

Budget and the challenge of accelerating growth

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Bangladesh budget season is in full gear. The impending budget for fiscal year 2011-12 is weighing on the minds and activities of

economic policymakers. The final outcome – the budget document – will be the end result of a painstaking exercise of numerous government functionaries often burning the midnight oil to tie up many loose ends at the last minute. At this time, the focus of economic ministries and agencies – Ministry of Finance, Planning Commission, Bangladesh Bank, National Board of Revenue – is primarily on the coming year's income and expenditure accounts with an assessment of the past year in terms of revenue mobilization and expenditure performance. Yet there is no denying that the budget as an annual policy package has profound and lasting impact on economic prospects for the medium- to long-term. In that respect, it becomes the major statement of economic policy and strategy complimenting the visions laid down in the government's sixth five-year plan (SFYP).

But the budget is only an instrument. The end goal is the ultimate elimination of massive poverty that afflicts the nation. It is now a widely accepted paradigm that, to make a significant dent on endemic poverty of the kind that afflicts Bangladesh, a necessary condition is to accelerate its rate of economic growth from its current rate of 5.0-6.0 per cent per annum to an average of 8.0-10 per cent over the next decade. That is also the minimum requirement to achieve middle income status by 2021 – the long-term goal for the nation.

How do we go from 6 percent growth to 8-10 per cent annual GDP growth on a sustained basis? Needless to say, annual budgets, among other things, must face the challenge of laying the groundwork for taking the economy from here to there. It is for this reason that policymakers must balance current choices in the annual budget with the long-term demands

of future progress.

It is customary for our budget to stipulate a growth rate for the forthcoming year largely based on past year's performance and some judgment on the prospects of production, and consumer demand in domestic and international markets in the coming year. The target for FY2012 will be set at 7.0% or more, rising gradually to 8.0% by 2015, the last year of the SFYP. Where is the higher growth going to come from? It is therefore useful to reflect on the drivers of higher growth to see how budgetary decisions could then divert some attention and resources to the needs for accelerating growth over the medium- to longer-term. Alternatively, annual budgets should avoid policies that undermine drivers of long-term growth.

First among the key drivers of higher growth comes savings and investment. Bangladesh is falling way behind the savings and investment rate of high growth economies such as India, China, and Vietnam. There is no way that we can reach 8.0% growth on a sustainable basis without a substantial jump in the investment rate – from 24% of GDP to over 30% of GDP by 2015. Thanks to the sustained inflow of worker remittances to the tune of 11% of GDP, our national savings rate (remittance plus domestic savings) appears quite adequate to provide the investible resources needed for the higher investment target. The challenge is to channel savings into productive investment that will fuel growth. The budget must contain a package to break through the present logjam in the investment rate by squarely addressing the poor investment climate issue that has been cited by all and sundry as the reason for the logjam.

The composition and quality of investment, including the quality of public spending, are serious candidates for close attention in the budget if the desired productivity gains are to be achieved. Budgetary policies must be directed to raise investment in manufacturing and infrastructure (power, transport) while discouraging speculative activities in land holdings, real estate or stocks. For the long-term, it is critical to raise the productivity of investment by making every Taka of capital and every unit of labor yield more output. In technical jargon, this is described as raising total factor productivity. This occurs when we embrace technological advance by putting higher and higher quantum of resources into modern technology which in turn makes both capital and labor more productive.

For all the export success that has been achieved in the garment sector, a common refrain

has been that Bangladesh labour, though cheap, is characterized by low productivity. Barely half the workforce has an education level beyond the primary school with a minimum of vocational training. Such low skill levels of the general workforce put our entrepreneurs at a serious disadvantage in a highly competitive world market where skill demands a premium. Talk to any exporter and you will have an earful on the crisis of mid-level management. The vicious cycle of low skill and low productivity workforce has to change radically and the budget needs to allocate adequate resources to education and skill development and adopt a clear strategy for raising productivity of our workforce over the longer term.

But not all is lost. Unlike many developed countries facing a declining size of working population, the demographic transition plays in Bangladesh's favour. The size of our working population is rising. This factor combined with rising labour force participation rate among the female workforce is an inherent driver of higher growth which needs to be nurtured by appropriate policies. At 29 percent female participation rate in the labour force, this is far below international standards calling for the right policy and resource support to provide impetus to the positive momentum we have witnessed in the readymade garment sector.

Finally, higher growth is driven by an economy's ability to seize market opportunities that present themselves or are created by tactical initiatives of entrepreneurs - at home and abroad. Past growth performance has contributed to rising per capita income at home thus enlarging the domestic market to \$100 billion. Yet that is no match to the vast global economy whose market size is \$75 trillion - the strongest engine for jobs and income growth. Vietnam, with an economy the same size as Bangladesh, is far ahead in the race exporting over \$70 billion in 2010 and is close to reaching its goal of achieving double digit growth rate in the near term. It seems Bangladesh exports might hit the \$20 billion mark in the current fiscal year but that still makes it only a small player in the international market. There is vast potential for raising its growth rate through greater export orientation thereby creating millions of jobs and lifting more millions out of poverty. Again, the budget is a window of opportunity to get the policies right for faster export growth with greater export diversification.

To conclude, a budget is much more than a statement of public expenditure and income and the magnitude of fiscal deficit. It is after all the most potent policy instrument of the government to achieve its long-term economic goals and fulfill its election manifesto.

In my next segment, I will dwell on the constraints that the economy faces in raising the growth rate and how the budget can address some of those constraints.

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