ISAS Brief

No. 435 – 7 June 2016
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Bangladesh Budget: Tentatively Ambitious

The Bangladesh Finance Minister presented the budget proposals (2016-2017) in the Parliament on 2 June 2016. The paper seeks to provide an analysis of the contents against the backdrop of the prevalent political situation.

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The Bangladesh Finance Minister M A Muhith combines age and experience in a way that could be the envy of some of his peers in the region. In a life-span spread over eight decades, he has spent nearly six in public service, across the broad spectrum of administration and politics, with stints at the Asian Development Bank and the World Bank included. At times seen as abrupt and unconventional, by the sheer dint of merit he has been able to make himself indispensable to the governance system. He has now presented on 2 June 2016 his eighth budget in a row, setting in motion a process of continuity in economic policy that is often thought to be helpful to a developing economy. For Bangladesh it was particularly important to be positively perceived by the outside world in this respect, as of late the global media has not been according it an adoring assessment. Some recent targeted killings, reflecting the potential onset of terrorism, the failure of the authorities to adequately tackle them, and a number of domestic political issues constitute causes for the latter. But on

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economic and political indices the report card has not been poor. Indeed in some ways, these have been remarkable. Hence the coinage, by the World Bank, of the expression, the ‘Bangladesh paradox’.

The Bangladesh economy, in terms of purchasing power parity, is the 32nd largest in the world, identified by the Goldman Sachs Investment Bank as being among the eleven countries (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea, and Vietnam) which along with the BRICS (Brazil, Russia, India, China, South Africa) possess high potentials of becoming the largest global economies in the twenty-first century. According to the International Monetary Fund, should Bangladesh achieve the targeted growth rate of 7.2 %, it would be one of the fastest growing major economies. In fact, through the last decades the Bangladesh GDP has grown at a rate of 6.5 %, with a major surge in the export of garments to over US$ 27bn, making it the second biggest seller of clothing after China. The per capita income rose from US$ 1,316 in the last fiscal year to US$ 1,466 this year, by 11.39% (according to the Bureau of Statistics), placing it on the path to the status of a middle-income country. The World Bank had raised it from low-income to lower-middle-income status last year, Bangladesh having met the requirements of the set criteria comfortably.

It was against this backdrop that Finance Minister Muhith placed the budget before the Parliament for the current fiscal year. It amounted to Taka 3.41 trillion (US$ 43 bn), representing 17.37 % of the GDP. The poor state of infrastructure needed attention, and was given it. Transport and power saw a hefty rise in allocation by 31% to US$ 16 bn. Regional and foreign investors should welcome it. The garments sector still remains a focus, and the tax rate in this sector was reduced, as an obvious sop to this industry, from 35% to 20 %. For a nation that seeks to draw heavily on its ‘non-technological’ resources, Muhith understandably provided a massive boost to the Education Ministry, elevating allocation to primary education by 50%.This will be of particular benefit to the girl-child, preparing them for possible employment, as in the textile and clothing sector, helping gender-mainstreaming, a strength of Bangladesh. Similarly health sector allocation went up by a third, in line with the traditional Bangladeshi emphasis on social indices.

The overall growth target was, compared to past performance but in consonance with possibilities, a high 7.2%, which was ambitious, though tentatively so. During the current Fiscal it was 7% (the jury is out on achievement!), and the previous year it was a relatively modest 6.2%, but at that time the country was undergoing a period of severe political turbulence. The present goal testifies to the government's confidence that the political situation is under control, though isolated incidents keep grabbing headlines, not so much because of their numbers but because of their nature which is perceived as attacking the Bangladeshi secular tradition of religious tolerance. Indeed to underscore the point that the religious minority culture is protected, the Minister announced Taka (Tk) 2 billion (US$ 1 equals Tk 78.62) for the maintenance of an important Hindu Temple. Right-wing Islamic Ulama League immediately protested that the budget was "discriminatory'' *against* the Muslims, and hence not in conformity with the State's stated 'secular principles'!

The inflation target was set at sub-6%, lower than the 6.2 % which was the aim this year. This would require better coordination than has been the case in the past between the Bangladesh Bank and the Finance Ministry. Following the much publicised US$ 81-million cyber heist at the Bank, the problems between the then Governor and the Minister came to a head, and eventually the Governor exited. The sense is that the new dispensation at the Bank and the Ministry would be inclined to cooperate better in monitoring this and related fiscal aspects.

A budget, as any political economist would know, is only a statement of intent, not always easy to translate into reality. There is always, in such cases, many a slip between the cup and the lip, including, for starters, a successful completion of the legislative process. In this case it is unlikely to pose a problem, as Bangladesh Parliament has a somewhat unique situation in which despite it having been modelled on the Westminster system, the Opposition is loyal enough to also provide some members of the cabinet (the main opposition, the Bangladesh Nationalist Party boycotted the last elections, and is hence unrepresented in the Parliament). Despite that its formal leader, Begum Rowshan Ershad, made some remarks about the difficulties in implementation due to political instability, corruption and governance problems. Nonetheless, given the government's overwhelming majority, the budget proposals are expected to sail through.

There are those who might argue, as they do, whatever Bangladesh has achieved in terms of progress in the economy is not because of the government, but in spite of it. That would be a tad unfair. While much credit would be owed to the private sector, a fact that none would quarrel with, the government, led by Prime Minister Sheikh Hasina Wajed of the Awami League, does provide the enabling ambience. The Gurbachan Das thesis that 'India grows at night while the government sleeps' would not actually extend to Bangladesh. In the 1970s Bangladesh was considered a 'darling' of the donors, who were satisfied with the absorptive capacity of assistance, as well as the amortization of loans. But domestic resource mobilization would remain a challenge for the government in a society where only 1.2 million out of a population of 160 million pay direct taxes. Finance Minister Muhith would be better advised to change his politician's hat for that of a Collector (a position in the Civil Service for which he, like all others of his ilk was rigorously trained, but one which he himself, somewhat ironically, never held!)

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