancement, address market failures, and overcome coordination problems. Third, lack of infrastructure, especially electricity and gas shortages, has been a big obstacle for new investors. Finally, the lack of buoyancy in the stock market has been negatively affecting the industry sector.

5. INFRASTRUCTURE

The country has not witnessed any major infrastructure development projects in the last few fiscal years. The existing capacity of roads, railways, and waterways has been proved insufficient to bear additional pressure from the country's growing population and expanding economic activities. Moreover, progress in the power and energy sector has mostly become sloth in the current fiscal year.

The yearly addition to electricity production again decreased from 1763 MW in 2011 to 951 MW in 2012 (Ministry of Power, Energy and Mineral Resources 2013). Similarly, the gap between installed capacity and maximum electricity generation increased sharply from 1372 MW in FY 2009-10 to 2374 MW in FY 2010-11 and to 2559 MW in FY 20011-12. In addition, the price of electricity has been soaring 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. Subsidy in the power sector increased from Tk. 40000 million in FY 2010-11 to Tk. 63570 million in FY 2011-12, which has been estimated even higher at Tk. 64000 million in FY 2012-13. 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.

Infrastructure development has suffered mainly because the government has been relying heavily on the public-price partnership (PPP) initiative, but the initiative has not worked for the country. The government relied on PPP with two major assumptions. First, the government's calculation revealed that the ratio of investment in GDP has to be raised to 35-40 percent in Bangladesh to raise the GDP growth rate to 8 percent by 2013. The government hoped that the PPP initiative would come handy to improve the investment-GDP ratio. Second, the government believed that the PPP initiative would boost infrastructure development in the country (Ministry of Finance, 2009).

Three major problems lie with the government's present PPP initiative. First, the institutional and legal frameworks of the PPP initiative have not proved sufficient to attract private investors who have less or no political connections. Second, the government seems to have failed to take account of the crowding out effect of investment from other important sectors as a result of the PPP initiative. Especially, the PPP initiative has created the opportunity of large rent seeking for big private investors and, as a result, mainly the medium and large scale manufacturing industries could observe a fall in investment. Finally, the PPP initiative could have a negative effect on the government's fiscal balance if comparatively higher tax exemptions are set for PPP investments.

6. EMPLOYMENT

In Bangladesh, the formal sector has long been unable to absorb new labourers as well as 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. However, the formal sector employed only 9.2 million labours in 2002-03 and 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 massive 47.3 million labours, against a total of 35.1 million labours in the former year (BBS, 2011).

An influx of women into the labour force was mainly responsible for such rapid growth in the country's labour force. The increase in male labour force for the period 2002-03 to 2010 was 11.17 percent, while the rate of increase of female labour force was staggering at 64.10 percent. As a result, the male-female ratio went down from about 3.5 in 2002-03 to about 2.4 in 2010 (BBS, 2011). Youth labour force (aged 15-24), on the other hand, enlarged from 12.4 million to 13.2 million between 2002-03 and 2010, representing a 6.45 percent increase, which is almost a quarter of the rate of growth of total labour force (BBS, 2010).

Total unemployment rate in the country worsened from 4.32 percent in 2002-03 to 4.55 percent in 2010. Regional and gender variation exist in unemployment. While unemployment in urban areas stood at 6.01 percent in 2010, that in rural area equaled to 4.10 percent. On the other hand, unemployment rate was found to be higher among women, which was 5.91 percent in 2010. The percent of male unemployment, in contrast, was 3.98 percent in the same period (BBS, 2011). It is to be noted that many of the employed persons are actually involved in disguised employment in Bangladesh. Thus the actual unemployment scenario is much worse than what the official statistics show.

Although the agriculture sector continued to employ the lion's share of labourers in 2010, followed by the trade, hotel and restaurant sector, the employment generation ability of these two sectors has been diminishing over the years. The agriculture sector in 2002-03 employed 51.69 percent of total labours, whereas the trade, hotel and restaurant sector used 15.3 percent of total labours. In 2010, by contrast, the shares of these two sectors in total employment declined to 47.0 percent and 8.26 percent, respectively. Besides these two sectors, the third major destination of labour force, the manufacturing sector, managed to make place from 15.34 percent in 2002-03 to 14.68 percent in 2010 (BBS, 2010).

Table 7: Selected labour force statistics

Characteristics		In million 2002-03	In million 2010 (P)
Civilian Labour Force	Total	46.3	57.1
	Male	36.0	40.2
	Female	10.3	16.9
	Total Employed	44.3	54.5
	Male	34.5	38.6
	Female	9.8	15.9
	Total Unemployed	2.0	2.6
	Male	1.5	1.6
	Female	0.5	1.0
Employment by Sector	Formal Sector Total	9.2	6.8
	Male	7.3	5.5
	Female	2.0	1.3
	Informal Sector Total	35.1	47.3
	Male	27.2	32.4
	Female	7.9	14.9
Labour Force by Region	Urban Total	11.3	13.3
	Employed	10.7	12.5
	Unemployed	0.6	0.8
	Rural Total	35.0	43.8
	Employed	33.6	42.0
	Unemployed	1.4	1.8

Source: Bangladesh Bureau of Statistics (BBS), 2011

Lack of effective regulations relating to labour has created an unhealthy environment within the private sector of Bangladesh for a long period. In the absence of effective government control, entrepreneurs have become accustomed to following quick rent seeking opportunities, which have often produced large profits within a short time, but the labours usually have paid dearly. The government has hardly been acting for creating a better bargaining environment for labourers.

7. EDUCATION AND HEALTH

Public expenditure in education and health in Bangladesh 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.

Education and health are two priority sectors in the country, but compared to other sectors, the allocation in education and health sector is quite low. The proposed allocation for education in the budget of FY 2012-13 is Tk. 115830 million (including development and non-development budget), whereas the proposed budget for the health sector was Tk. 93330 million (including development and non-development budget). These represent increase of Tk. 7330 million and Tk. 4440 million, respectively from the preceding year.

However, the rate of increase in education sector has slowed down in recent times. The education expenditure observed a large increase in FY 2010-11 by 33.4 percent. Then, the rate of increase declined to 9.98 percent in FY 2011-12 and further to 6.76 percent in 2012-13. Similarly, although health expenditure in actual amount has increased in FY 2012-13 than that of the previous fiscal year, the rate of increase has actually decreased. Besides, the doctor-population ratio, the doctor-nurse ratio, and the nurse-population ratio in this period are not at satisfactory levels (Rahman, 2013).

Moreover, ADP implementation in health and education in the first eight months has been very unsatisfactory. About 52 percent of total allocated money in the education sector was spent in the first eight months of FY 2012-13. Even compared to the education sector, the state of ADP implementation in the health sector is even worse. Only 34 percent of total money allocated to this sector was spent between July and February of FY 2012-13, leaving the realisation of the remaining 66 percent for the last four months (Rahman, 2013).

Further improvements in education and health in Bangladesh are contingent upon more budgetary allocation, where the government has been lagging behind. Education and health has rightly been given importance by all past and present governments of Bangladesh and substantial improvements have been accomplished in both these areas. Nevertheless, the amount of public expenditure is insufficient for attainment of universal education and health services for all the citizens, let alone maintenance of quality.

8. POVERTY AND INEQUALITY

Bangladesh has already achieved or is well on track to reach her poverty related MDG targets. However, the country has to accelerate the poverty reduction rate if she wants to realise her own targets mentioned in the five year plan. At the same time, the income inequality situation in the country is in a much worse situation, which has been widened through years of negligence.

To achieve the MDG targets related to poverty, the country requires the proportion of population below national upper poverty line (2122 kcal) to decrease from 56.6 percent in 1990-91 to 29 percent in 2015. This rate was 31.5 percent in 2010 and thus was well on track. Similarly, the poverty gap ratio of the country needs to cut down to 8 percent by 2015, whereas this ratio was already reduced to 6.5 percent in 2010. On the other hand, the long-term perspective plan (2010-20) and Sixth Five Year Plan (SFYP) for 2011-15 aim to reduce the head-count poverty rate further from 31.5 percent to 22 percent in 2015 and 15 percent in 2021 (Ministry of Finance, 2012a), which requires higher commitment from the part of the government.

Overall income inequality situation has deteriorated. Between 2000 and 2005, Gini coefficient for the country increased from 0.451 percent to 0.467 percent. Similarly, Gini coefficient for rural areas increased from 0.393 percent in 2000 to 0.428 percent in 2005. But interestingly, the Gini index for urban inequality remained stable at 0.497 percent between 2000 and 2005 (BBS, 2007). Thus, although the rate of rural inequality is still below the national average, its rate is deteriorating rapidly than the rate of urban inequality.

The reason that Bangladesh has performed much better in poverty reduction but failed to make progress in improving equality can also be attributed to the country's policy problematic. Bangladesh's efforts so far have heavily been concentrated on poverty reduction, and inequality considerations have been almost neglected in the country's policymaking.

Although the country has made progress in reducing poverty, it is not clear how long the present policies can work in this regard. The government appears to be applying some variant of trickle down policies to help those who are below the poverty line. It is yet to address certain root causes of poverty. For example, the country is not recognising that poverty is a part of accumulation by disposition. The poor remains poor due to the structural reasons and reduction in income poverty cannot cross the limit created by the structure. The share of income has not been fairly distributed and accumulation has been primitive in nature. Finally, the higher incidence of poverty amongst the illiterate and the landless in Bangladesh accentuates the importance of expenditure on education and land reforms in this country.

9. POLICY SOVERIEGNITY

Bangladesh recently has taken a three-year loan of approximately USD one billion from the International Monetary Fund (IMF) under its Extended Credit Facilities (ECF) programme, which has severely affected the country's freedom to manage its own economic policies. The problems, however, have even worsened as the policies proposed by the IMF have failed to address the real ailments, and thus actually have resulted into contraction of the economy.

For example, in the monetary sector, the IMF has suggested contractionary monetary policy to curb inflation. But again, a major part of current inflation can be attributed to higher commodity prices in the international market, which is not manageable through monetary maneuvers within the border. On the other side, contractionary monetary policy actually has triggered lesser availability of liquidity, lowered the investment demand and reduced GDP, affecting employment. Similarly, in the external sector, the IMF's suggestion of following a flexible exchange rate also has serious drawbacks. In import-dependent countries like Bangladesh, any rise in international prices quickly passes to domestic markets and creates inflationary pressure when exchange rates are fully flexible.

Therefore, the IMF policy suggestions clearly have not been appropriate for the Bangladesh economy. Even then the government of Bangladesh has accepted those suggestions and given up its own policy stance in a number of important areas.

10. THE WAY FORWARD

The preceding analysis has shown that emerging trends have bearing on the quantitative progress made in the economic and social arenas. There are clear policy choices and trade-offs. If the current trend of laxity and expediency continue, these imbalances are more likely to grow in the coming years and would create strong impediments on the path of economic and social progress of the country.

Alternatively if exigent, prudent, context specific and creative policies are pursued, the economy would recover to march forward and the country may soon graduate out of its least development status. The policy adjustment should be calibrated to the recovery by augmenting aggregate demand through harmonisation of public and private investment. This is best done by addressing structural rather than cyclical constraints. The fiscal policy needs to take a radical shift in the composition of the fiscal deficit from consumption to addressing supply-side bottlenecks through public investment in infrastructure. The increased public infrastructure investment will ensue fiscal multipliers and crowd in private investment, unlike the current public consumption based fiscal deficit, which has been crowding out private investment demand. To recover and sustain growth, a persistent balance between the two instruments – fiscal and monetary policies - is likely to result in increased effectiveness because of cumulative effects. Output and employment gains may progressively move upward as private spending will not be crowded out, either by the upward pressure on interest rates arising from government credit demands or by the fears of eventual monetary accommodation and heightened inflation expectations which may accompany persistent deficits. The following outlines elements of such an alternative framework:

First, the economy needs to stabilise its rate of growth, and therefore, it has to increase the rate of investment. Reductionist policies cut investment demand, create unemployment and hamper growth. Therefore, any form of reductionist measures, whether self-induced by the government or pressurized by any external actors, would not be the effective solution. Moreover, growth has to be pro-poor in Bangladesh since a third person in the country lives below the so-called poverty line. In this regard, market failures that exist in the economy have to be addressed. Similarly, increased efforts from the authorities concerned are needed to sort out certain coordination failures. To do so, a careful and sound understanding of the working of the market and the state is required so that economic rent is not diverted to unproductive activities at the cost of the expansion of productive capacities. Furthermore, to raise the rate of investment at the targeted level, Bangladesh has to ensure an optimum ratio between public investment and private investment that can ensure a greater complementarity and positive spillovers between the two.

Second, to improve the fiscal balance of the country, there is no alternative to increased revenue mobilisation. First, 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. This is particularly required to have a structural shift from agriculture to industry and to service. The growth in manufacturing is contingent upon augmented public spending on catching up processes such as technological advancement and amplified research and development. The growth in service sector depends upon supply of skills and which cannot be achieved without much higher investment in education and health sectors. Therefore, there is a need for an active fiscal policy with subsidies diverted towards the productive capacity and capability enhancing sectors. Moreover, to achieve recovery, public spending in Bangladesh should shift from consumption to public infrastructure as such investment creates higher fiscal multiplier effect by offering essential services to the productive activities.

Third, like the fiscal policy, the monetary policy of the country has to be harmonized to ensure a high investment ratio. Even if the central bank is assured that monetary pressure is causing the prices to go up, the central bank has to demonstrate its prudence by not resorting to across the board contraction of money supply rather choose a differential system to maintain the level of investment. An expansionary monetary policy usually does better than its counterpart in reducing inflation as well as in promoting growth. It is true that an expansionary monetary policy increases the supply of credit and if the default rate of such credits increases or if the credits are not used in productive purposes, the result could be reflected in high inflation. However, since such inflation mainly occurs through the prices of non-food items, the poor are usually not that hurt. Moreover, expansionary policies stimulate investment and create jobs. In this way, in addition to contributing to poverty reduction, expansionary monetary policy could also absorb some of the heat of higher inflation (if there is any). 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, liberalisation and privatisation have not been able to root out the basic faults. These require 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.

Fourth, Bangladesh simply cannot neglect her agriculture sector. Without a strong agriculture sector, the country would face enormous challenge in feeding its growing population. The country requires to deal 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 sector is plagued with structural factors. For instance, **s**mall sizes of agricultural lands due to fragmentation from demographic changes and inheritance have been arresting productivity in the agriculture sector. The solution could be introduction of agrarian reforms, including cooperative farming.

Fifth, in the industry sector, a number of policies have to be implemented. First, rent-seeking tendency of the financial sector in providing credit to various projects has to be stopped. Second, fiscal breaks (e.g. tax holiday) for infant, small and rural businesses have to be broadened. Third, a state governed mechanism has to be established that will work with the private sector for dissemination of technological knowledge for diversification of production. Fourth, fiscal policy has to be better coordinated with monetary policy so that imports of capital machineries are not hampered in any circumstances. Finally, new markets have to be created for the products of domestic industries, both within and outside the country.

Sixth, in the external sector, the government has to go off the tendency to follow ad-hoc policies and instead adopt medium-term to long-term planning to improve the country's external balance. The exchange rate of the country has to be managed in such a way that exchange rate pass-through is kept at a minimal level and any sudden and unexpected ups and downs in the trade balance can be checked. In addition, the country has a few products for a few countries. An effective export diversification policy has therefore to be implemented through assisted monetary and fiscal measures.

Seventh, expansion of private investment would undoubtedly play an important role in creating employment opportunities for the unemployed, but that will not be enough to absorb the unemployed. The government should strengthen employment generation and capability enhancement activities for the labour force through employment guarantee schemes. In this regard, the government also has to increase its expenditure on human resources development, especially in education and health. The government will also have to expand productive activities under its own capacity and promote non-agricultural employment in rural areas.

Eighth, there is no alternative to increasing government expenditure in education and health in a developing country like Bangladesh. However, an evaluation mechanism can and should be established to compare effectiveness of different interventions. One big obstacle for the government, especially in case of health services, remains ensuring proper implementation of its programmes. In this respect, the government has to establish appropriate institutions and increase community participation. Moreover, the state has to assume the role of a duty-bearer, rather than a facilitator, to fulfill its commitment in the education and health sectors.

Ninth, to fight poverty and inequality, the tax system of the country has to be restructured to make it pro-poor. 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, primitive accumulation and market failures. A broader range of employment generation and capability enhancement activities, especially in rural areas, would also help reduce poverty and inequality.

Tenth, the government in the last few years has adopted a more reductionist role for itself, and has left its duty of infrastructure development partly to the private sector with the introduction of the PPP initiative. However, as the experience suggests, public-private partnership has failed to produce the desired results. The government, therefore, should realise its importance in infrastructure development and make major strides in this regard.

Finally, the country should never adopt any policies to secure loans or other assistances if the costs of such actions often outweigh the benefits. In the past, various privatisation, deregulation, and liberalisation programmes accepted in this manner have not performed well. Therefore, the country should always scrutinize the terms and conditions and if such is required, this has to be harmonised according to Bangladeshi context.

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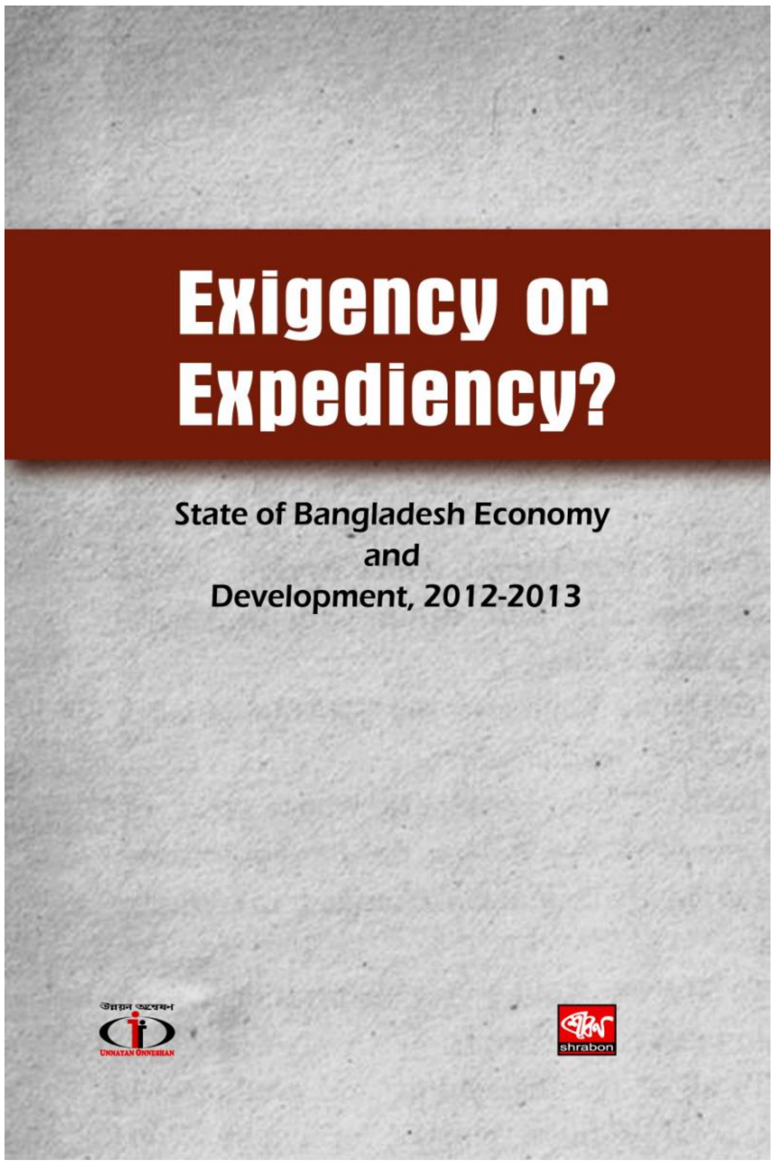

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