Budget 2015-2016: GDP growth and private investment

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The estimates provided in the budget for FY2015-16 are bold, ambitious but perhaps commensurate with the vision of attaining the middle income goal. The budget is based on few ambitious pre-requisites: (i) attaining GDP growth of around 7 percent; (ii) reversing the falling trend in private sector investment and (iii) achieving revenue growth over 30 percent.

According to the budget, the country has realised economic growth rate of 6.51 percent in the current fiscal year (i.e. FY2014-15). This is a remarkable achievement considering unprecedented disruption in economic activities for about 100 days between January and April of this year.

A closer look into the performances of the broad activities envisages some interesting growth patterns by the following categories: (i) Agriculture with a growth rate of 3 percent; (ii) Industry with 9.6 percent growth rate (i.e. within which manufacturing activity recorded 10.3 percent growth); and (iii) Services with 6.5 percent growth rate. Except for the construction/infrastructure and energy activities, all other main activities (e.g. agriculture, manufacturing and services together accounting for about 90 percent of our economy) rely mainly on private investment.

Although, overall investment remains stable at around 28-29 percent of the GDP, private investment has been stagnant during the last five years. Private investment as a percentage of the GDP has remained stagnant at around 22 percent between FY11 and FY14. Impressive growth of agriculture, manufacturing and services against this backdrop suggest some missing elements into the growth puzzle. Considering the gap between national savings and investment (i.e. ranging between 0.65 and 2.1 percentage-points over FY11 to FY14 period), some experts/economists argue a hypothesis of underestimation of private investment in

Bangladesh. Is it realistic to paint a scenario that some parts of the national savings are being invested in economic activities circumventing the formal intermediation process as well as national account estimation process?

Reversing the stagnant private investment trend will be a key challenge for realising not only the growth target of the FY16 budget but also that of the 7FYP. A combination of three factors may be needed to spur private investment. Ensuring low lending rate (preferably less than two digit levels) along with uninterrupted supply of electricity-gas and establishing specialised economic zones. Although, pragmatic monetary policy has helped push the lending rate down but rising non-performing loans especially by the state-owned banks (i.e. around 20-25 percent between December 2013 and December 2014) still act as a major impediment to realise the desired level.

Although there are problems with gas supply and connections, relatively stable electricity supply has been ensured. Bold and aggressive measures are needed to establish specialised economic zones to attract private investment. Large scale public investments are required for special economic zones. Thus, the call for very ambitious growth target for revenue seems justifiable. The question is – will it be realised? The revenue potential for Bangladesh has been estimated to be around 14 to 15 percent of the GDP. Given the realised revenue effort of 10 percent of the GDP, sceptics question the pragmatism of such high revenue growth target. Time series analysts argue that observed trends in the recent past are the best predictors for the future. Realised average revenue growth rate of around 18 percent in recent years (i.e. between FY10 and FY15) perhaps suggest that revenue growth in the next fiscal may be stuck around 20 percent forcing downward revision of income and expenditure midway through the budget implementation.

Along with capital deepening increased productivity – especially that of total factor and labour factor – is likely to contribute to the growth of the economy. Growth accounting provides insight on what portion of GDP growth is derived from capital stock, labour, human capital per worker, and Total Factor Productivity (TFP). Results from a growth accounting framework have been provided for at least three decades ranging from 1980 to 2012 in a report titled “Inclusive Growth Diagnostic”. According to the report, from 1980 to 1990, TFP contributions to GDP growth were negative every year. However, over the next two decades, TFP contributions to growth steadily increased, with TFP making up approximately 20 percemt of total GDP growth between 2002 and 2012. However, between 2002 and 2012, labour contributions to growth declined. More specifically, labour's contributions to growth declined from 1.9 percentage points in 1980-1991 to 1.2 in 2002-2012.

Are we allocating enough resources to the social sector (i.e. social infrastructure which includes health, education etc.) which has positive association with labour productivity? Budget allocation patterns tend to suggest a low but stable allocation to health and education sectors. More specifically, allocation to health sector as percent of the GDP has remained stable at around 0.8 between 2009 and 2015. Allocation to the education sector is higher than the health sector and has remained stable at around 2 percent of the GDP over the same period. These figures compare poorly with social sector allocations found in other countries. For instance, allocations to education and health sector in Malaysia as percent of GDP in 2011 were 5.9 and 4 respectively. The corresponding figures for Thailand were 5.8 and 4.6 respectively. In the case of India, the corresponding figures were 3.9 and 4 respectively. Bangladesh needs to find a way to raise social sector allocation as well as improve service delivery quality to pursue productivity led growth.

Finally, the introduction of 'child' budget is an innovative stride to the conventional budget framework. While welcoming such innovations, we believe separate budget frameworks are needed for three distinct groups in Bangladesh (and perhaps in every society) who are usually left out of the gains of economic expansion. These are children, people with disability and the eldrely. We hope the Honourable Finance Minister will take these two other groups on board in the next budget presentation.