

Dialogue on The State of the Bangladesh Economy in the Financial Year 1997-98

i) The Dialogue:

The Centre for Policy Dialogue (CPD) organised a one day dialogue on the theme *The State of the Bangladesh Economy in the Financial Year 1997-98* on May 9, 1998 (Saturday) at Hotel Sheraton at 3:00 – 6:30 pm. The dialogue was chaired by professor Rehman Sobhan , Executive Chairman, Centre for Policy Dialogue (CPD).

Initiating the dialogue Professor Sobhan welcomed Mr. S.A.M.S Kibria, Hon'ble Minister for Finance, Government of Bangladesh. The key note paper titled *Bangladesh Economy In 1997-98: An Initial Assessment* was made by Dr. Debapriya Bhattacharya, Senior Research Fellow, BIDS. A cross-section of politicians, bureaucrats, professionals, eminent academics, NGO activists, representatives from international organisations and eminent members of civil society.

ii) Summary of the Discussion:

State of the Macro economy in terms of Budgetary Indicators

Following presentation of the keynote paper by Bhattacharya, Rehman Sobhan invited S.A.M.S. Kibria, the Finance Minister to give his reaction. Kibria told the participants that he always appreciated Sobhan's contribution in the analysis of economic situation and whenever he had been invited by Sobhan, he had eagerly participated in various dialogues. However, as the National Budget was to be presented to the Parliament next month, he thought that he should not comment on any of the issues that had been raised by Bhattacharya in his paper. He thought that the dialogue would be well advised to focus on the controversy arising out of the statistical data provided by different agencies. As the dialogue concentrated on the macro-economic aspects and sectoral performance of the economy, any comment by him on any of these issues may be premature. Kibria was of the view that it was his responsibility to disclose his own views on these issues at the ensuing donors, meeting and in the Parliament during the forthcoming budget session. He observed that he listened with great interest to Bhattacharya's presentation, however, in his view Bhattacharya has presented some data, most of which have been collected from BBS, and given his own interpretation of these data. But Kibria thought that in interpreting a situation, different individuals could express different views. Thus, if one contrasted the Bangladesh situation with that of the East or South East Asian nations, one could take a lot of pleasure and confidence in our current performance. However, if one contrasted Bangladesh's situation with the neighbouring countries, one might take a different view. Therefore, the overall situation depended on how facts are interpreted.

Initiating the discussion Rehman Sobhan pointed out that it was important to put under scrutiny the evidence emerging from the performance of the economy in the run up to the FY 1999 budget. On one side, revenue generation was not meeting its set target which, he thought, might possibly have an impact on the release of funds as well as the implementation of the ADP. Moreover, Sobhan thought that the process of implementation of the AD P was crucially important for the functioning of the rest of the economy. He pointed out that it was a matter of some concern that the ADP performance had been, for a long period of time, moving rather sluggishly and had always fallen behind the target set at the outset of the fiscal years. He reminded the house that the CPD 's second dialogue back in April 1994 focused on the weak implementation of the ADP. He hoped that the present dialogue would be able to find out whether poor ADP implementation is an intractable problem and should be treated as a cause for special concern. The ways and means to stimulate ADP performance need to be explored as well. In this regard, he thought that the issue of low rate of utilization of project aid should also come up for discussion.

Jan Bove, the representative of the IMP, pointed out that he found it to be very difficult to prepare a budget in Bangladesh, an exercise of critical importance, in the absence of accurate data and information. Under such circumstances, it was very difficult to carry out an effective budget exercise. He observed that although throughout his stay here for the last three years he had been pushing this issue, the quality of data had not visibly improved and there had been no progress in getting the accounts to a more reliable level. As a result, he had found out that in case a budget missed its target in Bangladesh, it economy, but by pointing out to what extent the budget makers had been wrong in

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their forecasts because the data on the basis of which the budget had been formulated were not good enough. He thought it to be a very serious problem and was of the opinion that the policy makers should better not overlook this technical aspect of collating the basic information which was very critical in terms of ensuring improved macro-economic management.

Akbar Ali Khan, the Finance Secretary, offered some clue on the revenue target issue. He thought that the first thing which had gone wrong was that, while preparing the previous year's revised budget estimates (which had actually been prepared between April and May '97) an overestimate had been made. Usually, a revenue target for the following year is made on the basis of the revised estimates of the previous year. But last year's revised estimates had fallen short of their actual collections by about Tk. 550 crore. However, the budget for FY 1998 assumed a growth of about 15% over the original budget forecast rather than the actualised revenue collections. So Tk. 650 crore had not been there in the first place when targets were set for FY 1998. He thought that the shortfalls in last year's revised estimates was not usual. Based on his experience of three years in the NBR he pointed out that the NBR should have a fairly clear idea by April/May '97 about the budgetary performance on the ground - a shortfall of 100 or 200 crore Taka can be expected, but a shortfall to the amount of 550 crore Taka was unusual.

The second cause which had been responsible for the revenue target shortfall was related to the fact that a great deal of money came from the supplementary duty from sale of natural gas. Akbar Ali Khan informed the dialogue that there had been a shortfall in the production of natural gas in FY 1998. As a result, the NBR received Tk. 200 crore less than what was predicted from the gas sector compared to the amount they had collected from this sector in the previous year. He considered this to be an unusual development. On one side, there had been lower production of gas; on the other side supplemental duty was quite heavy which was actually the royalty of the government on natural gas. Thus, there had been a significant shortfall in collection of revenue from this sector. Akbar Ali summed up the short fall to be in the range of taka 850 crores. According to him, the third reason for revenue shortfall was the sluggish import growth. He further explained that sluggishness of import growth actually meant sluggishness in dollar terms. He informed the dialogue that during the current year prices of many commodities such as petroleum products, fertilizer, sugar, wheat etc. had fallen. Thus, in quantitative terms, there might not be a significant fall in imports but in value terms a fall was actually registered. However, as taxes were collected on dollar basis revenue growth had come out to be sluggish on this count. Akbar Ali Khan thought that the above mentioned three reasons were responsible for revenue shortfall during the current fiscal year.

In explaining the fiscal situation for FY1998, M. Syeduzzaman, a former Finance Minister, stressed the trends in the fiscal situation. He thought that if the new GDP figures which were revised upwards, were taken into account then the tax-GDP ratio goes down even below what had been earlier suggested. He also observed that regarding the ADP, lower absolute investment do not necessarily mean that everything was going wrong, because it depended on the selection of projects, quality of ADP expenditures and so on. However, he seemed to be worried about the fact that the share of development expenditure as a percentage of GDP might be falling behind the share of revenue expenditure as a percentage of GDP, He thought, such trends needed urgent correction,

P. Landell-Mills, World Bank's Country Director in Bangladesh, thought that one had to look at the quality of the budget estimates, i.e. to compare it with the outcomes, because these happened to be over optimistic and one might have a different interpretation of where one had gone wrong if one recognised the initial overestimation. He reminded the participants that when the last budget was presented there was a nagging worry about the estimates regarding revenue collection and in that sense the present outcome was not surprising. He thought that, if one was concerned about the tax to GDP ratio measured in terms of revenue to GDP, one must be worried as it had failed to make much progress. Therefore, one needed to find out why revenue was not increasing and what could be done about it. He thought that the performance of the tax collection department should be radically improved.

On the issue of revenue earnings and expenditure, Mohiuddin Khan Alamgir, the state minister for Planning, expressed his concern that revenue expenditure-GDP ratio seemed to be on the rise relative to the ADP-GDP ratio. He believed that unless we could reverse this trend we would not be making the best use of the available scarce resources.

Alamgir believed that sluggish growth in Import, to some extent had resulted in non-realization of the target in terms of custom duties. Besides there had been sluggish growth in collection of non-tax revenue. He thought that non-tax revenue would have to rise faster than the rate at which it had been rising in the past. He added that Bangladesh was required to ensure that the tax-GDP ratio would rise from the present level of 9.3% to about 12% in the next three years.

In responding to the issue of revenue shortfall Yusuf Abdullah Harun, President of the FBCCI needed to find out what had actually been the projection in revenue growth when the original revenue estimates had been made. It should also be known whether the revenue shortfall emerged as a result of a shortfall in the projection of revenue growth or due to a lower collection of revenue. He was concerned about the effect of a revenue shortfall on the Pay Commission settlement for the year. He further pointed out that this shortfall had been met by the government by cutting down the ADP which would have qualitative and quantitative effects on ADP implementation. He would be happy if the revenue shortfall had been covered more by expediting the privatization process, thereby leading to a reduction equivalent to 2% of the GDP which was drained away by the SOEs. He would be happier if downsizing the administrative costs had covered the shortfall. In this regard he pointed out that the disbursement to SOEs had increased in 1997-98 which had added extra pressure on the banking system.

M.K. Anwar, Member of Parliament, supported Syeduzzanlan's view that the trends in the fiscal situation were important to analyse. He noted that compared to 1994-95 the tax-GDP ratio had been failing and a further fail might be expected.

On the Issue of revenue shortfall, he observed that last year at the time of setting up of the revenue targets, a block amount had been provisioned which was expected to be collected from unforeseen sources through improvement of the revenue administration etc. However, that expectation had not been realised. He thought this misperception of the WH about its ability to improve the performance of the system to be the main reason for the revenue shortfall. Responding to M.K. Anwar, Akbar Ali Khan informed the participants that putting aside a block amount was not novel and during the last five or six years it had always been projected every year that some money would come through administrative improvement. He once again stressed that the real problem was induced by last year's revised budget estimates and the use of wrong base to predict revenue growth.

Tofail Ahmed, the Minister for Industries and Commerce, thought that an over ambitious target was not desirable, because if that particular target was not achieved people felt disappointed. He considered the setting of the revenue target in the current fiscal to be unfortunate, although there had been some growth in revenue earnings at least at a rate in keeping with trends set in recent years.

The Issue of Discrepancy in the Data on Industrial Output

Landell-Mills wanted to know about the reaction of the business community on the issue of industrial growth rate. Tofail Ahmed expressed his dismay about the problem of data on the industrial growth rate. Whilst the MCCI had been mentioning the industrial growth rate to be 4.5%, the BBS had been quoting a somewhat higher estimate. As the minister had to depend on the information delivered by the experts, he had been puzzled by the controversy. However, he was satisfied with the growth rate of exports. He thought that the export growth would be even higher during the residual months of the current fiscal.

Tofail Ahmed was also perplexed by the definition of industry given by the HHS. He noted that sectors such as mining, electricity, gas, construction etc. were outside the domain of the Minister for Industries, however industrial growth rate was critically dependent on the performance of all such sectors. He mentioned that during the current fiscal year industrial growth was more than 12%, export growth was more than 16% and that this was confirmed by the paper presented by Bhattacharya.

Rehman Sobhan pointed out that there had been four sets of data pertaining industrial growth in the current fiscal year, which were currently available in Bangladesh. One was given by the HHS, another by the MCCI, one by Bhattacharya and again another by Zaid Bakht. We thus needed to establish a definitive indication that growth rate in industry had been reasonably robust in FY 1998. At this point Laila Rahman Kabir, President of the MCCI, pointed out that what the MCCI had presented as its estimates about industrial growth, was made on the basis of an analysis that had been carried out by the MCCI based on BBS data. MCCI had made the analysis of the production data of a selected group of industries and they had compared the data with the growth figures of 96-97 and 97-98 (from July-November). After giving weights for different industries the MCCI had found a growth rate of 4.5%. MCCI never emphasized that this was the growth rate for the entire industrial sector. Rather, they wanted to bring here the fact that everything was not well in the industrial sector. Growth had been observed in some sectors, but in others, it was very poor. And by comparing the data with those of 1996-97, they found that growth rate had actually been negative in some sectors. She again stressed that she had never said that industrial growth was 4.5%. She added that her speech, from which the controversy had started, had been in a written form, so that, there was no scope for any confusion.

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Rehman Sobhan invited Waliul Islam, Secretary, Statistics Division to give his views on the accuracy of the estimates on industrial growth provided in Bhattacharya's paper. Waliul Islam, Chairman of BBS, observed that Bhattacharya's data was based on the information supplied by BBS, so the methodology he had used, had to be consistent, which it was. Waliul Islam thought that MCCI, in their calculation, had used the same source of data as was used by BBS and was sure to arrive at similar results as BBS, if they were to consider the overall industrial sector growth. In this regard; he mentioned the

Problems of defining the industrial sector. When BBS calculated the quantum indices it considered large and medium industries together, followed by small-scale industries and electricity and mining. This was rebased in 1988-89; however, BBS was not happy with the rebasing. Waliul Islam observed that, since then, in about a decade, the picture of the industrial mix had changed. He pointed out that the weight for RMG was about 9% and in that account the quantum indices provided by them had been quite conservative. If the growth in exports, resulting from RMG export, was considered along with the actual share of RMG in the industrial sector, which was actually 20% to 25% but taken to be only as 9%, then the growth rate would be much higher. He informed the participants that at present, BBS was making some changes -they were planning to make a census of non-agricultural activities in Bangladesh which they would carry out in the year 2000. In the meantime, in the course of rebasing the GDP, they had already collected a list of all the industries that had been registered under the VAT register and also a list from the SEC. He further informed the meeting that they were also doing an Integrated Business Enterprise Survey. He hoped that from next July, with all this new data at hand, they would have an updated weightage of different Industries. He further observed that BBS had already circulated a draft on the methodology of the revised GDP, and also a book on sources and methods of estimating indices they had been using, so that the people who work with their data, were aware of the methodology they use. In addition, according to the recommendations of the donor countries, BBS was trying to improve their statistical methods of estimation. They already arranged a workshop where representatives from the private sector, GOB agencies and experts were present. The participants of the workshop were given the prevailing methodologies of BBS and they were requested to comment on how to further improve these methodologies. BBS was supposed to meet those people again by the end of May '98. Waliul Islam could not agree with Bhattacharya's calculation of an industrial growth rate of over 9%. Rather, he pointed out that BBS's figure would be somewhere between 7.4% or 7.5%. But Bhattacharya's overall growth rate figure was close to BBS's figure.

Zaid Bakht registered his discomfort with the industrial growth scenario presented on the basis of the quantum indices of production. He drew the participants' attention to Annex table -1 of Bhattacharya's paper where it was mentioned that industries which accounted for about 93% of industrial output, had experienced a growth rate of 9%. Under such circumstances if the industrial sector, as a whole, was to grow at a rate of 12%, then the rest of the industries in the sector would have to grow at a rate of between 20% and 30%. However, these industries were not actually in a position to register such high growth rates. His recomputed weighted growth rate of industrial sector would be 7% instead of 9% as mentioned by Bhattacharya. He thought that the quantum index tended to overstate growth of the export oriented industries. He was of the Opinion that the manufactured export industry grew at a rate of about 16% in the first three-quarters of FY 1998. Under the current BBS system these had an weight of about 0.2%, i.e. 16% growth of this subsector would then generate a growth of 3.2%. He added that the rest of the industries which had a weight of 0.8 were mainly domestic market oriented, and therefore their growth would be similar to the growth registered by rest of the economy which was around 5%. Under such circumstances their contribution to the overall industrial growth would be to the tune of about 4%. Thus, 7.2% (4% + 3.2%) was the most optimistic scenario that one could hope for under the current weighted distribution of the BBS. However, he agreed with Waliul Islam's view that export industries did not get proper weight under the current BBS system. In this regard, Zaid Bakht, pointed out, as an example, that the knitwear sector is currently given a zero weight in the BBS system, in spite of the fact that the sector had been growing at an accelerated rate in recent years. He was of the opinion that if one attributed around 30% weight to export industry, then even on the basis of the growth rates presented by Bhattacharya, the overall growth of the industrial sector would only come to around 9% to 10%.

One participant requested that Bhattacharya to find out the weighted growth rate of non-textile/non-RMG industries, which would enable the general public to obtain an objective perception of actual industrial growth.

Monetary Issues

Landell-Mills wanted to know why the business community felt that there was a credit crunch and wondered what would happen if a flexible credit policy was put in place. Rehman Sobhan asked whether the budgetary situation had led to any "crowding out". Effect on private credit as was discussed in Bhattacharya's paper. Sobhan wanted to know the extent to which the state of the banking sector was contributing to the problems. Currently being faced by the industrial sector. Taking up the issue of credit, Laila Kabir pointed out that the current discourse around the problem of bank default was creating a lot of confusion among the business people as also amongst the bankers. This has led to delays in

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disbursements of loan. She thought that the recent past had been a very difficult period in terms of credit availability. However, she was encouraged to see that credit supply was coming on stream finally. However, the businessmen had to suffer terrible hassle. She appealed that confusions relating to credit disbursement be speedily resolved to stimulate industrial investment in the country and bring back confidence of the entrepreneurs.

In addressing the issues raised by Landell-Mills, Yusuf Abdullah Harun mentioned that although exports registered robust growth in recent period, the structure of the growth clearly shows an increasingly high degree of concentration and that such growth was accounted for by only three or four industrial sectors. According to him, for 95% of the businessmen the story would be different. He thought that businessmen were justified, in being "unhappy with some of the measures taken to bring discipline in the banking sector. The business community found that whenever the banks were told by the government to bring discipline, they would invariably start to be very cautious with credit disbursement. This also led to heightened rent-seeking activities. He observed that the business community was not against bringing discipline to the financial sector, but the route taken by GOB was not fair. As far as reasons behind lower utilization of loans by the business community was concerned, there had indeed been more disbursements by the banks but this has come about in account of several possible factors. One was that, the conditionalities imposed by some banks were not very encouraging. In order to get the loan sanctioned by the banks the entrepreneurs had to swallow really bitter conditionalities. Moreover, he noted that the poor infrastructures like problems of electricity, port situation etc. had also made the business community apprehensive about their future. Therefore they are not eager to invest except in sectors which ensured a guaranteed return. He pointed out that business people felt discouraged to invest because of competition they faced from smuggled goods which were capturing the domestic market at an accelerated rate. In this regard he mentioned that unofficial import from India was similar in amount to official formal trade. Smuggling was reducing the revenue earnings of the government. The local businessmen were facing unfair competition from smuggled goods. He also argued that although business community was in favour of liberalization, they did not support liberalization without the reforms. Liberalization had exposed them to intense competition. The difficulties faced by entrepreneurs had been accentuated because of lack of steady supply of electricity and due to problems in the ports etc. He urged the government to improve the quality of implementation of the reform measures in banking sector, administration, privatization and legal system without which a viable industrial sector would not grow in Bangladesh.

M.K. Anwar thought that because the government was borrowing large amount of money from the banking system, the private sector was facing the burden of a credit crunch. This was having a disincentive impact on the private sector. He also thought that smuggling and 2.5% surcharge, eroded the competitive strength of the domestic industry. As opposed to this, Mohiuddin Khan Alamgir thought that borrowings by the government through floating of savings bonds was not supposed to have a depressing pressure on availability of loans by the private sector and it was also not affecting private investment. When a query was put before the representatives of the business community as to whether the current situation pertaining to smuggling as well as credit availability was better or worse than had been the situation in recent past, Yusuf Abdullah Harun replied that at present the state of discipline in banks was much better, there was more transparency in the policies and he thought the situation pertaining to smuggling of goods was registering some improvement. He stressed that better and effective reforms are not only necessary in the banking sector, but also reforms in legal, administrative and other sectors were urgently needed. He requested the politicians from all parties to come forward to help implement such reforms and facilitate the reform process. He urged the politicians of the opposition parties to give support to the reform initiatives of the current government.

Tofail Ahmed was of the opinion that whilst the term loans were indeed sanctioned by the banks, the investors failed to come forward to avail of the opportunity, because some of them did not find the investment profitable. He supported Yusuf Abdullah Harun's view that drastic reduction in tariff rates undertaken in the early 1990s had not been a wise policy in the absence of parallel and effective reforms. He said that he was not criticizing the past government, but that the decision to liberalize the economy at all accelerate pace was not correct. This was also not required under WTO conditions. Tofail further pointed out that neighboring countries including Pakistan and India took the advantage of lower tariffs in Bangladesh. He added that when Bangladesh signed SAPT A in 1993, it was decided that rules of origin criteria would be 50%. As India, Pakistan and Sri Lanka did not belong to the group of countries LDCs, they were required to comply with this rule. Being all LDC, Bangladesh received a 10% reduction, i.e. Bangladesh was required to follow a 40% value addition. However, it was not possible on the part of Bangladeshi exporters to export their products to India or Pakistan under the 40% value addition provision. Thus, Bangladesh failed to increase its export to the SAARC countries in any substantial amount, whilst other countries took full advantages of the tariff reduction in Bangladesh. Bangladesh's domestic industries suffered gravely as a result. SAPTA would fail to be beneficial to LDCs such as Bangladesh unless such obligations were removed.

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Tofail also raised the issue of loan default. If an industry is sick and the Investor becomes a defaulter then the rule stipulates that such an industry will receive no further loan. Moreover, if following receipt of a loan, the businessman fails to repay within six months, his loan is put under the provision of classification; he becomes a defaulter. The investors were demanding that the time of repayment be extended upto one year. However, the Governor of the Bangladesh Bank along with the finance Minister had reduced the time requirement even further to three months. Taking up this issue Landell-Mills mentioned that he had observed a difference in the relationship between the commercial banks and the central bank (Bangladesh Bank) and the relationship between the commercial banks and their clients.

In the relationship between the commercial banks and the Bangladesh Bank, the criteria for classification was either 3 or 6 months. He further mentioned that this was an issue related to good banking norms and was also an international practice. Thus, the attitude towards Bangladeshi banks was not unusual. This criterion of classification was meant to be effective in terms of central bank commercial bank relationship, i.e. for provisioning. This was not much relevant for the relationship between the commercial banks and their clients. Landell-Mills was also of the opinion that liberalization would reduce smuggling. He thought that administrative efficiency of customs department should be improved to reduce smuggling. However, Total thought that if Bangladesh continued to liberalize further and as a result a zero tariff situation emerged at the end, thus would lead to a situation where Bangladesh would become a market for other countries. Whilst other neighbouring countries were not reducing tariff at comparable pace, there was no reason why Bangladesh should. It was mentioned by some participants that rent-seeking activities under political patronization had been increasing alarmingly, and reforms and liberalization alone could not do much for development of the economy. These must be accompanied by reforms in political environment.

Shortfall in ADP Implementation, Foreign Direct Investment and Foreign Aid

Landell-Mills informed the participants that the World Bank was in a position to provide some data on foreign direct investment (FDI). Between FY 1991-FY 1997 there had been a ten-fold increase in FDI in Bangladesh. Even if KAFCO was excluded, there had indeed been a very substantial increase in FDI. Only in 1996, had there been some setbacks. Otherwise there had been substantial increase in FDI, which can be explained to have taken place as a result of various liberalization policies initiated by the Government. On the issue of ADP, Landell-Mills commented that, there would indeed be shortfalls in the revenue, this would put some restraint on government expenditure and, obviously, on the developmental budget. His concern was that, if there were indeed some shortfalls, the country should make a better use of available foreign resources. He was worried about the shortfall in the implementation of foreign funded projects. He mentioned that such projects were doing well, and both during last year and the current year these had registered a very high rate of implementation.

Rehman Sobhan enquired whether there had been a shortfall in the development budget because of shortfalls in revenue generation, or whether this had happened because of slow utilization by the agencies in the ministries who were implementing the development projects. He urged the Planning Minister and the Finance Secretary to give some indications to the participants as to why there was deceleration in Plan implementation and whether it was 1) cause Bangladesh lacked the resources or whether the line ministries were not properly utilizing the resources allocated to them. Mohiuddin Khan Alamgir commented on Bhattacharya's remarks about reduction in the rate of ADP Implementation. He pointed out that slow implementation of ADP, as was observed in the first eight months of the current fiscal year, would be made up by the time the financial year comes to an end. He mentioned two reasons because of which the implementation of ADP fell behind the target in the first eight months of the current fiscal year. First, there had 1) Cell certain obstacles in releasing of the funds. The Ministry of Finance imposed certain strict conditions to ensure compliance with financial disciplines. This was only fair. The second reason was that a number of the ministries had talked up quite sometime to reorient their policies in order to ensure compliance with the goals of the fifth Five Year Plan. This had resulted in late submission of project proposals by a number of them. However, he added that this did not necessarily mean that the processing of these project proposals (PP) was slow at the planning ministry. The rate of processing of the Ministry of Planning had been relatively quick compared to what was observed in last year or a few year before. He believed that the processing of PPs had been expedited at the later part of the year which, he thought, had not been reflected in Bhattacharya's paper. Alamgir also informed the participants that throughout the '90s there had been 5% -6% shortfall in the performance of ADP implementation.

On the issue of quality of projects, Alamgir mentioned that earlier our major donors, including the World Bank, had complained about the delay in the processing of projects at the level of Planning Commission. He assured that steps had been taken to ensure speedy processing of projects. He added that at the Planning Commission, they did not have any unprocessed project. He stressed the issue that the project those were processed, were projects of good quality and if these were implemented they would be able to earn the projected yield.

Yusuf Abdullah Harun thought that the reasons behind lower utilization of ADP included lower utilization by the various ministries themselves and the stringent conditions imposed by the donors. He thought that this was detrimental to the interests of the economy, specially the rural economy. On the issue of foreign investment, he commented that total investment at present was \$50 million, which was a very insignificant amount. He welcomed investment in infrastructure and gas sector, but thought that this would not of significant benefit to our society as most of the money would be spent on hardware and foreign personnel.

M K Anwar mentioned that development expenditure had come down and this needed immediate attention. In his view resource constraints led to tightening of fund release process through governmental mechanism. A K M Shamsuddin, President of the foreign Investor's Chamber, pointed out that foreigners were not much eager to invest in Bangladesh as they did not find partners with whom they could work comfortably. As the local businessmen were not sure of their own situation, they failed to provide solid support to their Potential foreign partners. The foreigners preferred to invest in other developing countries where the investment would remain secured. At this point Tofail noted that if the global FDI scenario were taken into consideration, it would be found that of the total global FDI, only about 1% was coming to SAARC countries; the cumulative share of the 48 LDCs was also insignificant. He thought that this was a global trend. It was not true that the foreign investors were waiting for joint venture initiatives from local entrepreneurs. In areas where there were possibilities of higher profits, FDI would generally come forward any way and these had been coming in recent years. At this state, Syed Abdus Samad, Principal Secretary of the Prime Minister's Secretariat, pointed out that, in Bhattacharya 's paper there was an underestimation of FDI. He informed that in 1996, total US investment in Bangladesh had been in the order of \$25 million, which had gone up to \$ 200 million in recent period. He stressed that the amount Bhattacharya has mentioned was the amount, which had already been realized. He admitted that FDI in the manufacturing sector had not been very encouraging; however, the flow of FDI to the energy sector had been registering robust growth in recent times. He also informed that more FDI was coming in the fertilizer, gas, and power sectors.

Industrial performance

It was pointed out by some of the participants that it was not a healthy sign that the industrial sector was dominated by only 3 or 4 industries, and these were mainly export-oriented Industries. Compared to the situation of '95 there had not been a substantial change in terms of industrial performance and new industries had not emerged in the economy. Landel Mills was of the opinion that it was not unusual on the part of investors to concentrate Investment in the RMG and Knitwear and some other sectors which were growing fast because private sector was by definition profit maximizing and it was very natural that they would go for investment in sectors which guaranteed higher return

Inflation

One of the participants was eager to know as to why inflation had been going up when everyone was talking about a recession in business activity. He requested the business community to explain the reasons which were pushing me price index up. Yusuf Abdullah Harun, thought that the main causes behind the current increase in inflation rate increase were new salary scales for the SOEs, devaluation, increased cost of smuggled goods, etc. According to M K Anwar a little bit inflation was not bad for Bangladesh, rather it was necessary to ensure that the economy functioned more actively,

Agriculture Sector

The participants observed that there had been, on an average, zero percent, growth in agricultural output throughout the first half of the '90s, Also it was mentioned that there had been a negative credit flow to the agriculture sector over the corresponding period. In commenting on the current situation in Bangladesh' s agriculture sector, {Shahabuddin hoped that the shortfall in the production of Aman would be covered by the bumper Boro production. From his research on various issues related to agriculture he observed that Bangladesh, in terms of long term and medium term projections, had a potential to produce 125 to 130 million tons of the grains. Currently Bangladesh was utilizing only 40% of irrigation capacity. But it was still to be seen whether the physical potentiality was associated with production at a competitive cost. He thought that to sustain a higher production of agricultural output than that had been achieved during the last two years, better water management, better fertilizer management, Improved pricing of fertilizer were in need of urgent attention.

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M. Anisuzzaman, Agriculture Adviser to the Prime Minister, observed that the Agricultural Commission of the GOB had already addressed various issues related to improvement of agricultural output, but the report was yet to be published. He explained how the commission had been addressing these Issues. The Commission found that the production of cereal was going down over time and the Commission had attempted after drawing upon available research results and following discussions with experts and academicians, to come up with policies to overcome the stagnating situation in the crop sector. The Commission also found lack of credit to be a constraint for expansion of crop production. The problems of availability of good quality seed and lack of appropriate technology, required urgent attention. Moreover, lack of farmers' knowledge about modern farming and proper use of fertilizer had in the past contributed to soil degradation; this had resulted in declining productivity of the soil. Anisuzzaman pointed out that lack of research and weak extension services were also responsible for the lack of dynamism in the agricultural sector.

Conclusion

In presenting his concluding observation one participant mentioned that for Bangladesh to achieve 7% growth, three things were urgently needed. First, the government revenue expenditure must not grow at a rate of more than 6% per year; second, there must be enough electricity and third, there must be an industrial credit fund to underwrite this growth.

It was observed in the course of the dialogue that questions pertaining to and debates centering around actual performance of an economy appeared to be more intense specially in those times when the economy failed to register a robust performance. Symptoms of economic good health are highly visible in economies which actually demonstrated robust growth, as had been the case in East Asia until very recently. Growth was there for all to see, and this was reflected in a consistent set of statistics to validate what people perceived. There ought not be a debate on the basic facts relating to industrial growth rate, or other growth related issues as was to be found in Bangladesh. Bangladesh can not afford to spend time on such debates and it is time to apply our mind to reach a consensus on what the actual parameters of the various indicators on the ground, ought to be. Experts, policy makers, researchers should use their knowledge and expertise to arrive at a clear understanding as to what is happening to the economy, and the steps that need to be taken up in order to correct the situation. Speculative debates on economic facts should be put to rest.

Annexe -I Trend in Production of Major Industrial Goods (July-December '97 over July-December '96)

Product	July-Dec.'96	July-Dec.'97	% change
1. Jute Goods (mt)	207840	214846	3.37
Hessian	51750	48346	-6.58
Sacking	114476	121924	6.51
Carpet backing			
Cloth	24464	21729	-11.18
Others	17150	2847	33.22
	w=14.07		
2. Cotton Textile			
Yarn (mt)	23521	26861	14.20
[Cloth (000' meter)]	[4692]	[5387]	[14.81]
	w=7.83		
3. Garment			
(Value in million Tk)	44570	66244	48.63
	w=9.13		
4. Paper			
(Qty mt)	36936	22260	-39.73
	w=2.26		
5. Fertilizer			

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(Qty mt)	971289	977154	0.60
w=11.34			
6. M.S. Rod			
(Qty mt)	71550	81430	13.81
w=1.91			
7. Cement			
(Qty mt)	118227	284928	30.56
w=1.17			
8. Petroleum products			
(Qty mt)	689937	716594	3.86
w=0.66			
9. Cigarettes			
(Qty million sticks)	8806	10340	17.42
w=2.10			
10. Matches			
(Qty gross box)	5754	6047	5.09
w=0.35			
11. Medicine/Pharma			
(Value 000' Tk)	5503378	5713298	3.81
w=7.01			
12. Tea			
(Qty mt)	36836	42301	14.84
w=7.87			
13. Edible Salt			
(Qty mt)	19262	4350	-25.50
w=0.30			
14. Edible Oil			
(Qty mt)	12852	13228	2.93
w=0.44			
15. Soap and Detergent			
(Qty mt)	22542	24039	6.64
w=1.74			
Growth Rate (Weighted)	11.31		
SUM:w=	68.18		

Annexe II
Dialogue on the State of the Bangladesh Economy in Financial Year 1997-98
Saturday, 9 May 1998, 3:30 -6:30 P.M.
Venue: Melonee Room, Hotel Sheraton
List of Participants

(In alphabetical order)

Mr. Mohiuddin Ahmed	Additional Foreign Secretary. GOB
2 Mr. Tofail Alimed	Member of Parliament and Minister for Industries
3 Dr. M. K. Alamgir	State Minister for Planning. GOB
4 Mr. Mahfuz Anam	Editor, The Daily Star
5 Mr. A. M. Alisuzzaman	Food & Agriculture Advisor to the Prime Minister
6 Mr. M. K. Anwar	Member of Parliament and former Minister of Commerce
7 Mr. M. Asaduzzaman	Senior Research Director. BIDS
8 Advocate Abul Kalam Azad	Member of Parliament

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9 Dr. Zaid Bakht
10 Dr. Debapriya Bhattacharya
11 Mr. Jan Bove
12 Mr. Yussuf Abdullah Harun
13 Mr. Md. Ekramul Hoque

14 Mr. Md. Zobdul Hoque

15 Mr. K. M. Ejazul Huq
16 Mr. Md. Jahirul Islam
17 Mr. Waliul Islam

18 Ms. Laila Rahman Kabir
19 Dr. Akbar Ali Khan
20 Mr. S. A. M. S. Kibria
21 Mrs. Joslin Landell-Mills
22 Mr. P. Landell-Mills
23 Prof. Mustafizur Rahman
24 Dr. Narhari Rao

25 Dr. Syed Abdus Samad

26 Dr. Zaidi Sattar
27 Dr. Quazi Shalibuddin
28 Mr. A. K. M. Shamsuddin

29 Prof. Rehman Sobhan
30 Mr. M. Syeduzzaman

Senior Research Fellow. BIDS
Senior Research Fellow. BIDS
Resident Representative. IMF
President. FBCCI
Deputy Director. Bangladesh Bureau of
Statistics
Project Director. Bangladesh Bureau of
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Secretary. Ministry of Industry. GOB
Research Associate, BIDS
Secretary and Director General.
Statistics Division Ministry of Planning

President. MCCI
Secretary. Ministry of Finance
Minister for Finance
IMF/BB
Director. Bangladesh. The World Bank
Dept. of Accounting. Dhaka University
Senior Economist. Asian Development
Bank. Dhaka
Principal Secretary to the Prime
Minister
The World Bank
Research Director. BIDS
President. Federation of International
Chamber of Commerce & Industry
Executive Chairman. CPD
Former Finance Minister