

In the name of Allah, Most Gracious, Most Merciful

Mr. Speaker

1. I would like to present, with your kind permission, the Supplementary Budget for the Fiscal Year 2008-09 and the Budget Estimates for the Fiscal Year 2009-10 before this august House.

Introduction and Background

2. At the very outset, I recall with deep reverence, the greatest Bangalee of all times Bangabandhu Sheikh Mujibur Rahman, the Father of the Nation. I wish to pay my profound tributes to the undaunting heroes of our great Liberation War, who embraced martyrdom. At the same time, I recall with a deep sense of respect the supreme sacrifice of the four martyred national leaders and the innumerable martyrs who laid down their lives in the struggle to establish our rights and democracy.

3. On 29 December 2008, the nation gave unequivocal verdict for the revival of democracy and stood against communal evil forces, terrorism and fundamentalism. The Grand Alliance, led by the Awami League was given a huge mandate by the people. This added a glorious chapter to the eventful history of our nation. Being part of that process, I feel honoured and privileged to be able to present the national budget before this House.

4. I wish to express my profound gratitude to our leader Sheikh Hasina, the Hon'ble Prime Minister, for giving this rare opportunity to serve the people as the Finance Minister, at this stage of my life. I also wish to put on record my sincere thanks to those organisations associated with socio-economic activities, various business associations and NGOs, think tanks, researchers and members of the intelligentsia and above all, Hon'ble members of several parliamentary Standing Committees and the Chairpersons of other Standing Committees and also some of the Members of Parliament

for their invaluable advice and inputs on various loopholes in the budget setting process and inconsistencies in taxation regime. During this long and arduous process of budget preparation, various development partners and my colleagues in the Ministry of Finance have demonstrated patience and applied tremendous efforts. I extend my warm thanks to all of them. I recall with gratitude the cooperation extended by both print and electronic news media and journalists to conclude this process on a successful note.

5. In order to take critical decisions during the preparation of budget I sought guidance from the Hon'ble Prime Minister. I wish to register my deep gratitude, once again, to her for her abiding interest, suggestions and above all valuable guidance and also for the time she carved out from her busy schedule. And this in spite of personal bereavement at the sad demise of our beloved and widely acclaimed nuclear scientist Dr. Wazed Miah.

Mr. Speaker

6. Immediately after assumption of Office, the new Government was confronted with the tragic events at the BDR Headquarters at Peelkhana that led to the terrible carnage. The country escaped a looming disaster because of the extraordinary prudence, wisdom and farsight exercised by the Hon'ble Prime Minister. However, this incident turned in to a great tragedy. We lost some of the finest officers of our armed forces who embraced martyrdom at the prime stage of their career. This is an irreparable loss to the nation. While holding those brilliant sons of the soil at the highest esteem we pray for the salvation of their departed souls. I also take this opportunity to offer my deepest condolences to the members of the bereaved families. I would like to firmly state that the present Government would turn this tragedy into strength with manifold force and move ahead unwaveringly overcoming all hurdles to build a happy and affluent Bangladesh.

7. We would like to proceed with a Vision of a happy and prosperous nation rising above all prejudice and parochialism. The year 2021 will mark

<i>Vision for happy and prosperous Bangladesh</i>

the Golden Jubilee of our independence. Again, in 2020 the nation will observe the centenary of the Father of the Nation. Before that a major milestone of UN Millennium Development Goals has to be achieved by 2015. The Vision envisages that by 2021, Bangladesh will reach a trajectory of high-performing growth supported by advanced and innovative technology with prices of commodities stabilized, income and human poverty brought to a minimum level, health and education for all secured and capacity building combined with creativity enhanced, social justice established, social disparity reduced, participatory democracy firmly rooted and capacity to tackle the adverse effects of climate change achieved. Information and communication technology will, by that time, take us to new heights of excellence giving the country a new identity to be branded as Digital Bangladesh.

8. In the pursuit of achieving our Vision, the targets that we have set for the macro-economy are (a) to secure and sustained level of GDP growth of 10 percent from 2017, (b) to raise the present share of Industry from 28 percent to 40 percent of GDP, (c) to increase life expectancy of citizens to 70 years, (d) to reduce maternal mortality to 1.5 percent and (e) to scale down child mortality to 15 per thousand births. Our target is to reduce the rate of unemployment by 15 percent and also bring down the percentage of disadvantaged people living below the poverty line to 15 percent.

GDP growth 10 percent by 2017

9. The Father of the Nation started rebuilding the nation from the ruins of the Liberation War. In a short time, he was able to remove the scars of war. It was only when he was moving ahead with the aim of building a secular, democratic, exploitation-free and prosperous country, the conspirators of the forces defeated in the Liberation War struck the fatal blow. On 15 August 1975, he was brutally murdered with all the members of his family present. This marked the beginning of a dark era in our history. The country went through a period of protracted

Repression of civil-military autocracy since August 15, 1975

suppression under both military and civil autocracy. This triggered a valiant struggle by the people against the autocratic regimes. The struggle led by our leader Sheikh Hasina culminated in a victory for democratic forces. The Awami League led by Sheikh Hasina won the election held in a free, fair and neutral atmosphere and came to power in 1996 after a lapse of 21 years. That began the making of glorious episodes of success and achievements on many fronts.

10. Within a short span of five years Bangladesh made an impressive turnaround. It achieved self-sufficiency in food production. Prices of essentials remained stabilized and stayed within the purchasing power of the common man. Inflation came down and stood at 1.59 percent in FY 1999-2000. This triggered new dynamics in the development process. Economic growth stayed over the 5 percent mark throughout those five years and reached a high, as per one estimate, of 6.2 percent in FY 2000-01. The effects of East Asian Crisis of 1997-99 were managed with great prudence. The disasters arising from two devastating floods of 1997 and 1998 were managed very efficiently. New and innovative programmes were launched for the poor under a comprehensive social safety-net programme. Extraordinary success was achieved in the communication and physical infrastructure sectors. We managed to obtain a fair share of the Ganges water through an agreement reached with India. We could ultimately achieve a peaceful resolution of the conflict that prevailed over a protracted period of more than two decades in the Chittagong Hill Tracts.

Price stability and high growth in 1996-2001 period

11. Unfortunately, our journey towards progress and prosperity came to a halt in 2001 with the accession of BNP and Jamaat-led alliance to power. During their tenure, unbridled price hike and rampant corruption put the country into shambles making life of the common people miserable. The BNP government left power in 1996 with a deficit of 1 thousand megawatt of electricity and this rose to 2 thousand

Price hike and rampant corruption during Four Party Alliance rule

megawatt when they stepped down in 2006. The progress achieved in terms of the Human Development Index during the tenure of the Awami League government (1996-2001) shrank significantly.

12. The level of deprivation of the majority of the people increased adding to their miseries; unemployment grew remarkably while investment dwindled. The widespread corruption and misrule by of the 4-party alliance government together with the blue-print of election engineering resulted in a state of anarchy which paved the way for the promulgation of Emergency and subsequent accession to

Unelected government put to power through a blueprint

power by a non-elected caretaker government. This government without any valid reason remained in power for almost two years. However, in the ultimate analysis they can be given credit for conducting a free, fair and highly participatory election with the help of a credible voters' list prepared during their regime. By creating a congenial atmosphere for restoration of democracy and smooth transfer of power to the elected representatives, they indeed earned the appreciation from all quarters. It is in this context, the Grand Alliance led by Sheikh Hasina was elected with a charter for change, with a promise to create an environment where people can live with dignity and with determination to build a prosperous and caring Bangladesh.

13. The primary issues of our election pledge were to tackle the impact of global recession, to lower the price level and to keep the prices of commodities stable by increasing production or by ensuring imports of essential commodities in time. I believe that we met this commitment. The fiscal stimulus package announced by the Government to deal with the impact of recession will continue. In future and if needed, we shall provide a package of larger stimulus. At the same time, if required, we shall intervene in the market. We shall ensure increased supply of consumables through international trade and ensure the competitive environment in the market. We shall protect consumers' rights by adopting legal measures. Another, commitment was to resolve the

Present government stabilised prices of commodities

power and energy crisis and to implement a 3-year crash programme. After a while, I shall announce the relevant programme of the Government on this issue. We believe, that we will reach our cherished goal. About two other priority issues i.e. corruption eradication and good governance, I shall something to say at a late stage of my speech.

14. The major sectors of priority for our economic development are agriculture and rural development, human resources development, industry and trade and social safety net. We shall draw

***Increased investment
required for poverty
reduction***

your attention to the programmes that we propose to deliver in these sectors. We have given special attention to these areas because without creating employment opportunities, expanding public expenditure and increasing investment, we cannot make any headway in terms of poverty reduction. Above all, we have to extensively use information and communication technology for accelerated development. Therefore, we are moving ahead with a dream of establishing digital Bangladesh by the year 2021. The transition to digitization process will, on the one hand, help accelerate production and on the other hand, facilitate curbing corruption. Above all, information and communication technology will play a decisive role in generating employment opportunities. We expect that in 2021, employment in ICT sector will rank second only to textiles sector.

15. The budget for FY 2009-10 will be the first step towards our journey to realize the dreams enshrined in our Vision. Through the budget proposals, Mr Speaker, after carefully evaluating our preparedness to tackle the impact of global recession, analyzing the possible resource constraints and taking into account the capacity for implementation of development programmes, I intend to proceed with the budget proposals enshrining our promises to keep for the charter of change.

***Charter for Change
highlighted in the
budget proposal***

Macro-economic Scenario

Mr Speaker

16. I would now like to reflect briefly on the global and domestic economic perspective that would determine our new journey towards building a prosperous and poverty-free Bangladesh.

The Global Perspective

17. The rising growth trend of the global economy that commenced from the year 2002 of this century continued for six years until it encountered a global slowdown that started in 2008. The crisis began with the debacle of sub prime mortgages in the

*Sub-prime mortgage
debacle triggered
global recession*

United States. The contagion of the crisis first spread to Europe including the all the developed economies of the world before engulfing the emerging economies and finally hitting the developing countries as well with all its wrath.

18. The depth of the global economic recession could not be adequately perceived at the beginning of the crisis. As a result, all international financial institutions including the IMF and the World Bank started to change global growth forecasts frequently. Between 2002 and 2007, the average global economic growth stood at 4.5 percent. In the 1990s, this growth was only 3 percent. Before the beginning of the crisis, the global economy registered a growth of 5.2 percent in 2007 which slid to 3.2 percent in 2008. According to the latest forecast the global economic growth will shrink to negative 1.3 percent, which is the lowest growth record in the sixty years since the Great Depression of the 1930s.

*Global growth shrank to
negative 1.3 percent - lowest
since Great Depression*

The Domestic Perspective

Mr. Speaker

19. Despite the effects of global economic meltdown and the two consecutive floods and super cyclone *Sidr* that hit Bangladesh last year, its economy was able to maintain stability. It is estimated that the economic growth of the current FY 2008-09 will stay around 5.9 percent. In the context of the reality of the global situation where it is forecast that the overall global output growth and the growth of the developed economies will be negative, the expected growth registered by Bangladesh demonstrates the resilience of our economy. However, in the context aftermath of deepening of the crisis and its lingering prospect until the later half of 2010, the upcoming budget year will be a real challenge for our economy. In particular, the first half of the fiscal year will be very critical.

FY 2009-10 challenging for the economy

20. The export growth during July-March period in the current fiscal stood at 14.5 percent which was 12.4 percent during the corresponding period of the previous year. During this period, RMG sector registered a growth of 19.9 percent of which the share of woven garments was 18.4 percent and that of knitwear 21.4 percent. Raw jute, jute products, frozen foods, leather goods, and pharmaceuticals on the other hand registered negative growth.

Slow down in export growth with some sectors in negative territory

21. It is in this context that the export growth will moderate in the last quarter of the current FY. As a result, there is a downward projection of export growth to 12 percent in the current fiscal year. This was 15.9 percent in the previous year.

Export growth may decline to 12 percent

22. About 80 percent of our imports constitute essential commodities, a large part of which are raw and intermediate materials for industrial production. In the first nine months of the current fiscal year, our

Decline in import growth projected

import growth registered a decline to 12.4 percent from 23.9 percent during the corresponding period of the previous fiscal year. This is attributable to the sudden fall of fuel price and the prices of other commodities.

23. However, according to the latest information available remittance growth remains buoyant in the current fiscal year. Up to April 2009 the remittance flow amounted to US\$ 7.9 billion registering a growth of 22.5 percent. The current account surplus has increased from US\$ 435 million in July-March of FY 2007-08 to US\$ 1090 million, which is 1.2 percent of GDP.

Current Account surplus will stand at US\$ 1090 million in FY 2008-09

24. The foreign exchange reserve as on May 3, 2009 stood at US\$ 6.5 billion which is sufficient for meeting 3 months' import bill.

The Supplementary Budget for FY 2008-09 and the Economic Scenario

Mr. Speaker

25. In FY 2008-09, the target for total revenue income was Tk. 69,382 crore which is 11.3 percent of GDP. The revenue collection by the National Board of Revenue did not reach its target due to downward revision of import tariff structure combined with reduced value of commodities as a result of the global recession. However, the buoyancy in non-tax and non-NBR revenues is expected to have a sobering impact on the shortfall of total revenues. We have, therefore, revised our estimates to Tk. 69,180 crore which is 11.2 percent of GDP.

Slightly lower than target revenue income

26. NBR revenue target has been revised to Tk. 53,000 crore from its original target of Tk. 54,500 crore, which is 8.6 percent of GDP. On the other hand, the original target of non-NBR revenues has been scaled up to Tk. 2,526 crore from Tk. 2,289 crore while

that of non-tax revenue has increased to Tk. 13,654 crore from Tk. 12,593 crore.

27. In the original budget, the total expenditure was estimated at Tk. 99,962 crore which was 16.3 percent of GDP. In the revised budget of the current fiscal year this has been reduced to Tk. 94,140

Declining trend in public expenditure

crore, which is 15.3 percent of GDP. The size of the Annual Development Programme (ADP) amounting to Tk. 25,600 crore (4.3 percent of GDP) has been reduced to Tk. 23,000 crore, which is 3.7 percent of GDP. Underutilisation of resources due to capacity constraints resulted in this reduction.

28. Despite providing allocation in the form of additional subsidies for fertilizer, power and exports, the non-development expenditure was revised downward due to collapse in prices of food, fuel and fertilizer in the international market. As a result, the overall budget deficit in the revised budget for FY 2008-09 will stand at 4.1 percent of GDP. Of this, 2.3 percent will be financed from domestic sources and the remaining 1.8 percent from external sources.

Budget deficit reduced to 4.1 percent of GDP in FY 2008-09

29. The total debt stock will decline to 44.8 percent of GDP, which reflects stable and sustainable macroeconomic management.

30. In FY 2007-08, the annual average inflation stood at 9.9 percent. On a point to point basis the inflation of July at current

Inflation declined to 5.4 percent in April 2009

fiscal year was 10.8 percent which declined to 5.4 percent in April 2009. This trend of low inflation is expected to continue due to fall in prices of fuel and other essential commodities and also due to favourable production conditions. In FY 2008-09, the annual average inflation will stay around 7 percent.

31. We are continuing with a cautious monetary policy in the current fiscal year. Up to March the annualized increase of Broad Money supply stood at 19.8 percent. The domestic credit flows registered a growth

Credit flow growth shows satisfactory trend

of 18.7 percent. Private sector credit grew at a rate of 18.2 percent. When the other countries were reeling under the impact of credit crunch, the private sector credit flows in our country did not shrink. Rather, we have witnessed a satisfactory private sector credit growth during the period which will support increased investment in the country.

Mr. Speaker

32. Our currency Taka remains stable against the US dollar. During July to March period of the current fiscal year the average exchange rate against US Dollar was Tk. 68.72. In March 2009, Taka depreciated by only 0.6 percent on a point to point basis. During this period the real effective exchange rate remained stable. As a result Bangladesh could maintain its export competitiveness.

Export competitiveness gained due to taka depreciation

33. Like other sectors, the capital markets of developed and developing countries around the world were also severely hit by the global economic crisis. The share price index and market capitalization of these countries collapsed upto 65 and 262.3 percent. Despite some fluctuation in share price index of the capital market since June 2008, the overall market capitalization went up by 12.8 percent in May 2009. The price index fell 14.3 percent. The recent fluctuation in the capital market, however, did not arise directly from the global economic recession. This instability arose more from a psychological impact of global recession and from the expectation of the investors for making more profit from the narrow capital market.

Little impact on capital market due to global recession

Mr. Speaker

34. Following are the important features of the outgoing fiscal year:

- a. a bumper harvest of wheat and *boro* paddy was secured due to the Government's intervention in the form of reaching agricultural inputs to the doorsteps of the farmers and providing timely generous subsidy;
- b. the Government had to provide more funds and food grains for carrying out various civil works to generate higher employment opportunities;
- c. the Government had to provide grants and allowances at a higher rate and larger number to strengthen the social safety nets;
- d. the Government had to implement a fiscal stimulus package to meet the negative impact of global recession.

Stimulus Package to Counter the Effects of Global Recession

35. The year 2007 witnessed a significant reduction and unprecedented price hike of all commodities including food, fertilizer and fuel. A new crisis ensued in the year 2008 arising from credit crunch. Within a few months, this crisis culminated into a global recession.

36. Due to this economic meltdown, investment across the countries stagnated. It carried in its wake massive retrenchment of workers. Millions of people lost their means of livelihood. To counter this deteriorating situation, countries around the world, both developed and developing, declared fiscal stimulus packages depending on how the respective economies were affected, the depth and dimension of the problems being faced and their affordability to deliver incentives.

***The impact of financial
crisis on the real sector***

37. Since the beginning of the global economic crisis we have been carefully monitoring its impact on our economy. We believe in collective wisdom and joint initiatives of private and public sector. Therefore, immediately after assumption of office we constituted a

Task Force involving all concerned agencies. We then proceeded with declaring a special support and incentive package in a short time. I would like to discuss the initiatives under the stimulus package and the progress in its implementation.

38. The Global Recession impacted our economy in three fronts: export, import and remittance. I mentioned earlier, that except for RMG and domestic textile sector, exports of all other commodities have declined compared to the previous year. The growth of export in RMG and textiles is also going down.

Crisis affected the export, import and remittance sectors directly

39. The growth in import is also dwindling. However, remittance flow still holds a strong position. The Government will have to remain focused on tackling the situation arising from influx of expatriate workers returning home after losing their jobs. We have factored this issue in designing our stimulus package so that more effective use of our scarce resources is ensured. While providing incentives we have adjudged the beneficiaries based on objectivity considering the degree in which the recession has harmed them.

Stimulus package announced to tackle the crisis

40. The Government provides subsidy to 13 items of export. We have increased export subsidy for three worst affected sectors by 2.5 percent. To this end, there is an increase of allocation of Tk. 450 crore in the revised budget. We have simplified the existing procedures for quicker disbursement of cash subsidy to the beneficiaries. We have provided for presumptive payment of 75 percent of claim and settlement of the rest of the claim after due audit scrutiny.

Subsidy increased for three severely affected sectors

41. In the RMG and Textiles sector, there is already a package of incentives in place. This includes:

- bonded warehouse facilities through which the exporters can import fabrics and other raw materials duty free

- duty draw-back facilities which are extended to those who cannot avail bonded warehouse facilities,
- providing 5 percent of the export value to those who use local yarn and fabrics to make their products
- a zero tariff on imports of cotton in the interest of yarn producers

42. Besides these, we have provided certain additional assistance to other sectors including RMG and Textiles:

Brought down the lending rate to 12 to 13 percent

- in certain cases bank interest rate has been lowered to 12 - 13 percent to facilitate import and investment
- the time limit for making down payment in respect of repayment of bank loans for all manufacturers and exporters has been extended up to September 2009. Rescheduling facilities are to be extended on a case by case basis
- an Export Development Fund is in place for financing the import of machinery for plants engaged in manufacturing of exportable items. The size of this fund has been increased. An individual borrower's limit has been increased from US\$ 1 million to US\$ 1.5 million
- steps have been taken to withdraw license/renewal fees payable by the captive power producers
- steps have been taken to implement immediately the planned actions to revamp the sick industries including 270 garment manufacturing units

Export Promotion Fund enhanced by 50 percent

Initiatives for solving the problems of sick industries

Mr. Speaker

43. We know that the Government has an obligation to do more to enhance the capacity of the exporters. To this end we are closely

monitoring the whole situation so that we can take immediate decisions in order to protect the exporters' interests. We will not let the export industry, which is currently undergoing a setback, to go sick.

44. For disbursement of loans to the private sector, we are focusing on a system of risk-based assessment of investment instead of emphasizing on collaterals. Bangladesh Bank has been advised to take appropriate action to maintain an exchange rate regime that looks into the interest of the exporters.

45. In order to keep the negatives of global recession at a minimum level on our remittance flows we have adopted the following strategies:

Steps for expansion of labour market abroad

- rehabilitation and skill development training programme for the returnee expatriate workers who lost their jobs
- diplomatic initiative to prevent retrenchment of workers and to explore new labor markets abroad
- making National Skill Development Council more effective to build a critical mass of skilled workforce to match the requirement of international labor markets.

46. In order to keep the domestic demand buoyant alongside exports, steps have been taken to make the operation of the funds with the Bangladesh Bank more comprehensive, strengthened and effective. These include Equity and Entrepreneurship Fund, Housing Fund, SME Fund and Investment Promotion and Financing Facilities Fund. Housing Fund has been raised from Tk. 300 crore to Tk. 500 crore and SME fund from Tk. 500 to Tk. 600 crore.

Refinancing Scheme for increased investment in SME and Housing

47. Emphasis has been laid on agriculture and power sectors so that domestic demand is not hindered due to supply constraints. In the revised budget of

Recapitalization of BKB, RAKUB and Karmasangsthan Bank

the current fiscal year an additional allocation of Tk. 600 crore has been made for providing subsidy to the power sector. An allocation of Tk. 1,500 crore has been provided in the revised budget for the recapitalization of Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank and Karmashanthan Bank in order to revamp the rural economy by increasing credit access, thereby supporting self-employment. Tk. 1,500 crore has been allocated to enhance subsidies for agricultural inputs and irrigation. Bangladesh Bank has allocated Tk. 1,183 crore for refinancing agricultural credit.

48. Merchant banking facilities have been extended to State-owned Commercial Banks (SCBs) to consolidate the capital market.

Initiatives for consolidation of capital market

The Initial Public Offering of Grameen Phone is underway. Steps have been taken to establish a Capital Market Institute to institutionalize capital market research and training.

Mr. Speaker

49. There is a plan to improve the working environment of the industrial and financial sector by way of modernising and restructuring the Bangladesh Standards and Testing Institute, Bangladesh Bureau of Statistics and the Insurance Authority.

50. With respect to the fiscal stimulus package, I would like to emphasise here that the package proposals were designed consistent with our chartered strategies for poverty reduction, economic growth and macro stability. Therefore, may I assure you that programmes under stimulus package would continue to be expanded consistent with the need and within our affordability. A provision of Tk. 5,000 crore has been made in the next year's budget to continue the programme.

Stimulus package to be expanded

51. Against the backdrop of current recession, austerity and belt-tightening have to be exercised in other areas of public expenditure

Austerity measures for reducing public expenditure

to free up resources for creation of jobs, increase of aggregate demand and

implementation of social safety-net and poverty reduction programmes. Necessary directives have been circulated to all ministries, divisions and departments urging them to prevent waste and to observe the standards of financial propriety while procuring goods and services.

52. It is heartening to see that the world community in their response to the crisis has been announcing bail-out packages. The London Conference of G-20 countries declared, mainly for emerging economies a huge bail-out package of US\$ 1.1 trillion to overcome the crisis arising

Positive response in G-20 Summit in favour of global community

from the recession. A significant share of this package will go to the IMF. I trust Bangladesh will also get its fair share from the increased resources made available to the IMF. The World Bank and the Asian Development Bank in alignment with the initiative of G-20 conference, have taken up various programmes to support the developing countries. Bangladesh is also expected to receive budget support from these programmes. Under the G-20 package, US\$ 250 billion will be used for trade financing of the member states. To qualify for access to this facility by countries such as Bangladesh, it would require policy changes in trade financing by the multilateral institutions. A country that manages its external sector prudently and does not default on any debt must be provided trade financing on liberal terms for importing essential commodities like food, fertilizer and fuel rather than compensation on account of export loss.

Opening of a New Horizon

Planning Concepts and Strategies of the New Government

53. The Government led by the Grand Alliance believes in long-term vision for the development of the country. A long term Perspective Plan helps a nation to have an idea of its goals for a foreseeable future

Finalisation of 3-Year PRSP in two months

and enables it to chart out its course of action to achieve these goals. With this purpose we have briefly outlined our Vision of 2021. In order to realise this Vision we believe that there is a need for a medium-term Five -Year Plan. We have already taken up to work out the details of the Vision 2021 simultaneously begun the work of formulating our 5-Year Plan for 2010-2015. At the same time, we believe that there should be a continuity of Government's activities and all activities directed towards the welfare of people should be pursued vigorously. Here, I would like to share some reflections on our planning concepts:

- First, we have reviewed the already prepared 3-year term PRSP (Moving Ahead 2009-11) in the light of our development philosophy and socio-economic goals. We plan to complete this task in the next two months. Poverty reduction is a fundamental issue where there should not be any laxity. Therefore, we will follow this programme till 2011.
- I mentioned earlier that the work on our Perspective Plan (2010-2021) is in progress. I hope by June next year we will be able to share this planning document with the Hon'ble Members of Parliament.

<i>Preparation of Perspective Plan for 2010-21 in progress</i>
--
- Alongside this, we have begun our work on 5-Year Plan for 2010-2015. This planning document will not be a traditional one with sectoral allocations, lists of projects and investment plan. It will project goals and targets, explore alternative strategies for reaching the goals and targets. In a broad sweep, it will contain the projected savings and investment and public expenditure, the role of public and private sectors and the requirement for institutional structure. This medium-term plan will

<i>FYP to Reflect development goals and targets</i>

contribute to the process of implementing our Perspective Plan. In fact, this Plan will be an indicative forecast for the nation reflecting the Government's development philosophy.

- I mentioned earlier that the current PRSP shall remain in force until 2011 and this document will be reviewed each year in normal course. The way the 5-Year plan will influence the annual budget objectives, the PRSP that we are finalizing likewise will affect the budget for the intervening period.
- The annual budget will specify the programmes needed to operationalize the broad directives of the 5-Year Plan. You are all aware that a 3-Year Medium Term Budget Framework (MTBF) is followed by different line ministries in developing their annual budgets. This 3-Year MTBF will be converted into a 5-Year MTBF.
- The two most important aspects of budgeting for us are augmenting government revenue and increasing the rate of investment. Considering the uncertainties due to the global recession, we cannot possibly raise the rates of taxes, but certainly it would not be unjust to widen the tax net. Similarly emphasis may be laid on attracting increased investment from private and foreign sources. We shall definitely support various investment initiatives.

***Redesigning MTBF
as 5-year MTBF***

Public-Private Partnership Budget

Mr. Speaker

54. We need to take our economy to the higher trajectory of growth to take the people of this country out of the vicious cycle of poverty. What is needed to meet this objective is a paradigm shift to

bring qualitative change in the investment strategy that we have been following.

55. As I mentioned earlier, in our Election Manifesto, the growth of GDP has been set at 8 percent to be achieved by the year 2013

Investment deficit of US\$ 28 billion to be financed to achieve 8 percent growth by 2014

and at 10 percent by the year 2017, which would be sustained until 2021.

As a vehicle to attain this higher growth, investment in infrastructure development, especially, power and energy, ports, communication, supply of drinking water and waste management, education and health will be given highest priority. A huge investment is required to achieve this target. In addition to the existing public and private investment programmes, an investment of US\$ 28 billion will be required by FY 2013-14 to achieve the projected growth as per the preliminary estimates.

56. The government alone cannot provide such huge amount of resources. It would be difficult to maintain macroeconomic stability if the government has to finance such huge investment by borrowing from domestic sources. Again, it will not be possible to obtain such funds as concessionary loans from the development partners. Our past

Capacity constraints in domestic financing

experience suggests that it has been difficult to ensure economic use of public resources and the quality of service delivery when Government is involved in infrastructure development and maintenance as its involvement is not determined through a competitive market process. At the same time, direct involvement of the government in project execution process takes away the focus from its basic obligation to provide social and other important services.

57. Since the implementation and funding of any infrastructure development projects is a long drawn process, the investment risk is much higher and at the same time, the investment is not, in many cases, commercially viable. It is therefore, difficult to attract private investment in all projects in this sector.

58. In this context we are going to take **special initiatives to involve the private sector** under Public Private Partnership (PPP) to

Private sector to be involved in financing investment deficit

meet the probable investment gap in infrastructure development and maintenance, alongside the government's investment. We trust that successful application of PPP concept will open up the door for increased flow of investment from both local and foreign investors. This will accelerate economic growth. In fact, PPP in Bangladesh commenced after the adoption of IPP Policy in 1996.

59. Around 50 initiatives in telecommunication, land port and other physical infrastructure projects have been successful. There has been remarkable progress in PPP sector in FY 1998-99 when initiatives were taken to build two mega power

PPP framework to be more transparent and strengthened

plants at Haripur and Meghnaghat with private sector involvement for the first time. The two projects were implemented successfully and helped in mitigating power crisis. I would like to mention that the existing PPP framework and the institutions associated with PPP should be more transparent and should also be strengthened to ensure the success of the PPP sector. At the same time it is essential to ensure the participation of the government in PPP projects.

60. The present government is committed to take timely

Opening of three new budget heads for PPP

measures to attract private investment in the country through PPP. Therefore, I propose to create three new 'expenditure heads' in the FY 2009-10 budget to facilitate new projects under PPP.

61. The first expenditure head will be named as **PPP Technical Assistance** to cover expenditure related to pre-feasibility studies and other preparatory work before asking the private sector to submit their bids for PPP projects. Relevant agencies will be able to

Tk. 100 Crore for PPP technical assistance

receive necessary funds quickly from this head to prepare PPP project documents and to appoint PPP consultants. I propose to allocate Tk. 100 crore for this sector in FY 2009-10.

62. I propose to allocate Tk. 300 crore as **Viability Gap Funding as subsidy or seed money** to attract private initiatives for the construction of power plants, hospitals, schools, roads and highways which are non-profitable but essential for public services.

Tk. 300 Crore for PPP viability Gap Funding

63. I propose to allocate Tk. 2,100 crore in the PPP budget to accelerate the process of investment through PPP. This allocation will be used for setting up an **Infrastructure Investment Fund**. Depending on the type of projects, the Government will provide equity or loan to the private investors to ensure Government's participation. Different financial incentives will be extended from this Fund to encourage investments. We are presenting for the first time a position paper on invigorating investment initiative through PPP.

Tk. 2100 Crore for creating Infrastructure Investment Fund

64. The challenge before us, is to set up an institution for preparation and implementation of PPP budget which will ensure innovative ways, independent operation and accountability of planning and budget process of the private sector. We trust that this body will be able to provide incentives to PPP initiatives in different sectors and expedite project approval process. We believe that this institution will follow the best practices of modern management philosophy of both public and private sectors. According to our plan we hope that the PPP budget management will be fully operational by September next.

Best management practice for PPP Unit

Medium Term Budget Framework

Mr. Speaker

65. The total volume of public expenditure in Bangladesh compared to other countries is

Effective use of public resources

fairly low. At the same time it is evident that with this level of spending, it is not possible to achieve the desired level of output. Most of the public expenditure is not linked with the national and sectoral policies. The probable outcome to be achieved through these resources is not always clearly articulated. In most cases, monitoring and evaluation of budget implementation is not properly carried out. Needless to say, proper utilisation of limited public resources can accelerate the national growth rate and speed up poverty reduction.

66. By now, 20 ministries and divisions have been included in the Medium Term Budget Framework. The purpose of MTBF is to link budget with the Government's policy; resources with the performance indicators of the ministry/department/agency and strengthen the implementation, monitoring and evaluation process. These 20 ministries and divisions spend 53 percent of the total budget and 86 percent of the ADP. In addition, 12 more ministries will be roped in the MTBF budget process very soon.

Linking policies to allocation, allocation to performance

67. We want to bring in all ministries and divisions within this budget framework within the next 2-3 years by linking the Government's declared strategic policies with the budget process.

68. The national budget is not just a statement of income and expenditure of the government. Budget is a vehicle through which we shall ensure growth, poverty reduction and commitment relating to achieving the macroeconomic fundamentals.

Budget as vehicle to implement Charter for Change

69. In the light of our experience in introducing the new budget framework it was felt that the overall budget management at Ministry level requires further strengthening through institutional support. In view of the above these Ministries and Divisions have been asked to create a Budget and Planning Wing or Branch within their organisational structure. It is

Establish Planning and Budget Wing/Branch in each Ministry

hoped, that implementation of this directive will strengthen budget preparation, implementation and the monitoring activities.

70. New initiatives have been taken to examine the entire development project approval process to avoid delay and

Faster approval of projects and strengthened monitoring

complexity. The revised procedure will be made effective some time in the next fiscal year. The activities of ministries

and divisions have been strengthened to monitor and evaluate regularly the implementation progress of development projects. The newly created wings/branches in the ministries and divisions will support this activity.

Unified Budget

Mr. Speaker

71. We want to initiate a few reforms related to budget preparation and execution starting from the next fiscal year. The dichotomy between non-development

and development is essentially artificial. From the perspective of attaining objectives, this becomes

Dichotomy between non-development and development budget is artificial

more evident. For example, construction of schools is under the development budget, but salaries of teachers and other educational inputs are within the purview of non-development budget. The desired outcome will not be achieved through the civil works connected with the construction of schools alone.

72. Besides, if we look at the total resource of the government, we can see that 76 percent of the total budget is spent through non-development budget. There are many

Development programmes are also implemented under non-development budget

development programmes which are now being implemented through the non-development budget. Around 28.8

percent of total resources have been allocated for this purpose in the current fiscal year. However, during the same period only 24 percent of the total budget has been allocated for the ADP.

73. Currently, 14 percent of the total budget has been allocated as interest payments for the funds which were borrowed to finance previous Annual Development Programmes. Another amount of 2.7 percent of the total budget has been allocated for the repair and maintenance of infrastructure which was built under the development projects. A further 3.6 percent of the total budget is spent on salaries for manpower transferred from completed projects to the non-development budget.

Shifting load on non-development budget from development budget

74. Therefore, the national budget should be unified to help achieve the strategic objectives of the government in the short and medium term. It will also help to eliminate duplication and lack of coordination in the budget preparation process. However, the budget allocation needs to be divided as capital expenditure and recurrent expenditure at the disaggregated level to understand the expenditure pattern. A way to manage this will be determined soon in consultation with the Planning Commission.

Initiative for formulating unified budget

Gender Responsive Budget

75. It is one of the priorities of the government to initiate positive steps to ensure gender equity across the economy. We want to bring women in the mainstream of economic development and good governance. We are going to incorporate gender and poverty related disaggregated data in the budget separately through the Medium Term Budget Framework.

Engendering budget

76. It is my great pleasure to inform this august House through you, Mr Speaker, that we tried our best to ensure women's equity in the FY 2009-10 budget. For the first time, I am presenting a separate statement before this Parliament regarding the allocations that have been earmarked for women's advancement for the

Budget related report on women development

Ministries of Education, Social Welfare, Health & Family Welfare and Food & Disaster Management. The share of participation of women in different activities and the level of service they are receiving from the government's activities will be evident from that information. At the same time, with such available information it can be decided whether any affirmative action is required or not to ensure women's rightful position in the society and the economy. We hope to include more information in the coming years.

District Budget

77. As we all know, the national budget is prepared centrally. This does not capture the hopes and aspirations of the people at the grass root level. At the same time, transparency and accountability cannot be ensured, as we cannot say how much resources have been utilised in a particular district. As an initial step we want to prepare a district budget for one district in each division through partial modification and improvement in the classification structure and a few changes in the development project proforma. If it is possible, then the central budget will also be able to illustrate a district wise budgetary break up, which will ensure transparency of public expenditure and accountability in the implementation of programmes. I hope that I will be able to present a **district level budget** in the budget for FY 2010-11 before this august House.

District budget for transparency and accountability

78. Once the process is begun, we shall be able to capture inputs for budgeting and planning from the district level. This initiative is closely linked with decentralisation of our development initiatives. I firmly believe that there will be an epoch making change in the development initiative if budget preparation and implementation at the district level, works as planned.

Use of ICT in Preparation of Budget and Accounts

79. It is my pleasure to inform you that information technology is widely used in the processing and compilation of budget and accounts related data and information. Integrated Budgeting and Accounting System (iBAS) was introduced in FY 2007-08 and with this we can now ensure generation of timely and accurate reports. Currently, 58 District Accounts Offices including the Divisional Accounts Offices are connected through a Wide Area Network. Financial data and information are being sent directly to the capital from remote accounting locations through this system. In future, this information technology will be expanded further to cover all Upazilas across the country. This process will make public spending and use of resources more transparent and will ensure accountability.

Implementing budget through WAN connectivity across country

Budget Framework for Fiscal Year 2009-10

Mr. Speaker

80. At this stage, I would like to reflect on the overall budget framework for FY 2009-10. The next year's budget has been formulated on the basis of certain assumptions contained in the Medium Term Macroeconomic Framework. It has been estimated in this Framework that the economic growth in the next fiscal year will be 5.5 percent considered in the context of the global outlook. However, in the next two years the economy is expected to pick up and post a higher growth rate. Annual inflation will come down to 6.5 percent from 7 percent of fiscal 2009. The shocks emanating from the global recession may negatively impact the export sector. Though the growth of remittance is expected to be slowed down, the total remittance will still cross US\$ 10 billion mark. The revenue

In FY 2009- 10, 5.5 percent growth and 6.5 percent inflation estimated

