Budget appears to have recognised impending challenges

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Zaidi Sattar, chairman of the Policy Research Institute of Bangladesh. File photo

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It was a first for Bangladesh. The honourable prime minister had to salvage the budget presentation mid-way to substitute for an ailing debutant finance minister, perhaps lending this policy document greater weight than usual.

Coming after a development decade under the government of Prime Minister Sheikh Hasina, having crossed the lower middle income threshold, the timing of this budget was critical – a confluence of several major economic and historical milestones are in the offing: end-year of the Seventh Five Year Plan, start of the 8th FYP next year, start of the next Perspective Plan (2021-2041), and 50th year of independent Bangladesh next year.

Most importantly, the nation is on the cusp of graduating out of LDC status in 2024, and the preparation to cope with emerging challenges has just begun. The FY2020 Budget could be one critical platform to move the coping agenda forward.

In a rapidly developing market economy like Bangladesh, the budget symbolises the visible hand of the state in gearing the development machinery in the proper direction to attain national goals. The budget appears to have recognized the impending challenges, setting ambitious goals for meeting them.

Proof of the pudding is in the eating, as they say. So we have to wait and see the convergence between goals and actions before assessing outcomes.

Thankfully, the growth target has been limited to 8.2 percent for FY2020, largely similar to the provisional estimate for FY2019, suggesting that the Government would maintain the growth momentum built in the past decade that saw the economy cross 7 per cent annual growth rate of GDP, recording an average of 7.4 percent growth for the entire 7th Plan period (2016).

In terms of growth, overall and sectoral, the 7th Plan is unique in achieving growth targets every year and even exceeding in some. But this Budget signals a target of reaching 10 percent GDP growth by 2024, the year of graduating out of LDC status.

That goal could be a stretch. 7-8 percent annual GDP growth can be termed miracle growth and countries that have achieved this in the past have done so by leveraging their integration with the global economy by virtue of their export success. For Bangladesh to sustain the momentum of more than 7-8 percent growth for the next five years, though possible, requires substantial reorientation, if not restructuring, in its current trade regime.

In the current globalization scheme, high growth is quite feasible provided countries can leverage the enabling effect of the world economy. That is, reliance on the domestic economy for growth acceleration is not a feasible option as that has no historical precedence and one cannot see that kind of dynamism in our domestic economy that gives one the confidence that we can defy history.

Bangladesh needs to recast its protection and export policy to stimulate export growth and diversification. Some signs of progress can be seen from recent spurt in export growth, but that is limited to RMG. Non-RMG exports are still in doldrums.

We expected some strong messages from the budget signaling robust change in direction of trade policy that would raise the trade-GDP ratio, which has been declining over the past five years. That message went missing. Like the tax-GDP ratio, we need to raise the trade-GDP ratio to get growth acceleration.

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