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**POLICY BRIEF ON “MACROECONOMIC  
POLICIES”**

**CPD TASK FORCE REPORT**



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# **CPD Task Force on Macroeconomic Policies**

## **I. INTRODUCTION**

### **CPD Policy Briefs**

With a view to focus the attention of the political parties on a strategic policy agenda and keeping in view the ensuing general elections, CPD has planned to place a set of *Policy Briefs* before the voters and the political parties. These *Briefs* are designed to contribute to the public policy debate during the run-up to the upcoming election, mobilize constituencies in favour of specific policy options and to serve as a benchmark for executive actions of the newly elected government. To this end, 16 priority issues have been identified and Task Forces have been formed to prepare the *Policy Briefs* on the respective themes. The preparation of the draft reports have been greatly enriched through extensive consultation with various stakeholder groups.

It is in this context that the initial draft of the Policy Brief prepared by the CPD Task Force on “Budgetary Discipline and Fiscal Programme” is being shared with a cross-section of the civil society for professional feedback.

### **Objective**

The objective of the Policy Brief exercise is to articulate a concrete policy agenda, with strong emphasis on its implementability. The point of departure of the present Policy Brief is the premise that a sound and stable macro-economic framework is a fundamental pre-requisite for sustained high growth. In this connection, the prime objective of the present Policy Brief is two fold: (a) to identify the pressing issues in the areas of public finance and (b) to suggest remedies, improvements and policy changes in this regard.

### **Scope**

The Brief does not intend to present an exhaustive analysis of the pertinent macro-economic issues facing the country; rather it focuses on the fiscal and external balances of the economy in the backdrop of the recent trends in budgetary management. Concretely, the Brief seeks to assess, inter alia, the evolving scenario in the areas of revenue mobilization, public expenditure, public debt and balance of payments. To place the discussion on the identified issues and suggested recommendations in proper perspective, the Brief also provides a selective review of a set of macro-economic aggregates.

## **II. RECENT TRENDS IN BANGLADESH ECONOMY**

### **GDP Growth Rate**

The growth performance of the Bangladesh economy has shown considerable improvement in the 1990s (average growth rate 4.88%) as compared to the previous decade (average growth rate 3.84%). Within the decade of the 1990s, the second half showed a more impressive growth performance (5.12% compound growth rate for FY96-00) in comparison with the first half (4.38% compound growth rate for FY91-95).

### *Inflation*

The inflation rate has been quite low throughout the 1990s. However, it was particularly low during the second half (less than 3%), in spite of the devastating flood of 1998. The average inflation rate during FY92-96 was 5.2%. Thus, the acceleration of the growth rates during the second half of 1990s is particularly laudable as it was achieved keeping the inflation rate under control.

### *Per Capita Income*

The accelerated growth rate of the GDP, coupled with falling population-growth rate (1.7% for the 1990s as against 2.2% in the 1980s), led to an increase in the growth rate of per capita income -3.3% per annum - during the 1990s. Notwithstanding the growth rate, the absolute level of per capita income of Bangladesh (US\$ 368) still remains quite low compared to the South Asian average (US\$ 420), let alone the LDC average of US\$ 520. With almost half of the population living below the poverty line in Bangladesh, it is obvious that a much higher rate of growth is necessary to make a significant dent on the prevailing income deprivation situation as well as to unleash a structural change in the economy.

### **Agriculture**

Growth in the agriculture sector stagnated during the first half, but then revived sharply in the second half of the 1990s. The average agricultural growth rate for FY96-00 stands at 4.89% as against 1.55% for FY91-95. Within the sector, the crop and horticulture sub-sector recovered from a recessionary phase (negative growth rate of -0.43% during FY91-95) and showed a robust growth rate of 4.09% in FY96-00. This level of 4.9% growth has remained the highest for any equivalent 5-years period since the foundation of Bangladesh and remains significant because it registered positive growth in every year even during the flood year of 1997/98. But the performance of agricultural sector is still very much centred around food grains as about two-third of the total value added in this sub-sector comes from cereal production. However, the fishery sub-sector also demonstrated spectacular growth during the recent past (7.8% in the 1990s as against 2.2% in 1980s). The performance of livestock and forestry subsector was robust and more or less stable over the last decade.

### **Manufacturing**

Against a trend rate of growth of 3.1% during the 1980s, the manufacturing sector achieved an annual compound growth rate of 8.2% during the first half of the 1990s. However, the growth of manufacturing during this period was narrowly based on a handful of industries, particularly export-oriented RMG industry. The sector slowed down during the second half of 1990s and the growth rate came down to 5.5%, particularly due to the prolonged flood of 1998. The growth rate of export industries also

faltered during the second half of 1990s due to a variety of exogenous factors. However, recent data show an upturn in industrial production suggesting a recovery out of the painful restructuring process which the sector has been undergoing during last one and half decades.

### **External Sector**

The highlight of the performance of the external sector of Bangladesh economy, has been the spectacular growth of exports (14.4% on an average over the decade of 1990s as against 9.2% over the 1980s). Exports as a percentage of GDP increased from 7% in FY91 to 12% in FY00. The export to import ratio rose from 31% in FY91 to 67% in FY00. The robust performance of the apparel exports has propelled and sustained this dramatic growth resulting in a degree of dependence (76%) of the export basket on a single product which parallels our earlier dependence on jute and jute goods.

### **Investment and Savings**

Gross investment as percentage of GDP demonstrated an impressive rise over the decade of the 1990s - from 16.9% in FY91 to 23.02% in FY00. This was a marked improvement on the virtual stagnation of the investment share in GDP over the decade of 1980s. Within the decade of the 1990s, the second half was even more impressive than the first half - gross investment as a percentage of GDP rose from 17.94% in FY91-95 to 21.51% in FY96-00. The incremental growth of investment was mainly underwritten by private investment. Average private investment as a percentage of GDP rose to 14.72% in FY96-00 as against 11.24% in FY91-95. On the other hand, public investment remained stable at about 6.7% of GDP, on an average, across the decade (1990s).

The worrying factor in the saving investment scenario is the fact that gross national savings exceeded gross investment on a regular basis, particularly during the first half of the decade. This might indicate an existing shortfall of investment demand. Towards the end of the decade, investment seems to have caught up with savings, while national savings showed almost no growth due to falling foreign remittances.

### **Structural Change**

One observes that the share of agriculture in GDP had been falling throughout the decade of 1990's, albeit very slowly (from 29.23% in FY91 to 25.58% in FY00). On the other hand, the share of manufacturing marginally increased in the period (12.9% in FY91 to 15.4% in FY00). This implies that the services sector continues to dominate the GDP its share having remained virtually stable throughout the decade (49.72% in FY91 and 48.85% in FY00). It is evident that some redistribution in the GDP share is taking place between industry and agriculture, but the tertiary sector remains the lead sector in the economy. The implications of an economy which remains dominated by services for the long term development of the economy needs to be carefully analysed.

The preceding review of a select set of indicators suggests that the performance of the Bangladesh economy during 1990s shows a number of encouraging signs. However at the prevailing level of per capita income and levels of mass poverty. Such an improvement in economic performance provides no grounds for complacency nor can we be assured of its sustainability. It therefore remains important to accelerate these promising trends in order to make significant headway in poverty alleviation and precipitating a process of positive structural change in the economy. If these encouraging changes in the real economy are to remain sustainable they need to be supported by healthy macro-economic fundamentals. It is in this context that it becomes imperative to take a close look at the recent trends in budgetary management and the fiscal scenario.

### III. ISSUES

The major issues identified by the Task Force in connection with strengthening budgetary discipline and fiscal programming are as follows:

- (a) Domestic resource mobilisation and faltering revenue growth
- (b) Resource allocation pattern and “non-productive expenditure” bias
- (c) The state of the budget balance and the growing fiscal deficit
- (d) Financing the fiscal deficit and rising government debts
- (e) Monetary overhang from very high rates of broad money creation
- (f) Balance of Payments situation and the low level of foreign exchange reserve.

#### (a) Revenue Earning

Total revenue receipt accruing to the GOB between FY91-FY01 increased from Tk. 7822.0 crores to Tk. 24173.0 crores, recording a more than three fold times growth. The average total revenue growth between 1991/92 and 1995/96 was 14.76%, whereas the same for following five years (1996/9-2000/01) was 9.31%. The highest growth of revenue receipt (21.7%) was observed in the FY92 following the introduction of VAT and the lowest growth (4.9%) was registered in the catastrophic flood year (FY99). As a routine, each year the original revenue targets have been scaled own and, in most of the years, these revised targets have remained unrealised.

The above trends in revenue receipt are reflected in the “revenue effort” expressed through the Revenue/GDP ratio. Total revenue as a share of GDP increased from 7.1% in FY91 to 9.5% in FY97 and, thereafter, it experienced a slight decline and stagnation during the next three years (1997/98, 1998/99, 1999/00). A marginal improvement of the ratio was observed in FY01 (9.37%), which still remained below the mid-1990s benchmark. If the target for 2001/02 is achieved, the revenue share may increase to 9.6%, which would be the highest on record. This increase in Bangladesh’s revenue/GDP ratio still leaves Bangladesh’s fiscal effort at a point which is low even by the standards of developing and least developed countries.

This low level of revenue collection compromises the capacity to accelerate the development effort which still remains dependent on external resource inflows for to finance close to 50% of the ADP. In this context one would like to the highlight four

major structural issues pertaining to the total revenue structure. These are: (i) stagnating share of non-tax revenue, (ii) decline in non-NBR tax share, (iii) continued dependence on import-related taxes, and (iv) marginal increase of direct tax in the NBR component, (v) the continuing dominance of tobacco related taxes in the non-import related indirect taxes.

(i) *Non-Tax Revenue.* During the last decade, the split between tax and non-tax revenue in total revenue receipts has changed marginally. In FY91, the contribution of tax revenues was 81.6% of total receipts, compared to 80.5% in FY01. A scrutiny of annual data relating to non-tax revenue reveals an erratic growth trend (e.g. 29.2% growth in 1994/95 and a 6.34% decline in 1996/97). Streamlining of the non-tax revenue component should definitely constitute one of the major features of the domestic revenue mobilization drive in the coming years.

(ii) *Non-NBR Taxes.* Within the tax-revenue receipts, the non-NBR component experienced a steady rise from 4.8% of total receipts in FY91 to 6.0% in FY96. Thereafter the said share declined and hovered around the 5% mark. The fall in dividend incomes from the SOEs and the increase in losses incurred by certain utilities (post & telegraph and railways) were largely responsible for the weak contribution of non-NBR revenue receipts. Thus, any future effort to stimulate revenue mobilization should carefully review the potential of the non-NBR revenue sources.

(iii) *Import-related Taxes.* The third structural issue relates the continued high dependence of the NBR on import-related taxes. Such taxes constituted % of total revenue receipts in FY91 and 45.8% in FY01. It is evident that the country did not experience any severe cutback in import-based tax receipt following the lowering of tariff rates. This points to the robust growth in the volume of import.

(iv) *Direct Taxes.* The flip side of the import-dependent tax structure is the marginal presence of direct taxes in the total revenue inflow. From a peak of 15.6% in FY93, the share of direct taxes secularly fell to 10.1% in FY97. However, since then a major effort has been invested in broadening the tax base and, as a result, the share of direct taxes has climbed back to 14.9% in FY01, if the targets for FY02 are achieved, its share will rise to 15.1% of total revenue receipts.

In order to address the vulnerability of the tax structure emanating its narrow base as well as to raise the overall revenue-GDP ratio, the current efforts to expand the tax net has to be sustained and strengthened. Thus, streamlining the revenue effort remains one of the major tasks of the new incumbent government. In fact, enhancing revenue flows will be one of the cornerstones of the policy of promoting fiscal consolidation. In this context, it may be underscored that the tendency for overprogramming of revenue targets may have been counter-productive. It is important to design a realistic fiscal programme supported by institutional measures which address the double menace of evasion and corruption in the system which frustrate the realisation of the revenue targets.

## **(b) Public Expenditure**

The total public expenditure increased from Tk. 13431.2 crores in 1990/91 to Tk. 38862.0 crores in 2000/01, registering an almost three times increase in nominal term over the last eleven years. The share of public expenditure increased from 12.2% of GDP in FY91 to 15.1% in FY01. However, the observed rise in public expenditure was more pronounced during FY97-01 with an average of 14.1% of GDP as against a corresponding share of 13.2% during FY92-96. This approximately 1% average increase in public expenditure during the last five years (FY97-FY01) is largely attributable to increased revenue expenditure which reached the record level of 8% of GDP in FY01. Consequently, to date, revenue expenditure accounts for the larger portion (53%) of public expenditure. Reversing this trend in government spending in favour of development expenditures constitutes one of the major challenges of public finance in Bangladesh.

### *Revenue Expenditure*

It is, however, not so much the size of the revenue expenditure, but its evolving composition which is the matter of greater concern. Economic analysis of revenue expenditures reveals that “salary and allowances” commands the single largest share in the revenue expenditure portfolio. This item accounted for 28.8% of total revenue expenditure in FY01 as against the peak share of 39.3% in FY94. The second most important item of revenue expenditures is “subsidies and current transfers” which has hovered around 27-29% across the decade.

However, the most disturbing aspect of the evolving revenue expenditure structure relates to the marked increase of “interest payments”. For example, interest payments accounted for, on average, 12.8% of total revenue expenditures during FY92-96, but has now increased to 17.4% (average) during the last five years, and may reach an estimated 20% in FY02. This significant increase in debt servicing liabilities of the government is exclusively due to the sharp increase in interest payments on *domestic loans* – 16% of total revenue expenditures in FY01 as against the comparable figure of 8% in FY92.

Thus, one finds, currently about 76% of revenue expenditures are committed to three items: “salary & allowances”, “subsidies & current transfers”, and “interest payments”. As a result, a marginal share of revenue expenditure (less than 20%) is available for operation and maintenance, civil works and capital expenditures and supply of goods and services. Thus, changing this emerging composition of revenue spending remains one of the daunting tasks facing the newly elected government. This, calls for (i) more prudent balancing of the budget by decreasing payment on account of domestic public debt, (ii) more efficient targeting of the subsidies and transfers, and (iii) capping the salary and allowances payment in real terms.

### *Annual Development Programme*

The size of the Annual Development Programme (ADP) fluctuated between 6-7% of the GDP during the 1990s. Successive governments of the last decade considered it appropriate to enlarge the size of the ADP in order to meet the developmental needs of the country. In this context, three major concerns are being raised regarding enhancing

the efficacy of the government's development expenditure. These are: (i) quality of the projects included in the ADP, (ii) prevalence of projects outside ADP, and (iii) financing of the ADP.

*Quality of ADP.* It is argued that a number of projects included in the ADP are politically mandated projects which are difficult to justify by applying rigorous economic criteria. Admittedly, many of the projects promoted by the public representatives reflect felt-needs of their constituencies. However, in the absence of a broad based participatory bottom-up project planning process, there exists the apprehension more powerful actors are able to push through the projects of their choice. Such an apprehension becomes potent due to the lack of a transparent mechanism which allows public scrutiny of the projects before inclusion in the ADP as well as during their implementation. Thus, it is important to put a system in place involving the public representatives, particularly the Parliamentary Standing Committees and local government representatives so as to ensure that the projects are demand-driven and are designed on a cost-effective basis.

*Non-ADP Projects.* Non-ADP projects have usually accounted for less than 1% of the total consolidated expenditures of the government. However, it is maintained that projects outside the ADP carry the high risk of not being compatible with the declared selection criteria. It is further reckoned that non-ADP projects, usually by default, later get included in the ADP. Accordingly, it is strongly argued that the practice of introducing non-ADP project into the budget should be discouraged.

*Financing of ADP.* There was a time in the 1980s when more than 100% of the ADP was financed by foreign aid. The share of foreign sources in ADP financing dropped from 87.4% in FY91 to 47.6% in FY01. This trend was paralleled by the growing contribution of the revenue surplus in ADP financing – increasing from 22.6% in FY92 to 39.4% in FY97. However, since FY99, the government has resorted to borrowing from the banking system to finance the grow ADP expenditure. Thus, during the last three fiscal years (FY99, FY00 and FY01), borrowing from the banking system underwrote 10.5%, 23.8% and 20.7% respectively of the ADP outlay. Such a situation has emerged not only due to the government's decision to undertake moderate expansionary measures to prop up the economy (particularly in the post-flood period in 1998), but also due to inability to absorb the US\$ 6 billion worth of project aid locked-in in the pipeline. In this context, it becomes pertinent to take a fresh look at the financing scenario of the ADP with a view to make more efficient use of available foreign resources as well as to introduce greater caution in resort to bank borrowing.

### **(c) Budget Deficit and Financing**

The overall budget deficit as a share of GDP decreased from 6.6% in FY92 to 4.1% in FY98. Since then the overall budget deficit is showing an increasing trend reaching 6.9% of GDP in FY01, although it remains lower than the record level of 7.5% registered in FY94. The major reason for renewed growth of the fiscal deficit is basically explained by the faster growth of revenue expenditure (11.3%) in comparison to revenue earnings (9.3%) during FY97-01.

Arguably, the current level of the budget deficit is still well within the “safe limits” of deficit financing. Given the fragility of the current fiscal scenario one may nonetheless express concern about its sustainability and medium term implications. What is important in this context is not so much the magnitude of the budget deficit, but its mode of financing. During 1990s two major shifts have taken place in the composition of the financing of budget deficit. *First*, the share of foreign financing has declined in the early 1990s from approximately 80% of the total deficit to about 50% in FY01. Moreover, within the portfolio of foreign finance, during this period, the role of foreign loans have become more pronounced vis-à-vis foreign grants. *Second*, the incremental growth in domestic financing of the overall budget deficit in the recent years (FY99, FY00 and FY01) was largely underwritten by loans from the banking sector. For example, in FY01, more than 42% of the domestic resources deployed to finance the overall budget deficit came from the banking sector.

Thus, there is an urgent need to review the fiscal scenario with a view to assess the sustainability and implications of the yawning budget deficit. Such a review would also entail ensuring greater use of foreign sources in financing the budget deficit and to establish prudent limits on government borrowing.

#### **(d) Credit Expansion and Public Debt**

Analyzing the behaviour of monetary variables during the last two decades one observes that the growth of total domestic credit slowed down from 19.6% in the 1980s to 12.08% in 1990s. The rate of growth of private sector borrowing in the 1990s (about 12.4%) was significantly lower than in the 1980s (about 28.3%). A closer look at the details of public sector borrowing, reveals an interesting picture. Although overall public sector borrowings during the 1980s and 1990s were almost equal (11.25% and 11.92% respectively), the “hardcore” government borrowing increased dramatically during the latter period. Overall growth rate of the government borrowings from the banking system (both from Bangladesh Bank and scheduled banks) in the 1990s was 23.25%, whereas the same in the 1980s was only a little above 10.0%. In the 1990s, the average growth rate of the government borrowings from Bangladesh Bank was 24.2% and from the scheduled banks it was 54.7%. On the other hand, borrowings of the SOEs decreased significantly during the 1990s compared to the 1980s. The growth rate of borrowings of the SOEs in the 1990s was only 2.42 percent, whereas the matching figure for the 1980s was as high as 13.3%. As the absolute figure of SOEs borrowings from the scheduled banks was much higher than from the Bangladesh Bank, the overall growth rates of public sector borrowings do not show any significant difference between 1980s and 1990s.

If one looks closely into the figures on government borrowing from Bangladesh Bank and the scheduled banks during the 1990s, we can trace an inverse relationship between borrowings from the two sources for each fiscal year. This reflects the switching fiscal stance of the government as it juggled between high cost-low inflation (savings instruments) and low cost-high inflation (bank borrowing) sources. During the period of FY98-01 one observes equally high growth rates of borrowings from the Bangladesh

Bank and scheduled banks, which may be explained by the spill-over effect of excessive demand for deficit financing.

An intra-decade comparison reveals that the average growth of domestic credit increased from 9.5% during FY91-95 to 14.7% during FY96-00. In the second half of 1990s, the overall public sector borrowing from Bangladesh Bank increased exponentially, from -1.5% during 1991-95 to 34.51% during 1996-00. This increase is largely explained by high hardcore government borrowing from the Bangladesh Bank which recorded a jump (142.2%) in FY96. Conversely, the average growth rate of government borrowings from the scheduled banks in the first half of the 1990s was very high (93.9%). However, the overall growth of public borrowings in the second half of the 1990s was higher (14.53%) than that of in the first half of the same period (9.94%).

In sum, the size of the public debt has increased steadily during the 1990s leading to an increase in the overall public debt-GDP ratio from about 6.8% in FY91 to approximately 9.0% in FY01. Slow growth of revenue earnings coupled with faster growth of public expenditure precipitated a widening budget deficit, necessitating domestic borrowing by the government.

The government debt as a percentage of GDP also increased during the second half of the 1990s. During FY1992-96, government debt was 7.24% of the GDP, whereas during the following five years it increased to 8.22%. Net foreign assets shows a declining trend during the second half of the 1990s.

It is conventional wisdom that higher government debt generally discourages private borrowings. Although growth rate of the public sector borrowings was higher in the 1990s, due to a favourable M2/GDP ratio and given the total domestic credit-M2 differential, it appears that borrowing by the public sector did not crowd out the private sector. Rather, government, in the short run, played a stabilizing role by mopping up the excess liquidity from the banking sector. However, government borrowing at highest market interest rates may have contributed to the rising cost of private borrowing which ultimately may affect the external competitiveness of our enterprises.

#### **(e) Balance of Payments Situation**

It is argued that the evolving fiscal situation, characterised by high monetary expansion, may have contributed to a deterioration of the balance of payments situation. Underlying factors from the supply-side are reflected in the deceleration in export growth, decline in remittance growth through official channels, stagnation in FDI flow and slow off-take of foreign aid. On the demand side, there is a surge in import growth, underwritten by growth in private sector imports, growth in import-intensive public expenditures and a rise in contingent liabilities in foreign exchange (viz. payments under Production Sharing Contracts (PSCs) in the gas sector, payments to Independent Power Producers (IPPs) and debt serving of liabilities under suppliers-credit).

All these have resulted in a severe draw-down on the foreign exchange reserve which (US\$1.2 billion) at present can hardly sustain two months of imports.

Thus, there is an immediate need to evolve a package of measures to backstop the sliding foreign exchange reserve. In the short-run, such measures should concentrate on the demand side – by putting a cap on import-intensive public expenditures and through time-bound, adhoc, tariff measures based on disaggregated commodity analysis. In the medium term, efficiency of the institutional mechanism is to be improved to attract more remittances through official channel, disbursement of foreign aid in the pipeline is to be expedited, stand-by support for oil import may be negotiated with friendly Middle Eastern countries and other BOP supportive loans/grants may be procured from bilateral and multilateral agencies. These measures have to be backed up by active exchange rate management.

#### **IV. RISKS AND MEASURES**

##### **Risks**

While considering measures for addressing the evolving scenario in public finance one needs to keep in view a number of potential risk factors which may aggravate the situation. Some of these are the following:

- (a) Erosion of competitiveness of the economy leading to fall in exports
- (b) Further rise in petroleum prices in the global market precipitating more pressure on the foreign exchange reserve
- (c) Unforeseen and sudden setbacks in crop production necessitating cash imports of foodgrains
- (d) Lagged emergence of inflationary pressure triggered by crop loss or any other exogenous factor.

##### **Goal**

In this context, the overreaching goal of budgetary management should be to deploy an effective fiscal stimulus to accelerate the pace of economic activities, particularly by encouraging domestic investment to stimulate employment. Admittedly, existence of a sound and stable macro-economic framework is not at all a sufficient condition for improving the business environment given the supply-side and governance failures in a number of enterprise and trade-supportive activities.

##### **Actions**

- (1) Restore Budget Equilibrium
  - Formulate a more realistic budget, keeping in view the downside
  - Keep public expenditure growth below the revenue growth rate
  - Evolve a balance between the revenue budget and the ADP so that the private sector may make greater contribution to the incremental investment
  - Maximise use of foreign aid by designating project aid endowed projects as the ‘hardcore’ development expenditure
  - Put a cap on growth of “salary and allowances” in real terms

- Prepare budget (revenue receipt and expenditure, development outlay and private investment) based on a three year projection programme
  - Undertake impact analysis of the current subsidy package
  - Develop a Policy for guiding of mid-term changes in price of public utilities.
- (2) Strengthen the domestic resource mobilisation effort
- Sustain and improve the current drive to broaden the tax net through effective use of PSI, LTU, TIN and other institutional measures
  - Broaden the direct tax base through various identification measures
  - Improve the contribution of non-NBR components of revenue receipts
  - Streamline non-tax sources of revenues.
- (3) Constitute immediately a *Public Expenditure Review Commission* to, inter alia, improve fiscal transparency and efficiency of public resource use
- (4) Enact, as soon as possible, a *Fiscal Responsibility and Budgetary Discipline Act* for incorporating time bound fiscal deficit targets, limits on public borrowing and public debt
- (5) Prepare a *Government Securities Act* to develop a secondary market for government's saving instruments
- (6) Develop a package to contain the deterioration in the BOP
- Introduce immediate demand side measures for controlling import-intensive public expenditures and consider imposition of time-bound adhoc tariff measures based on a detailed commodity analysis
  - Arrange stand-by facilities for oil import and other BOP supportive grant/loans
  - Reschedule payments under IPP, PSC and suppliers' credits
  - Pursue active exchange rate management
  - Improve efficacy of official channels of receiving foreign remittances
- (7) Strengthen the role of Ministry of Finance in maintaining budget discipline and expenditure commitments. This is being suggested in view of marginalisation of the MOF in areas such as contracts for power and gas purchase, defence purchase, etc.
- (8) Create a *Ministry of Economic Affairs* by merging the ADP preparation and approval process with the current activities of Ministry of Finance. Planning Commission may continue to function as a strategic think-unit under the Prime Minister's Office.
- (9) Sequence dynamically other structural reforms to provide collateral support to improved budgetary management. The priority areas for reform are the financial sector, SOEs, public administration, local government, trade, energy, telegraph & telephones, etc.