

IMPACT OF STRUCTURAL ADJUSTMENT AND STABILISATION PROGRAMME ON BANGLADESH

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In the last decade and a half, Bangladesh has implemented structural adjustment measures in different areas to improve the efficiency of the economy and strengthen the growth potentials of the country. The main objectives of the structural adjustment programmes have been to sustain a high rate of growth of GDP and contain inflation while improving the viability of the balance of payments and making progress in regard to poverty alleviation. The mechanisms for registering high growth have achieved higher and more efficient investment and increased the mobilisation of domestic saving, improving the utilisation of external assistance and controlling fiscal and current account deficits.

THE MACROECONOMIC SITUATION

As a result of conducive reforms and adjustment measures, a healthy macroeconomic situation is prevailing in Bangladesh at present. GDP has grown by 5.6 per cent in Financial Year (FY) 1998, by 5.9 per cent in FY 1997 and by 5.4 per cent in FY 1996. The success in controlling monetary aggregates and pursuing a more pragmatic domestic credit policy has yielded rich dividends by improving the country's position in the external sector. Through a series of monetary and fiscal measures, the authorities have succeeded in maintaining adequate foreign exchange reserves. Significant foreign investments have taken place recently in the energy sector. Such investments are essential for commercial exploitation of the country's natural resources for the development of the economy. The balance of payments situation has also improved considerably in recent times. This was possible due to robust growth in exports, which was about 17 per cent higher during Financial Year 1998 compared with the previous fiscal year. The fiscal deficits have remained more or less static around 5 per cent of GDP in recent years. This was largely achieved through restraining the growth of current expenditure and containing overall public expenditure. One of the highlights of current fiscal management in Bangladesh was the shift away from financing of

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deficits through bank borrowing, relying

on national savings schemes for unavoidable deficit financing which is non-inflationary. Government borrowing from Bangladesh Bank, the prime source of monetary expansion in the past, has also been effectively reduced. The rate of inflation, which has increased somewhat in recent times due to a shortfall in food grain production, is still within manageable limits.

FINANCIAL SECTOR REFORMS

One of the key structural measures that were implemented in recent years concerns the reforms of the country's financial system. In view of the prevailing currency instability and banking turmoil in the East Asian countries, even greater importance is now attached to the reforms in the financial sector in Bangladesh. With a view to increasing the efficiency in the banking sector, strengthening credit discipline, creating a sound financial base and consolidating the results of financial sector reform programme, the Government has undertaken the following measures: a high-level Policy Implementation Committee for the Banking Sector has been constituted; a Legal Working Group has been formed to review the banking-related reforms package prepared by our development partners; auditors have been hired to undertake valuation audits of the Nationalised Commercial Banks; a Bank Supervision Committee has been formed in Bangladesh Bank (Central Bank) to help improve bank supervision; a special Legal Team has been formed in Bangladesh Bank to assist banks with debt recovery cases related to large defaulters; policy guidelines have been issued to restrict dividend payments; a committee has been formed to evaluate the role of Collective Bargaining Agents in the Banking Sector; special recovery efforts have also been organised.

To streamline overall financial management and to simplify the loan recovery procedure, the Banking Company (Amendment) Act (1997) and the Money Loan Court (Amendment) Act (1997) have been enacted. The Government has decided to set up certain exclusive Money Loan Courts and Bankruptcy Courts. These exclusive courts are an addition to the existing Bankruptcy Courts in operation.

As a result of the above efforts, the amounts of classified (non-performing) bank loans are on the decline. There has been a marked change in the climate of loan recovery. Borrowers in general have noted the Government's determination to restore discipline in the financial sector as well as a change in public opinion against wilful defaulters.

PRIVATISATION

Another structural adjustment measure relates to the privatisation of public sector undertakings. In pursuance of the objective of private sector development, determined efforts are being made to speed up the privatisation process. The Privatisation Board of the country has been strengthened by the inclusion of members of Parliament, including some from the opposition. The process of privatisation has gained momentum in recent times with the privatisation of several enterprises belonging to different industrial sectors.

REVENUE MANAGEMENT

Structural adjustment measures have also been implemented in fiscal areas. To ensure the rapid development of the economy, it is essential to accelerate domestic resource mobilisation. Thus, in order to raise tax-GDP ratio and improve tax administration, reforms of the country's tax systems are well under way. These reforms are aimed at broadening the tax base, reducing evasion, simplifying tax collection and promoting voluntary compliance. Wide-ranging reforms of direct and indirect taxes have been implemented, resulting in substantial improvement in the country's revenue performance. The introduction of VAT in 1991 and its expansion later on have caused a quantum jump in revenue collection.

TARIFF REFORM AND IMPORT LIBERALISATION

For quite some time, Bangladesh has launched a comprehensive structural reform programme for the liberalisation of the country's imports and rationalising the tariff structure. The main objectives were to encourage the development of a healthier industrial base that would be capable of withstanding international competition and to enhance the competitiveness of our exports in the world market. The process of trade liberalisation in Bangladesh was intensified towards the end of the last decade. It has been further accelerated at the beginning of the current decade through removal of a large proportion of quantitative restrictions (QRs) and a drastic reduction of tariffs. By 1995-96, only 96 four-digit import items remained subject to QRs, compared with 431 headings in 1988-89 and 320 items in 1989-90. A majority of these remaining restrictions are in fact for non-trade reasons such as health, environment, national security, religious and social reasons. On the other hand, the highest rate of customs duty was brought down from 350 per cent in 1990-91 to only 40 per cent in 1998-99. As a matter of fact, tariff liberalisation in Bangladesh during the above period proceeded faster than in other South Asian countries. In spite of this, the country's tariff structure has been under

constant review by the authorities. The main features of the tariff reform strategy include the reduction in number of rates, lowering of high rates, compressing tariff bands and reducing dispersions as well as the elimination of user-specific rates.

Under the Uruguay Round of multilateral trade negotiations that culminated in the setting up of the World Trade Organisation (WTO), Bangladesh has also bound the tariff rates on certain industrial and agricultural goods, thus expanding the list of the country's GATT-bound rates.

Like other LDCs, Bangladesh is not, however, obliged to reduce tariffs and production or export subsidies for agriculture. Thus, there is no loss of protection, or revenue, or reduction of export potentials for Bangladesh on these accounts. Given the strategic importance of continued trade liberalisation in fostering competitive efficiency in production, reducing policy-induced distortions and stimulating export growth, progressive trade liberalisation through further removal of QRs and moderation of protection is still being pursued. The compelling need to continue trade reforms is underscored by the virtually irreversible globalisation of the trading environment following the conclusion of the Uruguay Round negotiations. However, our Government has been keen to ensure legitimate protection of deserving domestic industries. Consequently, while promoting competition in a market environment, the design of the Government's current trade policy envisages an appropriate balancing of protection, thrust to exports and the objective of making consumer goods available at reasonable prices.

EXPORT PROMOTION POLICIES

Recognising the contribution of exports to growth, the Government attaches high priority to export development. The following are some of the key objectives of our export development strategy:

- achieving a high growth rate of GDP through rapid export growth;
- progressively reducing the trade deficits through achieving export growth targets;
- adopting timely measures for ensuring production of export goods on competitive basis, retaining existing markets and expanding into new markets;
- making all possible efforts to avail of the opportunities to enter the international market in the globalised and liberalised post-Uruguay Round trading environment;

- simplifying export procedures and rationalising and consolidating export incentives;
- improving the infrastructure for export trade;
- developing skilled manpower trained in export trade;
- raising the quality and grading of export goods to internationally-accepted levels.

The latest Export Policy of the country will strengthen the export strategy by attempting to:

- provide maximum incentives for consolidating the competitive position of Bangladesh's goods in the world market through technological development, productivity increase, production cost reduction and quality improvement;
- take measures for appropriate practical and technical training for creating trained manpower in the export sector;
- ensure the best possible use of the financial and other facilities extended to the least-developed countries by the World Trade Organisation;
- maintain the environmental balance in export production and keep the environment pollution-free;
- extend technical and marketing assistance conducive to product development and evolving new marketing strategies;
- take measures for making available inputs used in export production at world prices.

The main objective of the country's export policy is to effect a sustained increase in export earnings within the quickest possible time through product diversification and quality improvement. In order to promote competitiveness of Bangladeshi goods in the world market, an elaborate incentive structure is being developed. As a result of conducive policies and a judicious incentive structure, exports in Bangladesh have been growing quite rapidly even in the face of the recent slow-down in world trade. Annual exports grew by nearly 17 per cent in 1997-98, compared with approximately 14 per cent in 1996-97.

EXCHANGE RATE MANAGEMENT

Pursuing an appropriate exchange rate policy is an important instrument for development. Bangladesh has been following a policy of flexible exchange rate management for maintaining external competitiveness for quite some time now. Periodic adjustments in the nominal exchange rates are made mainly depending on an estimated real effective exchange rate index. Certain critical factors such as foreign exchange reserve position, import demand and foreign exchange payment obligations are also taken into consideration in making the above adjustments. Bangladesh thus follows a managed float exchange rate regime.

Bangladesh has made its currency convertible on the current account only. Convertibility in the capital account has not yet been implemented. This policy stance has in fact stood Bangladesh in good stead in the face of currency instability and banking turmoil in the East Asian countries. Bangladesh is keenly observing the developments in these areas and would take appropriate policies with regard to the nature and degree of capital account convertibility in due course.

RAISING SAVINGS AND INVESTMENT

To accelerate the rate of economic growth, generate enough employment opportunities and alleviate poverty within a short time, it is necessary to raise domestic savings from the present 8 per cent to 13-14 per cent and investment from the present 17 to 23-24 per cent within the next half a decade or so. Only such a scenario would be compatible with achieving a growth target of 7-8 per cent. High savings and investment require the mobilisation of vastly-increased amounts of domestic resources. The need has become all the more acute, especially in the wake of the reduced outlook for foreign aid, as the recent changes in the geo-political landscapes have resulted in competing demands for the limited aid resources.

LEGAL REFORMS

Existence of appropriate legal and regulatory framework is a precondition for growth initiatives to be undertaken. Thus, in order to make the existing legal environment conducive to development, existing obsolete laws are being reviewed and new laws are being enacted where necessary. An increased number of courts is being set up for a speedy dispensation of justice. A Permanent Law Commission comprising a former Chief Justice and two other Supreme Court judges has been set up in August 1996 by an Act of Parliament. To enhance judicial capacity-building, a Judicial Training Institute for imparting training to judges, magistrates, court staff, etc., has been set up.

Positive steps for the separation of the judiciary from the executive organ have also been taken.

ADMINISTRATIVE REFORMS

An efficient administrative system is essential for development to take place. Historically, governments played very active roles in the economic development of most countries. They established both institutions and markets, strengthened them, intervened and regulated markets whenever necessary and made the best use of institutions and markets for the purpose of economic development. This is because government interventions in varying degrees were necessary to ensure rapid economic progress, as markets alone were not enough to reach this target. Governments also undertook appropriate policies and implemented needed reforms that ensured success of their economic programmes. Governments in the East Asian countries, for example, created sound initial conditions characterised by more equal distribution of income and opportunities as well as the eradication of poverty, on the foundation of which successful economic development programmes were launched.

In a developing country like Bangladesh, the bureaucracy has indeed a very dominant role in its economic development. In order to perform the above functions which are the critical preconditions for development, i.e., to set up institutions and markets, implement reforms, create appropriate legal and regulatory environment and deliver efficient service for accelerating the pace of development and the alleviation of poverty in the quickest possible time, administrative reforms are being implemented in Bangladesh. Only an administrative system which can perform the above functions efficiently can move the country to a high-growth path and prepare it to meet the developmental challenges of the 21st century. Keeping these in view, a Public Administration Reforms Commission (PARC) has recently been constituted to suggest ways and means to improve the quality of bureaucracy and infuse dynamism into public administration. The Commission has submitted some recommendations for making the administration dynamic, accessible and accountable to the public. Its recommendations include: measures to downsize the government through voluntary retirement, setting up of the office of 'Ombudsman' and improving service delivery to the citizens.

LOCAL GOVERNMENT REFORMS

Decentralisation of administration and promotion of local governance is an important precondition for launching development initiatives, with broad and active participation of the people. Keeping these in view, a high-powered

Committee was set up in Bangladesh some time back to make recommendations for the restructuring and strengthening of the local government. According to the recommendations of the Committee, election of the local government bodies at the grass-root level was taken up first. The law for setting village-level local bodies called 'Gram Parishad' has been passed. The Gram Parishads will act as the link between Union Parishads (local-level bodies which are above village level) and the villages for project identification, supervision of government programmes and mobilisation of support for programmes like literacy campaign, family planning, primary health care, etc. A legal provision has also been made for the direct election of women members to the Union Parishad. This will help in empowerment of women. The next phase in the development of local self-government is the constitution of representative bodies at Thana (between Union and District levels) and District levels. The central issue in the local government reform is making them financially viable and reasonably self-reliant.

The above developments will facilitate the transfer of many government functions and activities to the elected representatives of the people. As a result, administration and development activities will become more transparent, accountable and democratic.

CONCLUDING OBSERVATIONS

Bangladesh has been following pragmatic macroeconomic policies that have enabled the country to witness a stable macroeconomic environment for a continuous period. The country has also achieved considerable progress in developing a democratic political environment that is conducive to growth. Wide-ranging macroeconomic, legal, administrative and institutional reforms, some of which have already been implemented and some are still on the agenda, have created an environment that enables undertaking development activities where the private sector is the prime mover. Public investment programmes have also been designed keeping in view their relative potentials for enhancing the productivity of private output. Programmes for poverty alleviation and human resource development are also being vigorously implemented to integrate the large mass of poor people into the mainstream of development and to unleash the productive potentials of human resources, both men and women. Finally, the country's macroeconomic and sectoral reform programmes are designed with a watchful eye on developments in the pattern of global trade and its dynamics, currency and financial markets and also international flows of official capital and private investment.