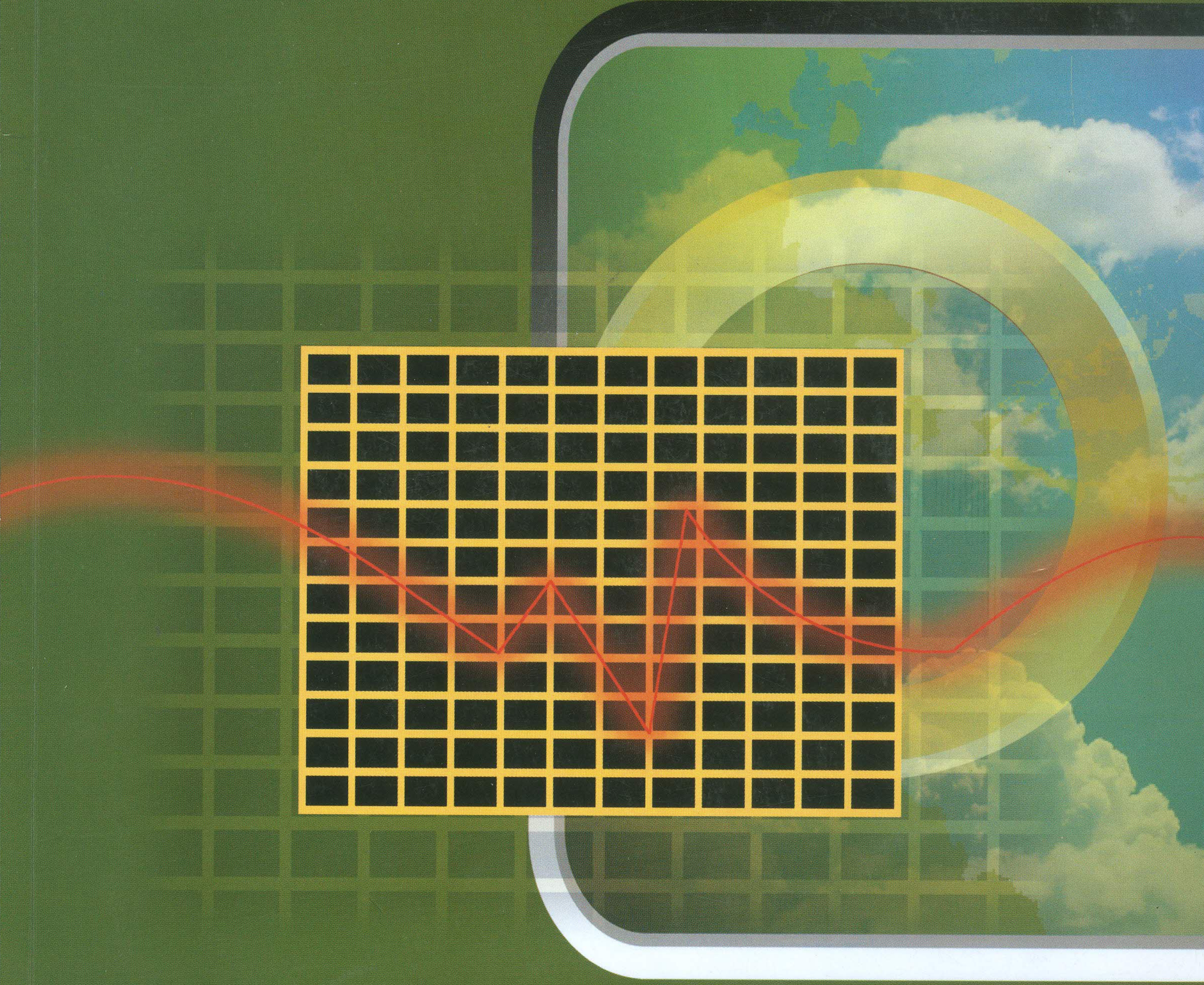
State of the Bangladesh Economy in 2004-05 and Outlook for 2005-06



CENTRE FOR POLICY DIALOGUE (CPD)

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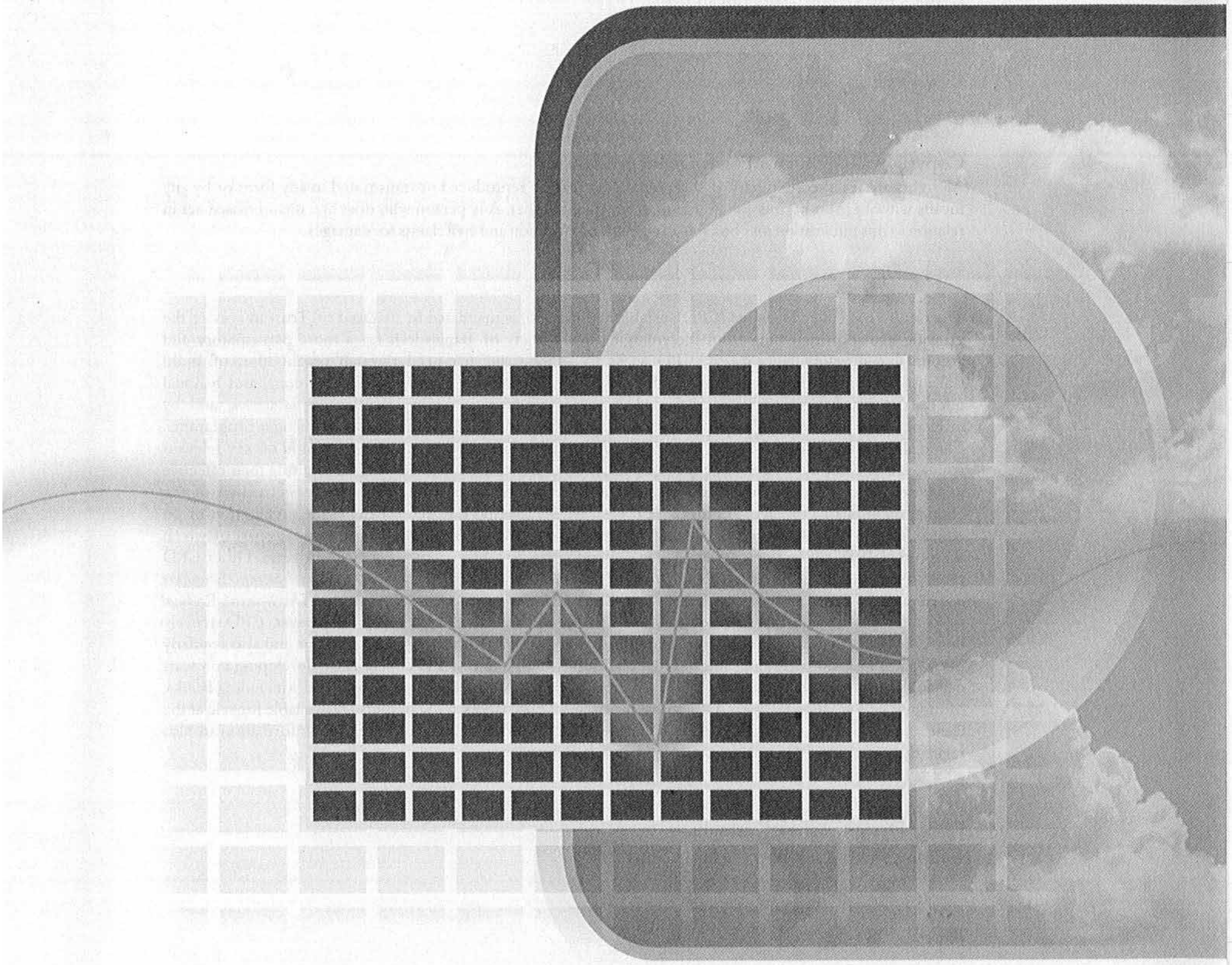

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The Centre for Policy Dialogue (CPD), established in 1993, is mandated by its Deed of Trust to service the growing demand originating from the emerging civil society of Bangladesh for a more participatory and accountable development process. CPD seeks to address this felt need through organisation of multi stakeholder consultations and dialogues, by conducting research on issues of critical national and regional interests, through dissemination of knowledge and information on key developmental issues, and by influencing the policymaking process in the country. At the core of CPD's activities lies its dialogue programme. The dialogues are designed to provide a forum for constructive engagement and discussion on key relevant issues, and to come up with specific recommendations to redefine the policies and for ensuring their effective implementation. The recommendations are then placed before current and prospective policymakers of the country as inputs to the decision making process. CPD's flagship research activity is the preparation of an annual Independent Review of Bangladesh's Development (IRBD). The IRBD Programme, as part of which the present IRBD2005 Macro Volume was prepared, has now been running for eleven years. Other CPD programmes include *Trade Related Research and Policy Development (TRRPD), Governance and Development, Agriculture and Rural Development, Ecosystem and Environment, Regional Economic Cooperation and Sustainable Development, Regional Cooperation in Transport and Communication and Investment Promotion and Enterprise Development.* CPD actively networks with other institutions within and outside Bangladesh which have similar interests and also regularly participates in various regional and international fora where interests and concerns of developing and least developed countries are discussed. CPD's current publication list includes more than 250 titles including Books, Monographs, Occasional Papers, Dialogue Reports and Policy Briefs. CPD outputs are available for sale at the Centre and also in selected bookstores in Bangladesh. CPD publications and other relevant information are also regularly posted on CPD's website <www.cpd-bangladesh.org>.

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Acronyms

ACC	Anti-Corruption Commission
ADB	Asian Development Bank
ADP	Annual Development Programme
ATM	Automated Teller Machine
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BO	Beneficiary Owner
BOI	Board of Investment
BOP	Balance of Payment
BPC	Bangladesh Petroleum Corporation
BRDB	Bangladesh Rural Development Board
BTTB	Bangladesh Telegraph and Telephone Board
CDBL	Central Depository Bangladesh Limited
CDS	Central Depository System
CHT	Chittagong Hill Track
CPD	Centre for Policy Dialogue
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CSE	Chittagong Stock Exchange
DAE	Directorate of Agricultural Extension
DFI	Development Finance Institutions
DLS	Directorate of Livestock Services
DoF	Directorate of Fisheries
DSE	Dhaka Stock Exchange
EEF	Equity Entrepreneurship Fund
EPZ	Export Processing Zone
ERD	Economic Relations Division
FCB	Foreign Commercial Bank
FDI	Foreign Direct Investment
FEI	Food Energy Intake
FFW	Food for Work
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GOB	Government of Bangladesh
GSP	Generalized System of Preferences
HYV	High Yielding Variety
ICMA	Institute of Cost and Management Accountants
IFS	International Financial Statistics
IMF	International Monetary Fund
IPO	Initial Public Offering
I-PRSP	Interim Poverty Reduction Strategy Paper
IRBD	Independent Review of Bangladesh's Development
LC	Letter of Credit
LGED	Local Government Engineering Department
MFA	Multi Fibre Arrangement
MGD	Millennium Development Goal
MLT	Medium and Long-Term
MOFDM	Ministry of Food and Disaster Management
MT	Metric Tonnes
MTMF	Medium Term Macroeconomic Framework
NBDC	Non-Bank Depository Corporation
NBFI	Non-Bank Financial Institution
NBR	National Board of Revenue
NCB	Nationalized Commercial Bank
NEER	Nominal Effective Exchange Rate
NER	Nominal Exchange Rate
NGO	Non Government Organisation
NSD	National Savings Deposit
OMS	Open Market Sale
PBS	Palli Bidyut Samity
PCB	Private Commercial Bank
PRSP	Poverty Reduction Strategy Paper
QIP	Quantum Index of Production
REER	Real Effective Exchange Rate
RMG	Readymade Garments
RTA	Regional Trading Agreement
SEC	Securities and Exchange Commission
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	Technical Assistance
TU	Trade Union
TUF	Technology Upgradation Fund
USD	United States Dollar
VAT	Value Added Tax
VGD	Vulnerable Group Development
VGF	Vulnerable Group Feeding

Content

Preface

The publication of the *Independent Review of Bangladesh's Development (IRBD) 2005* in its current format, a periodic flagship study of the Centre for Policy Dialogue (CPD), is set to cross yet another waymark in a distinguished journey that began in 1995 under the initiative of *Professor Rehman Sobhan*. Those who have been following the IRBD titles with interest would at once take cognizance of the distinctive feature of this year's IRBD volume. We are indeed happy to have been able to draw a large readership.

Earlier, the single IRBD volumes constituted of two parts. The first part focused on the assessment of the macroeconomic development during the fiscal year under study. The second part centred on a specific theme of long term strategic development namely, governance, globalisation, foreign aid and employment. Thus, the IRBD reports concentrated on and scrutinized both immediate as well as long term economic trends and issues. However, blending these two separate outputs with two different time horizons in one volume had its constraints and pitfalls. The major challenge for CPD in this context was to ensure that the IRBD reports were able to do justice to the felt need for an independent and real time analysis of the dynamics of a continuing developmental process. At the same time, it had to correlate to the annual strategic themes with deserving academic character and rigour. The latter exercise often got protracted as it involves contribution from a score of Bangladeshi scholars and experts, many of whom work outside CPD and may often be away from the country. In spite of CPD's best efforts, reconciling these often conflicting demands have proved to be difficult, and consequently publication of the IRBD reports in recent years have been delayed.

Therefore, CPD has decided to bring out the macroeconomic analysis component of the IRBD as a separate volume beginning from fiscal year 2004-05 (FY05), with the thematic part to be published subsequently as a second IRBD volume. The need for a separate volume on current macroeconomic scenario is also prompted by the evolving nature of changes, both in terms of focus, opportuneness and presentational format that this exercise has undergone in recent years. Apart from presenting an analysis of the trends in key macroeconomic and sectoral variables, the IRBD project has been carrying out in-depth analysis of major economic events which not only have immediate significance (e.g. floods in July-August 2004), but also require to be addressed from medium and long run perspectives (e.g. global phase-out of apparel quota and exchange rate management). Similarly, the emergence of the Poverty Reduction Strategy (PRS) as a major developmental vision and praxis in Bangladesh entails that IRBD starts monitoring the secured outcomes on a regular basis. In recent years, mid-term assessment of macroeconomic performance, contextual review of the Bangladesh Development Forum (BDF), annual report on state of the economy and post-budget analysis by CPD have become regular features under the IRBD initiative. This demonstrates that IRBD has evolved and graduated into a multi-dimensional exercise that goes beyond a periodic review of the macroeconomic trends. This expansion in coverage and depth of focus once again justifies that the resultant palpable output be brought out as a separate volume.

Thus in keeping with the emerging features of the IRBD reports mentioned above, *Chapter I* presents an assessment of the trends and dynamics of key macroeconomic variables during FY2005 along with an in-depth analysis of a number of important issues that are likely to have implications for future economic development. These issues include macroeconomic correlates like growth, income and poverty, saving and investment, fiscal and monetary policies, resource allocations and their distributive implications, the dynamics of the real economy and behaviour of the external sector. In presenting an analysis of the corresponding changes in each of the sectors, the readers are provided with an opportunity to look at the concerned themes from the perspective of policy challenges underpinning the broader theme of economic governance. Aspects which have been flagged in these analyses are, inter alia, creeping inflation, exchange rate volatility, fragility of public finance and the tension between macroeconomic stability and growth payoffs.

Chapter II provides an analysis of the national budget for FY06 and seeks to assess the adequacy of the proposed measures in addressing the relevant challenges. Priorities in budgetary allocation and specific fiscal measures envisaged in the budget for FY2006 have also been examined.

As readers would perhaps recall, CPD had previously carried out early estimates of the damages by the devastating floods of 2004. The estimates had generated a lot of debates and discussions. It is satisfying to note that the CPD estimates of flood damages were subsequently vindicated by other studies including the joint assessment by The World Bank and Asian Development Bank (ADB). *Chapter III* recounts CPD's final assessment of floods 2004.

Readers will also find in *Chapter IV* an early analysis by CPD on possible impact of the MFA phase-out. While underscoring the intrinsic strength of Bangladesh's readymade garments (RMG) sector, the analysis identifies some of the major challenges which the country has to address in the near future to sustain its export growth.

A couple of documents have found place as annexes in the present volume. *Annex 1* contains proceedings of the national dialogue held on 19 June 2005 that discussed CPD's state of the economy report and budget reactions. *Annex 2* presents the records of the major economic events of FY05.

The forthcoming second volume of IRBD 2005 the thematic part will focus on a set of mid and long term issues which are likely to define Bangladesh's development prospect over the next decade. The work on this volume is now nearing completion. CPD sincerely hopes that with the publication of the thematic volume, alongside the present one, the IRBD initiative of the CPD will attain newer heights of credibility and distinction, especially in its eleventh year of engagement. We also hope that the IRBD 2005, with its richness of information and analysis presented in a newer format, will be able to attract many more readers who are interested in the development discourse concerning Bangladesh as professionals and citizens.

Acknowledgments
The decision to publish the present volume as a separate and distinct output under CPD's IRBD programme has meant that all my colleagues had to invest more effort this year than would normally be required for this annual publication. I would like to express my sincere appreciation to all my colleagues in the Research Division of the CPD for the collaborative effort that went into this volume under the supervision of *Professor Mustafizur Rahman,* Research Director, CPD. Taking this opportunity I would like to put on record my sincere appreciation to the various individuals and institutions who have generously shared their data and information with my colleagues in the IRBD team. This volume also owes an immense debt of gratitude to the many participants of the dialogues, brainstorming sessions and discussions which were organised to solicit comments and get insights. I acknowledge the contribution of *Ms Anisatul Fatema Yousuf,* Head, Dialogue and Communication Division, CPD and her colleagues along with CPD's Administration Division who provided crucial support in facilitating this process. Thanks are due to *Mr Naeem Hassan,* Publication, Communication and Outreach Manager, CPD, *Mr Iftikhar Ahmed Chowdhury,* Joint News Editor, *The Financial Express* and *Mr Meftaur Rahman,* Chief Publication Officer, BIDS who offered their support in producing the volume. Finally, I want to put on record my sincere appreciation for *Mr Syeed Ahamed,* Senior Research Associate, CPD who has made singular contribution in preparing and bringing out this publication.

28 May 2006

Debapriya Bhattacharya
Executive Director
Centre for Policy Dialogue (CPD)

Chapter I

State of the Bangladesh Economy in 2004-05

1. INTRODUCTION

The current analysis of the state of the Bangladesh economy during the fiscal year 2004-05 (FY2005) is the tenth annual output of Centre for Policy Dialogue's (CPD) programme Independent Review of Bangladesh's Development (IRBD). This is the final reading of the state of the Bangladesh economy in FY2005. The first reading of the review, which is a mid-year assessment, was released on 15 January 2005 (CPD, 2005_b) and the second reading of the review was released on 04 June 2005 (CPD, 2005_c) with the provisional data of FY2005. The final review, drawing on official data, has been presented in this analytical report.

The review provides a macroeconomic overview focusing on five major areas such as growth, saving and investment; fiscal sector; monetary sector; real economy; and external sector. Recognising the relative stability prevailing in the macroeconomic situation, the review shed light on some sources of its fragility. It raises the question whether or not the macroeconomic stability of Bangladesh has been rewarded with adequate growth payoff. The review underscores the negative implications of the creeping rise in consumer price index in the backdrop of perceptible credit expansion in both manufacturing and agriculture sectors. In the real economy, shortfall in foodgrain production remains the major concern, while capital market has been attracting increased liquidity. The external sector balance is experiencing consolidation, notwithstanding the total phase-out of the readymade apparel quota.

Changes since Mid-year Assessment

The first reading of the IRBD for FY2005 carried out in January 2005 mentioned that, "five major concerns for the economy during the next six months would include food price inflation, Boro production, ADP implementation, utilisation of foreign aid and new initial public offerings (IPOs) in the capital market." As subsequent analysis will reveal, only two of these concerns (i.e. Boro production and foreign aid utilisation) were to some extent assuaged during the last half of the fiscal year. However, shabby ADP implementation, rising food price level and lack of availability of new and good quality equities in the capital market continue to be nagging concerns for policymakers. As the economy moved towards the end of the fiscal year, a number of new trends became visible in the economy.

Major Features of FY2005

The growth momentum of the Bangladesh economy was sustained in FY2005 and the economy is poised to record a 5.0 per cent-plus GDP growth rate. However, it is also evident that the poor have failed to benefit from this incremental growth since their income share became further marginalised.

Two exogenous shocks, viz. floods of August 2004 and phasing-out of apparel quota from 1 January 2005 underpinned the economic performance of FY2005. It is evident that the economy has once again demonstrated its resilience in confronting the aftermath of the floods and has recorded an impressive recovery. The economy, at least for the time being, continues to clock double digit export growth in the quota-free global clothing trade.

The other important positive developments in Bangladesh economy during this period include a bumper Boro crop output of estimated 13.75 million MT, a US$2.5 billion worth of foreign direct investment (FDI) proposal from TATA of India, reactivation of the Privatisation Commission with new off-loading mandate and increased liquidity flow into the capital market. High import of capital machineries in the wake of robust credit expansion in private sector as well as strong growth of agricultural credit energised the economy in FY2005. Off take of foreign aid improved marginally. Remittance flow continued to be buoyant.

The major weakness of economic management in FY2005 emanated from the systematic failure of the government to implement public investment programmes in the face of the runaway growth in its recurrent expenditures. Revenue collection experienced discernible shortfall from the target, with mobilisation of revenue outside the purview of the National Board of Revenue (NBR) faring very poorly. Fiscal balance remains under control by default as the target for the annual development programme (ADP) remains far from being achieved.

The economy was dogged by the creeping rise in consumer price index, particularly due to holding out of foodgrain prices at a perceptibly higher level. Volatility in the Call Money and foreign exchange markets triggered unpredictability in the money market. One of the primary factors severely constraining the economic performance was electricity supply shortfall (on average 450 mw); often the quality of the electricity was poor. No power projects could go into implementation during this period.

Rise in inflation rate, largely underwritten by the price hike of strategic products (food, fuel and fertiliser) in global markets, supply shocks due to floods, price adjustments of public utilities, and expansionary monetary policy raised concern of "over heating" of the economy. Acknowledging the relative stability prevailing in the overall economic situation, it also needs to be mentioned here that pressures on the macroeconomic balances increased substantially in the second half of FY2005. These pressures were particularly intense in the case of the balance of payment (BoP) of the country. Fragility of the apparent stability of macroeconomic situation was exposed as enhanced investment demand spurred by incremental credit flow led to high volume of imports. Increased demand for foreign exchange and the need to maintain an adequate level of foreign exchange reserve created tensions in the market as the real exchange rate did not absorb the full pressure.

Extraordinary growth of domestic credit coupled with reverse shortfall started to create strains on the fiscal balance as well (particularly from the third quarter of the year). Thus, at the end of FY2005, the macroeconomic balances remained under pressure as dynamism in investment variables exerted stress on the BoP, and fiscal balance was quite stretched. The FY2005 also witnessed the launching of a "stillborn" Anti-Corruption Commission (ACC). The government finally introduced trade union (TU) rights in the export processing zones (EPZs). The government employees were awarded a new pay scale in June 2005 (with effect from July 2005).

The subsequent sections of the review take a closer and an indepth look at some of the most critical issues highlighted in the foregoing paragraphs.

2. ECONOMIC GROWTH AND POVERTY ALLEVIATION

2.1 GDP Growth

It is by now well known that GDP grew at a relatively faster rate during the 1990s (4.6 per cent linear growth) in comparison to the 1980s (3.6 per cent linear growth). Within the 1990s, the growth momentum was higher during the second half of the decade in comparison to the first half. The linear growth rate of GDP during the period of FY91-95 was 3.95 per cent, while during the next five years (FY1996-00), it grew at a faster pace of 4.79 per cent.

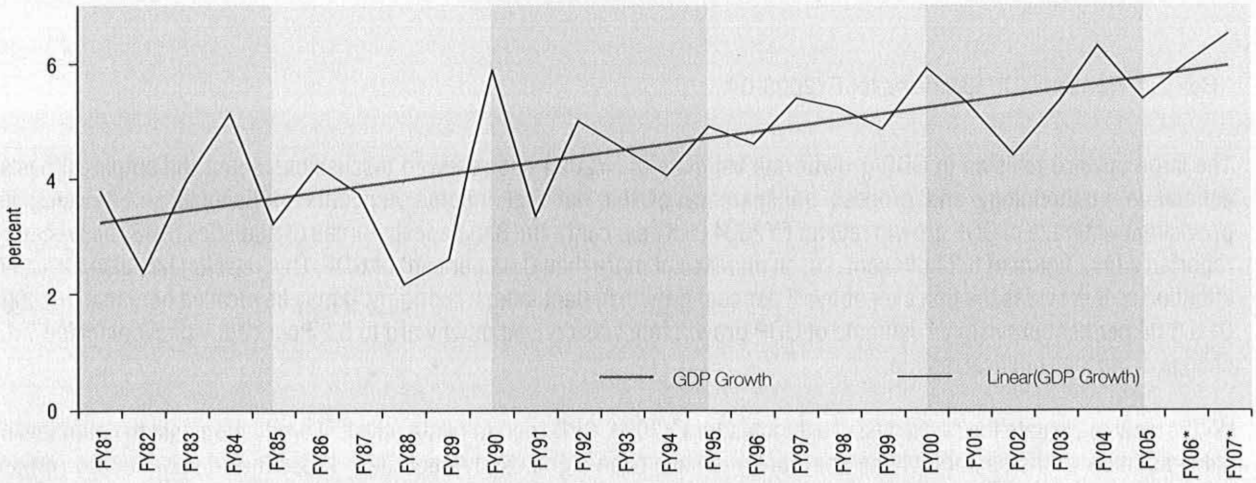
Following a decline of the GDP growth rate from 5.9 per cent in FY2000 to 4.4 per cent in FY2002, the national economy repositioned itself at a 5.0 per cent-plus growth trajectory during the subsequent two fiscal years (FY2003 and FY2004). The GDP growth rate for FY2004 was provisionally estimated to be 5.3 per cent as against 5.5 per cent projected in the interim poverty reduction strategy paper (I-PRSP) target. This figure has been recently revised upward at 6.3 per cent. (For a critique of the new GDP estimate for FY2004 see Box 2.1).

The provisional figures for FY2005 suggest that GDP has posted a growth of 5.3 per cent during FY2004, while the matching target of the I-PRSP was 5.5 per cent. This is a respectable economic growth rate in a flood year. But the revised GDP growth figure for FY2004 (i.e. 6.3 per cent) will make the target of 6.8 per cent for the terminal year (FY2007) of PRSP look quite pale.[1]

Curiously, compared with the major South Asian countries, Bangladesh's growth scenario looks moderate. In FY2004, the GDP growth rates of India (8.1 per cent), Pakistan (6.4 per cent) and Sri Lanka (6.5 per cent) have been higher than that of Bangladesh

[1] Before the finalisation of Bangladesh PRSP, government published a number of "final drafts" on PRSP. When this paper was finalised, the revised PRSP as of January 12, 2005 was available.

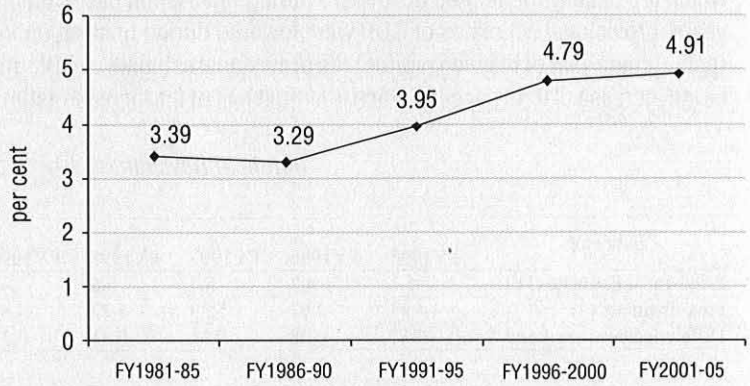
Figure 2.1: Trend in GDP Growth



Source: Computed from Finance Division (2004c) and ERD (2003).
*Note: * PRSP Targets.*

(even going by its revised estimate of 6.3 per cent). The GDP growth figures for Bangladesh for FY2005 also appear to be restrained when compared with these South Asian countries, which have targeted ambitious economic growth at 6.5 per cent (India and Pakistan), and even at 7.0 per cent (Sri Lanka). India, incidentally, recorded a 7.4 per cent growth during the first quarter of FY2005. It seems South Asia as a whole is going through a spell of relatively high growth.

Figure 2.2: Periodic Linear Growth Rates of GDP

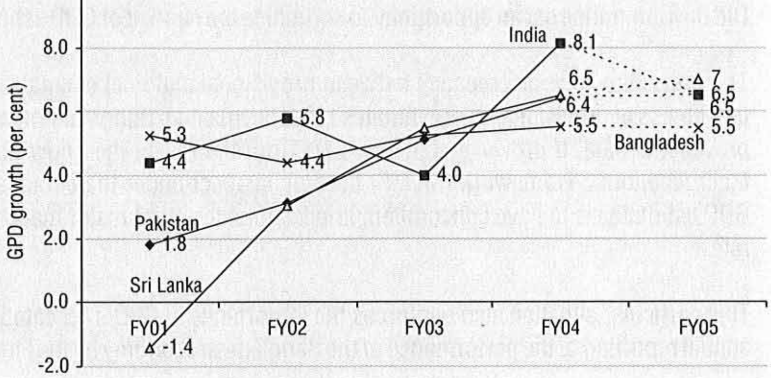


Source: CPD-IRBD Database, 2005.

Sources of Growth

The ongoing structural transformation of the Bangladesh economy is characterised by falling share of the agriculture sector, with a marginal increase of the manufacturing, in the backdrop of increasing contribution of the service sector. This trend continued through FY2004 and FY2005. The share of agriculture sector came down from 23.1 per cent in FY2004 (revised) to 21.9 per cent in FY2005. On the contrary, share of industry[2] and service sector[3] increased from 27.7 per cent and 50.9 per cent in FY2004 to 28.4 per cent and 51.4 per cent in 2005 respectively.

Figure 2.3: GDP Growth Rate of Selected South Asian Countries



ECONOMIC GROWTH AND POVERTY ALLEVIATION

Box 2.1: Revised GDP Estimates for FY2003-04

The large upward revision in GDP growth rate estimate of FY2004 has renewed discussions about the empirical basis, estimation methodology and process transparency of the National Income Accounts of Bangladesh. Revising its provisional estimate of GDP growth rate for FY2004 (5.52 per cent), the Bangladesh Bureau of Statistics (BBS) has recently reported a final figure of 6.27 per cent, i.e. an increase of more than 0.88 per cent of GDP. This revision has also attracted attention as it provides the first ever above 6 per cent growth in Bangladesh economy. It may be recalled here that in 2000-01 a 6.04 per cent provisional estimate of GDP growth rate was revised downward to 5.27 per cent which coincided with change of the then political regime.

With a view to validate the revised GDP estimates for FY2004, CPD tried to relate physical production data to estimates of value addition of the sectors whose contributions have been significantly upgraded. These include agriculture (crops, vegetables and livestock), electricity, gas and water, and import. While some acceleration in production is observed during the last quarter of FY2004 (i.e. after the provisional estimates were prepared), it was not evident to what extent this outcome was anticipated by the provisional estimate. This observation also remains true for the sectors where downward revision has been done (e.g. fishery and manufacturing).

Experience suggests that the GDP growth estimates are traditionally an ambitious projection based on nine months' data which are usually moderated downward during finalisation based on the full year data. As may be seen below, the last ten years, provisional estimates of GDP were lowered during finalisation in eight years. Excepting in FY2004, only in FY2000 (penultimate year of the then regime) the provisional estimate of GDP growth rate was increased from 5.47 per cent to 5.94, i.e. an increase of 0.47 per cent which is almost half of the increase estimated for FY2004.

Trends in Revision of GDP Growth Rate

Indicator	Year									
	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Provisional Estimate (1)	5.1	4.7	5.7	5.6	5.2	5.47	6.04	4.8	5.3	5.52
Final Estimate (2)	4.93	4.62	5.39	5.23	4.87	5.94	5.27	4.42	5.26	6.27
Difference between 1 and 2	-0.17	-0.08	-0.31	-0.37	-0.33	0.47	-0.77	-0.38	-0.04	0.75

The prolonged period (about 12 months) taken by the BBS to prepare the final GDP estimates also raises question. Production data for the full year were already available towards the end of 2004. Was BBS waiting for any specific survey results? In that case, it is pertinent to notify the changes brought about in the data base.

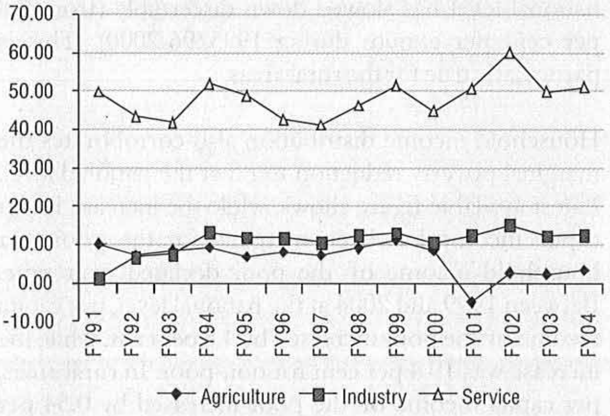
One needs to be sure that identical estimation procedure was followed by the BBS in generating the provisional and final GDP figures of FY2004. Without transparency as regards the estimation methodology, reliability and usefulness of GDP data will be constantly questioned. Recently government has constituted a Committee on National Income Account data. Did the Committee get an opportunity to scrutinise the new set of GDP estimates for FY2004?

The prevailing wide discrepancy between provisional and final estimates also raises questions regarding credibility and usefulness of provisional GDP estimates for policymaking. Budgetary measures and the entire planning process depend on provisional data. If provisional data are far from the reality then how budgetary measures are realistic? The Mid-Term Macroeconomic Framework (MTMF) became suspect under the circumstances. Understandably, such large revision of GDP estimates is to have concomitant implications for other major macro variables including the investment and savings rate.

This particular situation also reinforces the importance of CPD's repeated call for semi-annual estimate of GDP and semi-annual reporting of the performance of the Bangladesh economy by the Finance Minister to the National Parliament.

Subsequent to the adverse impact of 2004 flood, agriculture and forestry sub-sectors experienced a negative growth of (-) 0.73 per cent in FY2005. During this period, fisheries sub-sector registered a marginal growth of 4.0 per cent. Thus, when the fisheries sub-sector is included, agriculture sector shows a marginal 0.3 per cent growth in FY2005. On the other hand, the industry sector experienced an impressive 8.6 per cent annual growth in FY2005. Within the industry sector, mining and quarrying registered an 8.4 per cent growth, while manufacturing experienced an 8.4 per cent annual growth during FY2005. Electricity, gas and manufacturing also showed a robust 9.1 per cent growth during the period under report. Overall, the annual growth of the real economic sector[4] was only 3.8 per cent, while the service sector experienced a modest 6.0 per cent growth in FY2005.

Figure 2.4: Incremental Growth of Sectors of GDP: FY91-04



Source: Computed from CPD (2005).

The contribution of agriculture sector in the incremental GDP also experienced a sharp decline from 14.8 per cent in FY2004 to only 1.3 per cent in FY2005, which was largely underwritten by the negative contribution (-7.8 per cent) of the crop sub-sector. The incremental contribution of the overall industrial sector increased to 42.3 per cent in FY2005, when compared with its matching figure of 31.8 per cent of the previous year.

Overall, the contribution of the real economic sectors to incremental growth declined from 33.6 per cent in FY2004 to 27.3 per cent in FY2005. Incremental contribution of service sector in real GDP growth also increased substantially from 44.6 per cent in FY2004 to 60.9 per cent in FY2005.

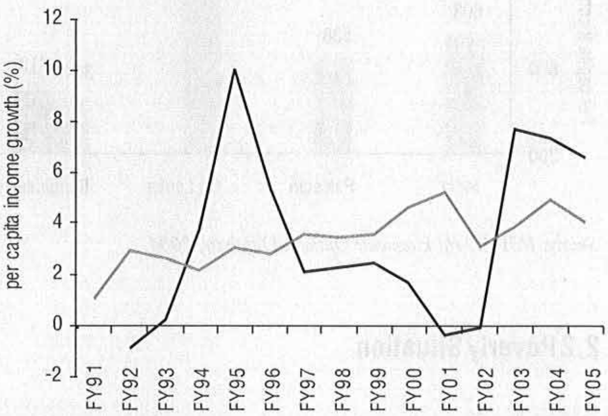
Per capita Income

In FY2004, the per capita GDP and GNI of Bangladesh were recorded at US$ 421 and US$ 444 respectively. The annual growth was 8.2 per cent for per capita GDP and 8.0 per cent for per capita GNI, compared to FY2003.

Latest data shows that the impact of 2004 flood and the recent downward revision of exchange rate of Taka (Tk) have slowed down the growth of real per capita income in FY2005. In dollar terms, per capita GDP and GNI for FY2005 were US$ 445 (+ $24) and US$ 470 (+ $26) respectively, registering respective annual growths of 6.5 per cent and 6.8 per cent.

It may be mentioned here that the government has revised downward the per capita GDP for FY2004 from US$ 421 to US$ 418, despite the upward revision of GDP for the same year. This once again underscores the concern about the reliability of national income accounting.

Figure 2.5: Annual Growth in Per Capita Income: Taka Vs US$



[2] Industry includes Mining & Quarrying (Gas & non-refined oil, other mining); Manufacturing (Large, Medium and Small Scale); Electric, Gas & Water Supply; and Construction.

[3] Service includes Wholesale & Retail Trade; Hotel & Restaurants; Transport & Communication; Financial intermediaries; Real estate & Housing; Public administration & defence; Education; Health & Social Works; Community, Social & Personal Services.

[4] These include Agriculture (crop, fisheries and livestock), Mining & Quarrying and Manufacturing.

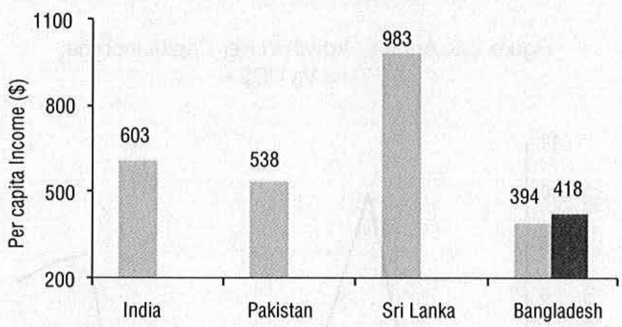
The per capita income of Bangladesh is still very low when compared with the same in other South Asian countries. For example, Pakistan, India and Sri Lanka in 2004 recorded a per capita GDP of $ 538.1, $ 602.6 and $ 982.5 respectively. In other words, Pakistan, India and Sri Lanka have a per capita GDP, which is 27.8 per cent, 44.1 per cent and 133.4 per cent more than Bangladesh[5].

Table 2.1: Per capita Income of South Asian Countries: FY2004

	Per capita Income ($)	Income Levels Compared to that of Bangladesh	
		amount ($)	per cent (%)
Pakistan	538	+ 120	+ 28.7
India	603	+ 185	+ 44.3
Sri Lanka	983	+ 565	+ 135.2

Source: IMF World Economic Outlook Database, 2004.

Figure 2.6: Per capita Income of South Asian Countries: FY2004



Source: IMF World Economic Outlook Database, 2004.

2.2 Poverty Situation

Absolute Poverty

According to the recent Preliminary Report of the Poverty Monitoring Survey 2004, the incidence of poverty at the national, urban and rural levels has been reduced in 2004 compared to 1999. Incidence of poverty by head count ratio on the basis of food energy intake (FEI) reduced from 44.7 per cent in 1999 to 42.1 per cent in 2004. On an average, the annual poverty declining ratio was about 0.5 per cent. During the same period, at the urban level, the poverty declined by about 1.0 per cent each year; while at the rural level, the trend of poverty reduction was much slower at only 0.32 per cent. This implies that the poverty alleviation rate at the national level has slowed down discernibly (from 0.8 per cent per annum during 1995/96-2000). This is particularly true for the rural areas.

Household income distribution also corroborates the marginal poverty reduction trend at the national level. Latest available figure shows, while the increase in per capita income has been marginal for the poor, per household income of the poor declined over time. Between 1999 and 2004 at the national level, per capita income of the poor increased by 4.8 per cent, while the increase was 19.4 per cent for non-poor. In rural areas, per capita income of the poor increased by 0.54 per cent only as against 7.97 per cent increase in case of rural non-poor.

During the last five years (1999-2004), monthly household income of the poor has reduced both at urban and rural levels, while non-poor households experienced a significant increase in income. At the national level, monthly income of the poor households has decreased by (-) 3.56 per cent, while it has risen by 13.36 per cent for the non-poor households. In rural areas, household income of the poor declined by (-) 7.32 per cent whereas it increased by 3.23 per cent for the rural non-poor households.

Relative Poverty

It is well known that per capita income and absolute poverty level do not fully capture the comprehensive poverty scenario, as they do not reflect the relative position of the poor. The Preliminary Report of the Poverty Monitoring Survey 2004 revealed that gini-coefficient has deteriorated from 0.42 in 1999 to 0.45 in 2004, indicating a significant worsening of income inequality at the national level. During the same period, for urban and rural areas, gini-coefficient increased from 0.46 and 0.41 to 0.49 and 0.43 respectively. The figures suggest that income inequality is higher in the urban areas and it is deteriorating faster than these (in comparison to rural areas).

[5] Per capita income for other South Asian countries has been taken from IMF, World Economic Outlook Database, 2004, while the income figure for Bangladesh has been taken from BBS. The comparable figure for Bangladesh in IMF report has been mentioned at US$ 393.7, which is even lower when compared with other South Asian countries.

The deepening income disparity in Bangladesh is explained most convincingly when the income shares of top and bottom quintiles of the population are compared. Between 1999 and 2004, national income attributable to the poorest 10 per cent of Bangladesh's population declined from the miniscule proportion of 1.7 per cent to 1.5 per cent. Conversely, the control on the national income by the richest 10 per cent of the population increased from 33.9 per cent in 1999 to 36.5 per cent in 2004. In other words, the income differential between the poorest and the richest 10 per cent increased from 20 times in 1999 to 24.5 times in 2004. It can be recalled that in 1995-96 this multiple was 15.5 times. The magnitude of this ratio is higher in urban areas as the said proportion increased from 24 times to 36 times during the same period.

CPD in IRBD 2003 and IRBD 2004 emphasised that the incremental growth in an economy does not automatically benefit the poor. In fact, using proxy indicators such as food price, wage rate, terms of rate in agriculture, CPD made it clear earlier that the economic growth process is very much urban-centric and benefits the non-poor social strata disproportionately.

Some of the sources of rising inequality in Bangladesh are linked to the following processes:

- Not all the rural landless and poor could benefit from the agricultural development through wage employment. Additionally, the rural poor could not fully participate in the non-crop sector (like fisheries and livestock) due to access limitations to resources (e.g. water-bodies and grazing land).
- The difference between wages of skilled and non-skilled workers in the non-farm sector has also widened. This has resulted in widening of the income disparity.
- The magnitude of growth of the export-oriented sector could not significantly absorb the unemployed rural workforce.
- Modern service sectors that developed in the urban areas are not labour-intensive; this requires certain educational qualification that the poor segment lacks.
- Flow of remittance income also exacerbated the income differential between few migrant and many non-immigrant families.

The situation has been further aggravated by corruption and rent-seeking behaviour, which is pervasive in the Bangladesh economy and society. This increasing income inequality may emerge as a threat to social cohesion and inhibit democratic transition.

Spatial Poverty

The regional difference of poverty incidence is also a major concern for macroeconomic policies. The Preliminary Report of the Poverty Monitoring Survey 2004 further shows that incidence of poverty is most extreme in Rajshahi division, followed by Khulna division. For example, in Rajshahi 46.7 per cent of total population lives below the lower poverty line; and in the case of more extreme poverty line this rate is 61.0 per cent. At the national level, the incidences of poverty for lower and upper poverty lines are 33.7 per cent and 49.8 per cent respectively. Due to absence of comparable data, the trends in regional disparity could not be identified.

Table 2.2: Regional Disparity in Poverty Incidence (2000)

	Population Below Poverty Line (per cent)		Per Capita Income of the Poor	
Poverty Line>	Lower	Upper	Lower	Upper
National	33.70	49.80	495.19	573.72
Barisal	28.80	39.80	545.32	583.07
Chittagong	25.00	47.70	522.56	619.39
Dhaka	32.00	44.80	475.73	549.95
Khulna	35.40	51.40	543.46	641.07
Rajshahi	**46.70**	**61.00**	**468.89**	**526.44**

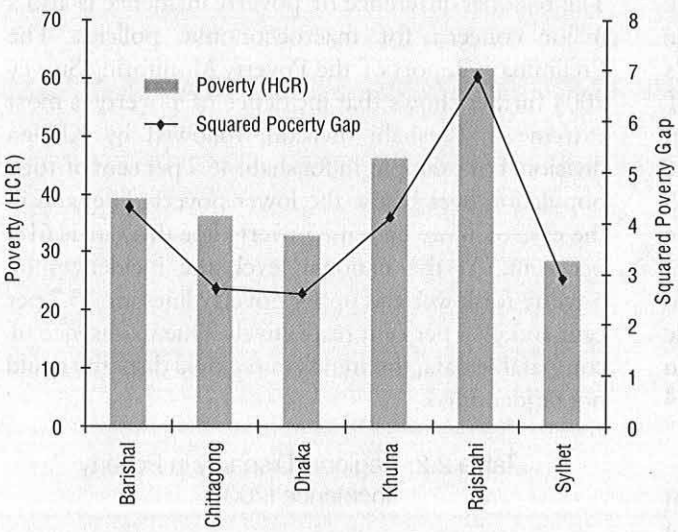
Source: Report of the Household Income and Expenditure Survey, 2000 (BBS 2000).

The per capita monthly income of the poor living in Rajshahi is also the lowest - both for lower and upper poverty lines. The two monthly income figures are Tk 468.9 and Tk 526.4, while at the national level the figures are Tk 495.2 and Tk 573.7 respectively. The poverty gap, which is the indication of the average distance below the poverty line, and the squared poverty gap, which indicates the severity of poverty, is also observed to be highest in Rajshahi division.

Along with the regional differences in agricultural production, the government also needs to monitor closely the regional disparity situation and its possible impact and correlations with the Monga in Rajshahi division.

Thus, we observe that while the overall poverty situation in Bangladesh is improving, the pace of poverty reduction has shown signs of retardation in the recent past. It emerges that the process of increasing income inequality underpins the deceleration of

Figure 2.7: Regional Disparity in Poverty Incidence (2004)



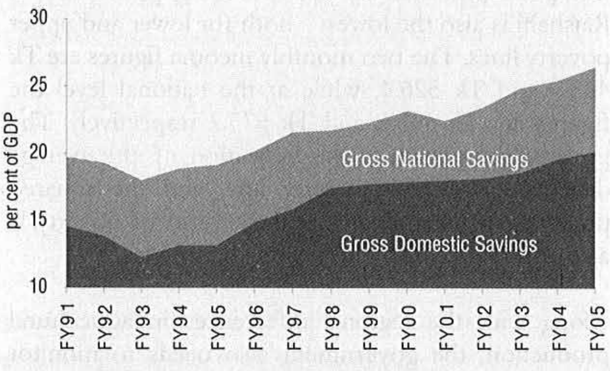
Source: Preliminary Report of the Poverty Monitoring Survey, 2004 (BBS, 2004).

poverty alleviation process. The process remains further flawed by growing rural-urban as well as broader regional disparity.

2.3 Savings

After almost half a decade of stagnation, the economy has experienced some movement in domestic savings

Figure 2.8: National Savings in FY1991-2005



Source: CPD-IRBD Database, 2005.

during FY2005. Domestic savings increased marginally to 20.16 per cent of the GDP in FY2005 from 19.5 per cent in FY2004, registering a 0.6 per cent increase as a share of GDP. A comparison with the neighbouring countries shows that the share of domestic savings in GDP was 28.1 per cent in India (i.e. about 40 per cent more than Bangladesh) and 17.6 per cent in Pakistan (i.e. about 13 per cent less than Bangladesh) during FY2004.

National savings demonstrated encouraging movements in FY2005. The share of national savings to GDP also increased significantly in FY2005 to 26.49 per cent of GDP as against 25.4 per cent in FY2004, registering an impressive 1.05 per cent enhancement as per cent of GDP. However, increasing the domestic savings rate is a crucial challenge facing Bangladesh at the present juncture.

New Data on Savings

Similar to the GDP figures, the government has also revised the gross national and domestic savings figures of FY2004 from 24.5 per cent and 18.3 per cent to 25.4 and 19.5 respectively. Given the fact that the GDP for FY2004 has been increased significantly, these proportions as per cent of GDP are remarkably higher. However, there may be some problems with the revised data for FY2004, as the change in national savings rate is less than that of the domestic savings rate. This could have only happened if there was a negative flow of external savings which empirically is not correct.

More curiously, the figures for gross national savings and gross domestic savings for FY2003 have also been revised in FY2005 (an increase by 0.42 per cent of GDP). Revision of savings rate after two years will raise serious doubts about the credibility of the same.

2.4 Investment

During the last five years (FY2001-FY2005), the gross investment rate has increased by only 0.3 per cent of the GDP. The ratio was 23.1 per cent in FY2001 while it crawled only up to 24.4 per cent in FY2005. This is significantly low (by -1.1 per cent of GDP) than the MTMF target of the PRSP, which was set at 25.5 per cent. It is also markedly lower than that of India (26.5

Table 2.3: Revision in National Savings and Domestic Savings Figures

Savings as per cent of GDP	FY2003			FY2004			FY2005
	before	after	change	before	after	change	
Gross National Savings	24.45	24.87	0.42	24.49	25.44	0.95	26.49
Gross Domestic Savings	18.21	18.63	0.42	18.2 7	19.53	1.26	20.16

Source: CPD-IRBD Database, 2005.

per cent) and Sri Lanka (25.9 per cent), although it is higher than that of Pakistan (18.1 per cent).

Increasing investment continues to remain one of the core challenges of the Bangladesh economy. In FY2005, the country recorded one of the lowest public investment ratio of the last decade, 5.9, a further (-) 0.3 per cent decline from the earlier lowest figure of 6.1 per cent in FY2004. The slack left behind by the public investment was, however, somewhat picked up by private investment. Private investment as a share of the GDP increased from 17.9 per cent in FY2004 to 18.5 per cent in FY2005. But Bangladesh still continues to remain an underinvested country, while its national savings rate (26.5 per cent) remains higher than the gross investment rate (24.4 per cent).

New Data on Investment

Once again, one can observe that figures on gross investment rate for FY2004 have been revised upward from 23.6 per cent to 24 per cent of the GDP. Similarly, the private and public investment figures have also been correspondingly revised from 17.5 per cent and 6.1 per cent to 17.8 per cent and 6.2 per cent of the GDP in FY2004.

Table 2.4: Revision in Gross, Public and Private Investment Figures

Investment as per cent of GDP	FY2004 before	FY2004 after	FY2004 change	FY2005
Gross Investment	23.58	24.02	0.44	24.43
Private Investment	17.47	17.83	0.36	18.53
Public Investment	6.11	6.19	0.08	5.9

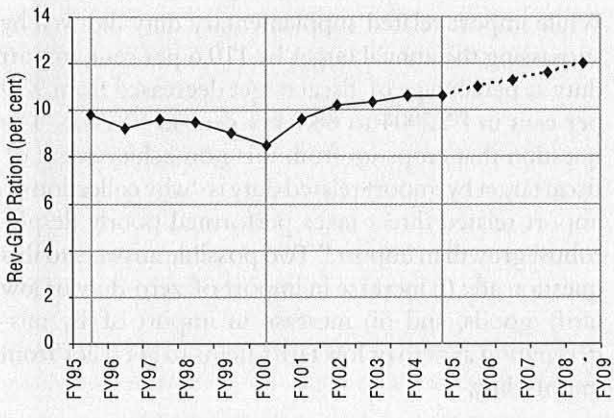
Source: Estimated from CPD Database.

3. TRENDS IN THE FISCAL SECTOR

3.1 Revenue Collection

The low revenue-GDP ratio remained stagnant at 10.57 per cent in FY2005, when compared with the corresponding figure of the pervious year (10.63 per cent). As the modest target of PRSP (i.e. 10.7 per cent) was not achieved in FY2005, the government has set a new target for FY2006 at 10.96 per cent, which is even (-) 0.24 per cent lower than the PRSP projection. Both the earnings from tax and non-tax revenue fell short of PRSP target by (-) 0.03 per cent of GDP in FY2005. Government also stepped down from the PRSP targets both in the case of tax and non-tax revenue earnings. Without bringing major changes in the tax administration, the government will not be able to achieve the revenue-GDP ratio of 11.7 per cent by FY2007, as has been projected in the PRSP.

Figure 3.1: Revenue-GDP Ratio in Bangladesh



Source: CPD-IRBD Database, 2005.

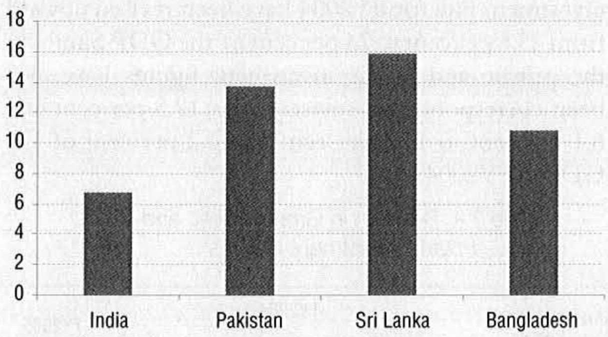
The ambitious revenue target for FY2005, which was set at 16.7 per cent higher than the realised figure of FY2004, ultimately fell short by (-) 5.7 per cent. However, the realisation in FY2005 was 14.9 per cent higher than the corresponding figure of the previous fiscal year. Tax component grew by 14.4 per cent during this period while NBR and non-NBR components grew by 14.0 per cent and 16.9 per cent respectively. In can be mentioned that tax revenue contributes about 81 per cent of total revenue, as 76 per cent are collected through the National Board of Revenue (NBR) and the remaining (less than 5 per cent) comes from the non-NBR sources.

Table 3.1: Revenue GDP Ratio: PRSP Vs Budget

Indicator	FY2005 MTMF	FY2005 Actual	FY2005 Change	FY2006 MTMF	FY2006 Target	FY2006 Change	FY2007
Total Revenue	10.70	10. 57	-0. 13	11.20	10.96	-0.24	11.70
Tax	8.70	8.67	-0.03	9.10	8.95	-0.15	9.60
Non -tax	2.00	1.9 0	-0.10	2.10	2.02	-0.08	2.10

Source: Estimated from CPD Database.

Figure 3.2: Tax to GDP Ratio of Bangladesh, India, Pakistan and Sri Lanka (FY2004)



Source: CPD-IRBD Database, 2005.

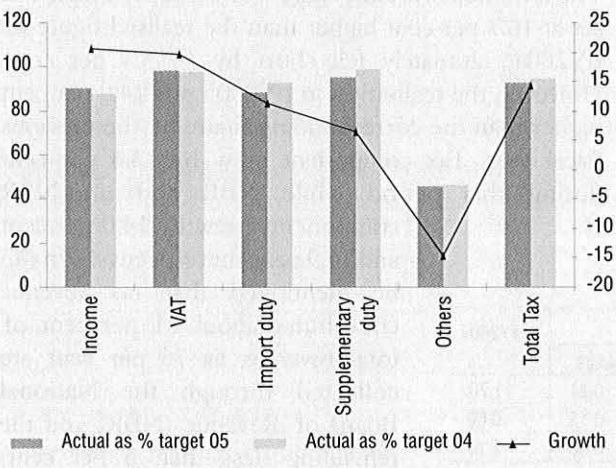
Tax-GDP ratio in Bangladesh was 10.8 per cent in FY2004, which is lower than that of Pakistan (13.70 per cent) and Sri Lanka (15.90 per cent) but higher than India (6.80 per cent). Tax revenue as percentage of GDP was 8.67 per cent at the end of FY2005.

NBR Component

Revenue mobilised by the NBR during FY2005 shows a moderate growth, as it increased from Tk 26190.4 crore in FY2004 to Tk 29962.9 crore in FY2005, registering a 14.4 per cent growth over the previous fiscal year.

Import related duty registered a significant growth of 14.7 per cent, which is largely contributed by the growth of VAT (import), posting a remarkable 21.6 per cent growth over the corresponding figure of the previous fiscal year. Import duty, on the other hand, registered 11.4 per cent growth during the same period. Share of import related duty has marginally increased from 50.3 per cent in FY2004 to 50.4 per cent in FY2005.

Figure 3.3: NBR Revenue Collection as Percentage of Annual Target (FY2004 and FY2005)



Source: CPD-IRBD Database, 2005.

Import related duty achieves only 93.8 per cent of its fiscal target during the FY2005 when compared with the performance (94.8 per cent of the target) of FY2004. Taking into consideration the growth performance of each of the components of import related tax, import duty performed poorly as regards its fiscal target, while import related supplementary duty fared rather well.

Table 3.2: Growth of Revenue Collection in FY2005

Description	Average Annual Growth FY1995 -05	Growth FY 2005 over FY2004	
		Annual	Incremental
Tax Revenue	11.76	14.43	78.35
NBR Component	12.00	14.40	74.71
Taxes on Income	12.70	*20.50*	*19.11*
VAT	13.65	*19.70*	*34.00*
Customs Duty	9.71	11.43	16.04
Non -NBR Component	8.08	14.87	3.64
Taxes on Vehicles	16.73	3.56	0.18
Non -Tax Revenue	11.45	16.86	21.65
Total	11.63	14.89	100.00

Source: Estimated from CPD Database.

While import related supplementary duty did well by surpassing the annual target by 110.6 per cent, import duty as percentage of fiscal target decreased from 92.9 per cent in FY2004 to 88.7 per cent in FY2005. The question that crops up from this non-achievement of fiscal target by import related duty is "why collection of import related direct taxes performed poorly despite robust growth in import." Two possible answers to this question are: (i) increase in import of zero-duty or low tariff goods, and (ii) increase in import of by mis-declaration as zero or low tariff items to get relief from import duty.

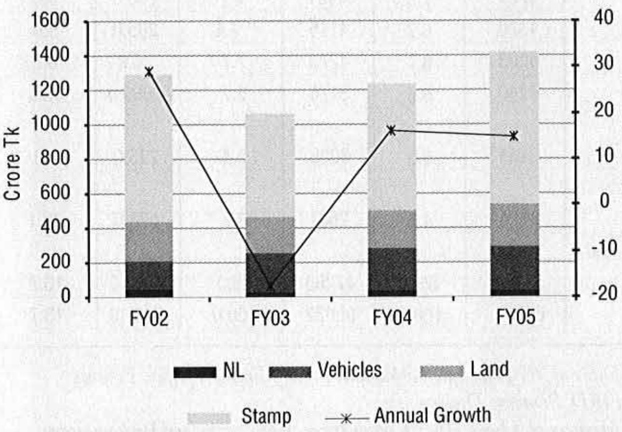
The incremental contribution of VAT in total revenue growth was about 34.0 per cent, while tax on income contributed 19.1 per cent to the added revenue intake. The encouraging point to be noted here is that during FY2005, direct tax (income tax) has registered a 20.5 per cent growth over the previous fiscal year, which has increased its share in the total NBR revenue from 17.9 per cent in FY2004 to 18.9 per cent in FY2005. It seems that the NBR's drive to enlist effective tax payees is yielding some results. However, this share of direct tax is still appallingly low and there is an urgent need for a shift in the composition of revenues away from tax on goods and services towards direct taxes on income and profit. Value added tax (VAT) also registered a marked growth by 19.7 per cent during this period, as VAT (local) and VAT (import) registered 17.7 per cent and 21.6 per cent growth respectively.

During FY2005, NBR has achieved 93.1 per cent of its annual target, whereas the matching figure was 94.4 per cent in FY2004.

Non-NBR Component

Tax revenue collection from non-NBR components during FY2005 registered a 14.87 per cent growth. The realisation stood at Tk 1421 crore at the end of FY2005, which is close to the annual target of Tk 1450 crore (98 per cent). Achievement as percentage of the fiscal target was 93.6 per cent in FY2004. Though the realised figure is substantially higher than the figure of FY2004, it is lower than the comparable growth performance of FY2004 (16.0 per cent).

Figure 3.4: Collection of Tax: Non-NBR Component in FY2002-05



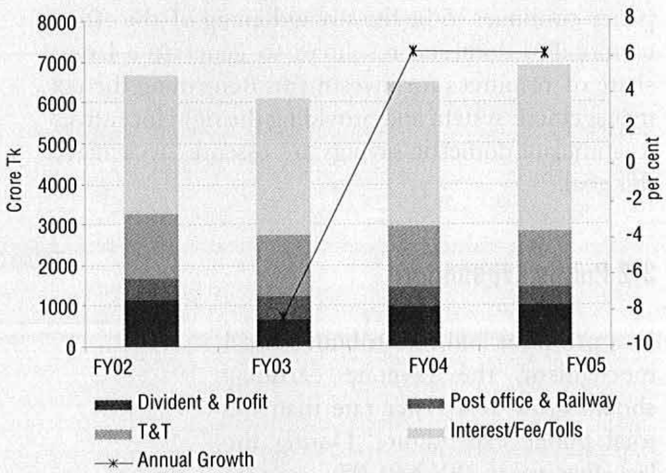
Source: CPD-IRBD Database, 2005.

Vehicles and land tax collection showed 3.6 per cent and 15.1 per cent growth respectively during FY2005, while these components registered 11 per cent and 5.0 per cent growth during the previous fiscal year. Narcotics and liquor tax collection performed poorly with zero growth in FY2005 in comparison to 6.7 per cent growth of the previous fiscal. Taxes on stamps crossed previous year's realised figure by 19.3 per cent.

Non-Tax Revenue

The collection of non-tax revenue performed much better compared to the previous fiscal year. As against the annual target of Tk 7660 crore, actual revenue

Figure 3.5: Collection of Non-Tax Revenue in FY2002-05



Source: CPD-IRBD Database, 2005.

earnings from non-tax sources stood at Tk 7574 crore during FY2005, accounting for 16.86 per cent growth over the previous year (FY2004). This positive growth is much higher than the growth performance of FY2004, as it accounted for 6.4 per cent growth during the same period. In FY2005, 98.9 per cent of annual target has been realised, which was 91.3 per cent in FY2004.

Though there was positive growth in most of the duty areas, duties on T&T, which accounts for about 20 per cent of total non-tax revenue, showed negative growth of (-) 0.8 per cent. Duties on post office and railway showed impressive growth of 21.56 per cent. Duties on dividend and profit showed 6.0 per cent annual growth while revenue from other items (interest/fee/tolls, etc.) accounted for a substantial 26.7 per cent growth over the preceding year (FY2004).

CPD in its earlier reports has repeatedly mentioned that the share of direct tax in total revenue (14.6 per cent in FY2005) is inexcusably low and there is an urgent need for a shift in the composition of revenues away from import tax on goods and services towards direct taxes on income and profit. If the new revenue target for FY2006 is achieved, the incremental contribution of VAT would reduce to 32 per cent, while a marginal increase will occur in direct tax (17 per cent). Within the non-tax component, a larger slice is expected to come from defence receipt, as the government projects a 6.0 per cent incremental growth from this sector.

In the context of a declining trend in public investment and stagnated savings-investment scenario at the national level, a major challenge for Bangladesh's fiscal policy continues to be the strengthening of the effort to mobilise domestic resources to generate a larger share of resources for investment. Reforming the tax management system and providing the right incentives to stimulate domestic savings are essential to achieve this goal.

3.2 Public Expenditure

In a pro-poor and redistributive fiscal mechanism, the revenue earnings should grow at a faster rate than the total public expenditure. During the last five years (FY2001-05), average annual growth of revenue earnings has been higher (12.9 per cent) than that of public expenditure (8.2 per cent) more by default as ADP remained severely under-implemented. But in the terminal year (FY2005), for the first time in the recent past, the total revenue earnings grew by only 12.9 per cent as against 17.6 per cent growth in total public expenditure. For FY2006, the government has set the growth of public expenditure at 15.7 per cent, which is lower than the projected growth of revenue earnings (19.5 per cent). It is an open question whether this undesirable trend will revert or not with an approaching electoral deadline.

Within the public expenditure component, the development expenditure should grow at a faster pace than the revenue expenditure to ensure maximum utilisation of resources for building new capital asset base. However, during the FY2001-05 period, average annual growth of revenue expenditure was 12.6 per cent, while the average annual growth of development expenditure (ADP) was only 4.8 per cent. In FY2005, revenue expenditure registered a significant 21.7 per cent growth against a 10.9 per cent ADP growth. In this context, the government has set a new target for FY2006 projecting a faster growth in development expenditure than revenue expenditure.

Against the targeted share of public expenditure in GDP of 15.4 per cent, achievement at the end of the fiscal year was only 9.07 per cent in FY2005, keeping the ADP and non-ADP ratio at 36:64.

Overview of Sectoral Allocation

In terms of total expenditure (development and non-development), education and technology have retained last year's top position with an allocation of Tk 9686 crore which is 15 per cent of the total expenditure and 33 per cent higher than the revised budget of 2004-05. Public service, with a gigantic growth of 46.2 per cent and receiving the highest increment in expenditure (of Tk 2698 crore), stood at Tk 8535 crore (13.3 per cent of total expenditure). The major portion of this expenditure is accounted for by the 54.4 per cent growth or Tk 2149 crore increment in the non-development expenditure of Finance Division, which

Table 3.3: Sector-wise Distribution of Total Expenditure (Non-Development and Development)

Sectors	2005-06 (Proposed)		2004-05 (Revised)		Change in FY2006 over FY2005	
	Amount (crore Tk)	Share (per cent)	Amount (crore Tk)	Share (per cent)	In Crore Tk	Growth (per cent)
Education	9686	15.0	7285	13.1	2401.0	33.0
Public Service*	8535	13.3	5837	10.5	2698.0	46.2
Transport and Communication	6603	10.3	6788	12.2	-185.0	-2.7
LGRD	6383	9.9	5675	10.2	708.0	12.5
Agriculture	4729	7.3	4491	8.1	238.0	5.3
Defence Services	4320	6.7	4115	7.4	205.0	5.0
Fuel and Energy	4293	6.7	4273	7.7	20.0	0.5
Health	4240	6.6	3175	5.7	1065.0	33.5
Public Order and Safety**	3251	5.0	3026	5.4	225.0	7.4
Social Security and Welfare***	3124	4.9	2601	4.7	523.0	20.1
Total Expenditure of the above 10	55164	85.7	47266	85.0	7898.0	16.7
Total Expenditure	64383	100.0	55632	100.0	8751.0	15.7

Notes: * *includes Office of the President, Parliament, Prime Minister's Office, Finance Division, IRD, Planning Division, etc.*
** *includes Ministry of Home Affairs, Ministry of Law, Justice and Parliamentary Affairs, Supreme Court, Anti Corruption Commission.*
*** *includes Ministry of Social Welfare, Ministry of Food and Disaster Management, Ministry of Women and Children Affairs.*

includes allocation for civil pension, parts of subsidy, unexpected expenditure and block allocation for new recruitment.

Among others, LGRD, social security and welfare and health have posted significant growths of 12.5 per cent, 20.1 per cent and 33.5 per cent respectively. However, transport and communication has received Tk 6603 crore in the proposed budget, which is 2.7 per cent lower compared to the revised budget of FY2005.

Defence

Sectoral share of defence in total allocation declined from 7.4 per cent in FY2005 to 6.7 per cent in FY2006, though it has experienced a moderate growth of 5.0 per cent, thanks to an incremental allocation of 205 crore taka. However, lack of information and transparency in other defence-oriented allocations under the Defence Ministry inhibits proper analysis of defence spending in Bangladesh.

Revenue Expenditure

The targeted amount of revenue expenditure for FY2005 was Tk 30,518 crore, which has since been revised at Tk 33,323 crore. While the revised revenue expenditure for FY2005 is only 9.2 per cent higher than its target, it is, however, 17.4 per cent higher than the revised figure of FY2004. Actual revenue expenditure of FY2005, however, stood at Tk 33437 crore at the end, registering a 21.67 per cent growth over the matching figure of FY2004.

Table 3.4: Economic Analysis of Revenue Expenditure: FY2005

(Tk in crore)

Sectors	Revenue Expenditure		Annual Growth (%)	Sectoral Share (%)	
	FY2005	FY2004		FY2005	FY2004
Pay and Allowances	8459.3	7661.6	10.4	25.3	27.9
Pay of Officers	887.9	759.2	17.0	2.7	2.8
Goods and Services	5555.7	4569.1	21.6	16.6	16.6
Repairs, Maintenance, Rehabilitation	2272	1529.1	48.6	6.8	5.6
Interest Payments	6853	5769.7	18.8	20.5	21.0
Domestic	5432.1	4629.2	17.3	16.2	16.8
Foreign	1420.9	1140.5	24.6	4.2	4.2
Subsidies and Current Transfers	10288.5	8050	27.8	30.8	29.3
Block Allocation	585.1	185.3	215.8	1.7	0.7
Net Total	33437	27481.4	21.7	100.0	100.0

Source: CPD-IRBD Database, 2005.

Economic analysis of the composition of revenue expenditure indicates that the three heads, accounting for about 80 per cent of the total revenue expenditure, posted a 19.0 per cent growth in FY2005 over the previous year. The share of these three heads decreased marginally from 78.1 per cent in FY2004 to 76.6 per cent in FY2005.

Within these three heads, "Pay and Allowances" registered a 10.4 per cent annual growth in FY2005, of which "Pay of officers" increased by 17.0 per cent. According to the target for FY2006, salary and allowances and other benefits would increase by 12.7 per cent over the augmented figures of FY2005, largely due to the increase in government salary. Thus, the "pay of officers" is projected to increase by 27.7 per cent in FY2006. "Subsidies and transfers" registered a 27.8 per cent growth in FY2005, while "interest payments" accounted for an 18.8 per cent growth during this period. Though Interest Payment (domestic) accounts for more than 79.3 per cent share in the total amount, Interest Payment (foreign) during FY2005 recorded a 24.6 per cent growth, against a 17.3 per cent growth on account of domestic Interest Payment.

Among others, "Repairs, Maintenance and Rehabilitation" registered a high growth of 48.6 per cent in FY2005, largely because of the 2004 flood.

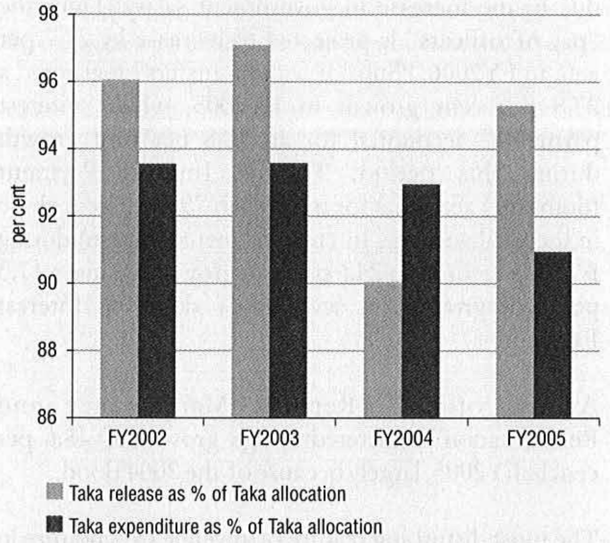
The most disturbing feature of revenue expenditure in FY2005 has been the high growth of "Block Allocation". In FY2005, block allocation grew substantially by 215.8 per cent over the corresponding figure for FY2004. However, the government for FY2006 has put a total amount of Tk 2549.5 crore as block allocation in the revenue budget, which is 218.8 per cent higher than the revised block allocation for FY2005. The legitimate query is, why would one need so much block allocation in revenue expenditure when the pay and allowance issue is settled?

Admittedly, it is not possible to distinguish the development and non-development allocations of the budget from the existing reporting system of the budget, since several development-related expenditures (e.g. allocations for safety net programmes) are also included in the revenue budget.

Annual Development Programme (ADP)

The size of the ADP for FY2005 was fixed at Tk 22,000 crore, which was revised to Tk 20500 crore. This figure is 7.9 per cent higher than the revised ADP of FY2004 and 21.4 per cent higher than the actual (implemented) ADP of FY2004. During FY2004 only 83 per cent of the original size of the ADP, i.e. 89 per cent of the revised size was implemented. During FY2005, 85.1 per cent of the original ADP has been implemented, which is 91.3 per cent of the revised ADP.

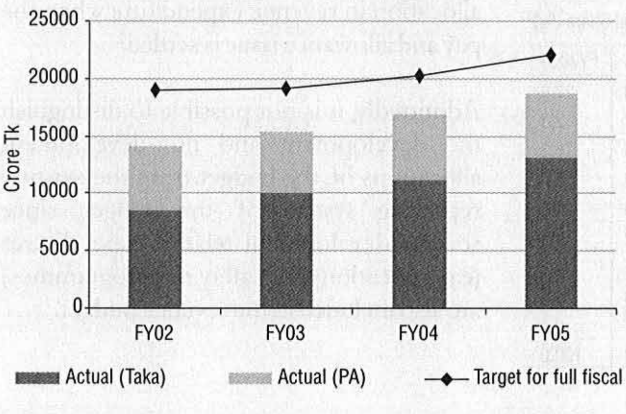
Figure 3.6: Taka Release and Expenditure of ADP during FY2002-05



Source: CPD-IRBD Database, 2005.

Of the total Tk 18726 crore that has been utilised in FY2005, Tk 13166 crore (70.3 per cent) was funded from internal resources and Tk 5560 crore (29.7 per cent) was underwritten by project aid.

Figure 3.7: ADP Target and Actual Implementation During FY2002-05



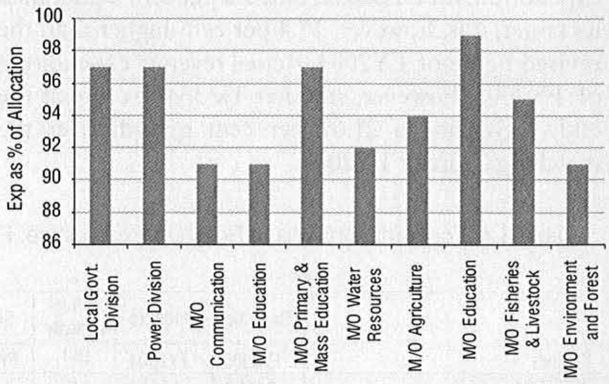
Source: CPD-IRBD Database, 2005.

While the performance of ADP implementation during the current fiscal year remains comparable with the experience of previous years, it also suggests that the much anticipated "big push" necessary to achieve the aggregate target in general and to augment the domestic demand in post-flood situation was not forthcoming.

It should be noted here that the implementation of ADP as percentage of Taka release has plummeted significantly from 103 per cent in FY2004 to 95 per cent in FY2005. To be precise, during the FY2002-04 period, on an average, 99.01 per cent of the total released Taka was spent, while only 95.45 per cent has been spent in FY2005.

A closer look at the ADP implementation reveals that among the ministries/divisions, which received the highest allocation in the target ADP, Ministry of Health & Family Welfare implemented the lowest level of spending utilising only 87 per cent of its allocation during FY2005. Among others, Ministry of Post & Telecommunication and Energy & Mineral Resources Division implemented only 89 per cent and 88 per cent of their respective allocations. Local Government Division, Power Division and Ministry of Primary & Mass Education were the top performers, spending 97 per cent of the respective allocations.

Figure 3.8: Performance of Top 10 Ministries (in terms of allocation) in FY2005



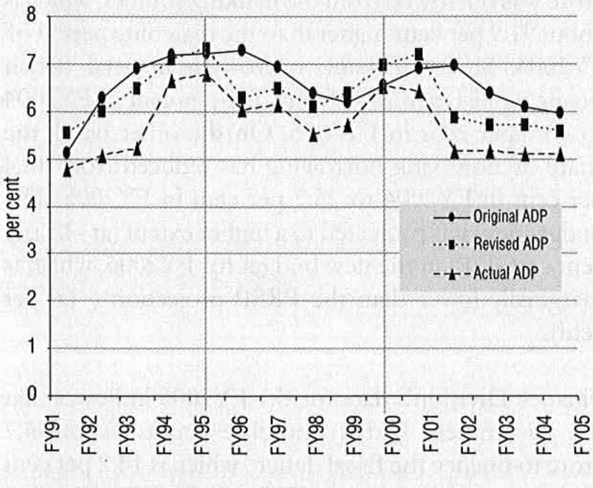
Source: CPD-IRBD Database, 2005.

Other sectors performed only moderately during this period: Ministry of Water Resources 92 per cent, Ministry of Agriculture 94 per cent, Ministry of Communication 91 per cent and Ministry of Education 91 per cent. One interesting point to be noted here is that the Local Government Division secured top position both in terms of ADP allocation and implementation, which is interesting in view of the fact that the government is approaching a national election.

Though it may appear that the present government has sequentially increased the size of ADP, in real terms, the ADP is nearly equivalent to or sometimes even lower than that of the earlier years. For example, in dollar terms, the actual ADP during FY2004 (i.e. $ 2880 million) was respectively (-) 9.1 per cent and (-) 7.2 per cent lower than the actual ADP of FY2000 ($ 3080 million) and FY2001 ($ 3010 million). The periodic averages of ADP (as percentage of GDP in terms of its original size) show marginal variations between the periods of FY1991-95, FY1996-2000 and FY2001-05 (6.5 per cent, 6.7 per cent and 6.5 per cent respectively). More importantly, the periodic average of actual ADP as percentage of GDP has dropped from 6.0 per cent during FY1996-00 to 5.4 per cent during FY2001-05 whereas the figure was 5.7 per cent during FY1991-95.

As shown in Figure 3.9, during FY1991 actual (implemented) ADP as per cent of GDP was 4.8 per cent, which increased to 6.8 per cent in FY2004. In FY1996, this ratio was 6.0 per cent, and after some fluctuations during FY1996-FY2000, it reached 6.5 per cent in FY2000. But actual (implemented) ADP as percentage

Figure 3.9: Original, Revised and Actual ADP as per cent of GDP (FY1991-FY2005)



Source: CPD-IRBD Database, 2005.

of GDP showed a significant negative trend during FY2001-05 period, while it decreased from 6.41 per cent in FY2001 to 4.73 per cent in FY2005. While ADP as percentage of GDP, in terms of its original and revised size, stood at 6.0 per cent and 5.3 per cent during FY2005 from 6.1 per cent and 5.7 per cent during FY2004, actual ADP cascaded marginally down to 5.08 per cent in FY2005 whereas the figure was 5.1 per cent in FY2004.

Table 3.5: Top Sectors in ADP Allocation During FY2005-06

Sectors	FY2005 Total	FY2005 per cent of ADP	FY2006 Total	FY2006 per cent of ADP	Annual Growth	Change in share
Education and Religion	3141.61	14.28	3297.70	13.46	4.97	-0.82
Power (Electricity)	3243.38	14.74	3120.00	12.73	-3.80	-2.01
Local Government	2333.83	10.61	2996.35	12.23	28.39	1.62
Transport	3189.79	14.50	2989.00	12.20	-6.29	-2.30
Health, Popu. & Family Welfare	2156.26	9.80	2268.7	9.26	5.21	-0.54
Total	22000.00	100.00	24500.00	100.00	11.36	

Source: CPD-IRBD Database, 2005.

The government has set the new ADP target for FY2006 at Tk 24,500 crore, which is respectively 11.4 per cent and 19.5 per cent higher than the original and revised ADP of FY2005. CPD in its post-budget reflection pointed out that this so-called ambitious ADP target needs to be seen from the perspective that Bangladesh remains an under-invested economy, and as such, a large ADP target is worth chasing for. Thus, implementation of a fuller ADP became a major challenge compared to targeting a bigger ADP. The second aspect, which needs to be underscored in this respect, is that the issue of quality is no less important than the size of the ADP.

According to the new ADP, education and religion followed by power (electricity) and local government got the most allocation for FY2006. Within the top gainers in ADP of FY2006, local government witnessed the highest increase (28.4 per cent) in allocation compared to the previous years. While other major sectors lost their respective sectoral share in ADP of FY2006, sectoral share of local government increased by 1.6 per cent.

Similar to the revenue expenditure, the share of "Block Allocation" increased substantially in the new ADP. An amount of Tk 4838 crore has been allocated as Block

Allocation (including sectoral allocation), which is more than four times (410.9 per cent) higher than the revised ADP for FY2004 and Tk 2041.1 crore (73 per cent) higher than the original ADP of FY2005. The government is aiming to finance 52 per cent of total ADP of FY2006 from domestic resources. In the context of low revenue earnings following the flood of 2004, this share was 49.1 per cent in the revised ADP of FY2005.

Table 3.6: Budget Deficit: MTMF Vs Budget

As per cent of GDP	FY2005			FY2006			
	MTMF	Actual	Change	MTMF	Target	Change	FY2007
Domestic Borrowing	1.90 (40.43)	2.06 (46.19)	0.16	1.90 (41.30)	2.00 (44.74)	0.10	1.90 (42.22)
External Loans and Grants	2.80 (59.57)	2.40 (53.81)	-0.40	2.70 (58.70)	2.47 (55.26)	-0.23	2.60 (57.78)
Overall Balance	-4.70 (100.00)	-4.46 (100.00)	0.24	-4.60 (100.00)	-4.47 (100.00)	0.13	-4.50 (100.00)

Note: Figures in the parentheses indicate share of each items in total fiscal financing.
Source: Estimated from CPD Database.

A number of 29 new projects have been included in the new ADP, of which 5 are investment projects, 11 are technical assistance (TA) projects and 13 are Japanese projects. Another 124 unapproved projects have been included in the ADP. As 189 projects were completed during FY2005, with the new projects in FY2006, the total number of projects now stood at 838.

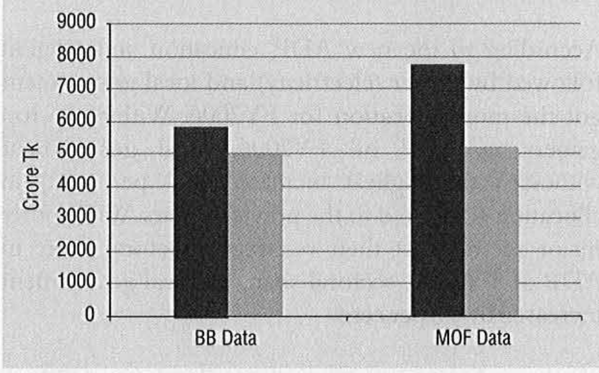
Budget Deficit and Financing

Systematic fall in actual budget deficit[6], as percentage of GDP, during the previous years from (-) 5.16 per cent in FY2002 to (-) 4.78 per cent in FY2004, continued as it stood at (-) 3.9 per cent in FY2005, which is lower than the PRSP target of (-) 4.7 per cent of the GDP. Lower implementation of ADP also saved the economy from a higher deficit. Thus, lower deficit is not always a sign of strength, but sometimes a sign of weak implementation of public investment programme as well.

Box 3.1: Mismatch in Deficit Financing Data: Finance Division Vs Bangladesh Bank

There is a significant inconsistency in terms of fiscal deficit accounting between the two government institutions - Finance Division and Bangladesh Bank. While Finance Division reports that in FY2005, the domestic and foreign financing ratio of budget deficit has been 60:40, according to Bangladesh Bank the ratio is 54:46.

Mismatch of Deficit Financing Figures: Finance Div Vs Bangladesh Bank



Despite the shortfall in revenue collection, domestic financing contributed to 59.9 per cent of total deficit financing in FY2005, while the share was 60.7 per cent in FY2004. The share of foreign financing increased from 39.3 per cent in FY2004 to 40.1 per cent in FY2005.

Within the domestic resources portion the major source was net borrowing through non-bank instruments that accounted for Tk 3329.7 crore, which is, however, (-) 27.2 per cent less than the corresponding figure of FY2004. Another Tk 4363.7 crore was borrowed from the banking sources, which is about 91.9 per cent higher than the matching period of FY2004. Share of bank borrowing in total deficit financing has increased from 20.1 per cent in FY2004 to 33.7 per cent in FY2005. On the other hand, the share of non-bank borrowing has reduced from 40.4 per cent in FY2004 to 25.7 per cent in FY2005. The budget deficit is projected to a higher extent (at -4.5 per cent of GDP) in the new budget for FY2006, which is marginally lower than the PRSP projection (-4.6 per cent).

Finance Division's data for the FY2005 indicates that the government had to mobilise about Tk 12944.7 crore to finance the fiscal deficit, which is 14.2 per cent higher than the comparable figure for the preceding year. During this period, an amount of Tk 1773.2 crore

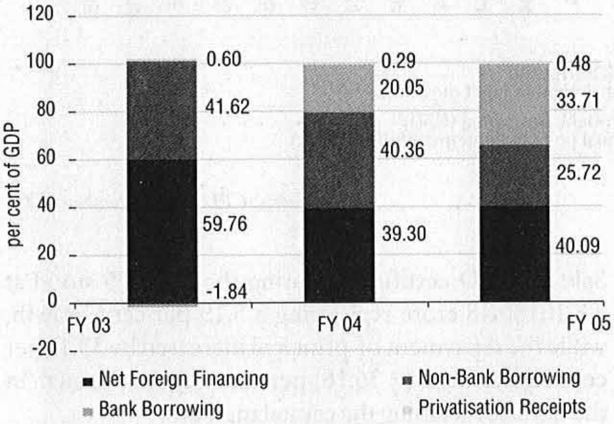
[6] Budget deficit reported in the budget announcement is revised, not actual. Since there is a lag between actual expenditure and budget proclamation, actual budget deficit often remains unpublicised.

Table 3.7: Sources of Financing

	Budget			Actual			Growth
	FY2003	FY2004	FY2005	FY2003	FY2004	FY2005	FY2005-04
1. Net Foreign Financing	6173.10	9309.30	8849.10	6340.30	4455.50	5188.90	16.46
Grant	3041.30	2596.30	1889.00	3309.20	1549.50	1773.20	14.44
Loan	6139.20	9805.50	9441.00	5664.00	5424.50	6141.00	13.21
Amortisation	3007.40	3092.50	2480.90	2632.90	2518.40	2725.30	8.22
2. Domestic Financing	5913.10	6500.00	7099.00	4284.10	6881.90	7755.80	12.70
Non-Bank Borrowing	4038.50	3460.00	4500.00	4415.50	4575.30	3329.70	27.22
Bank Borrowing	1358.00	3040.00	2599.00	-195.10	2273.70	4363.70	91.92
Privatisation Receipts	516.60	0.00	0.00	63.70	32.90	62.30	89.36
3. Total Financing (1+2)	12086.20	15809.30	15948.10	10609.40	11337.50	12944.70	14.18

Source: CPD-IRBD Database, 2005.

Figure 3.10: Decomposition of Deficit Financing During FY2003-05



Source: CPD-IRBD Database, 2005.

(i.e. 13.7 per cent of total deficit) came as foreign grants while another Tk 6141.0 crore (i.e. 13.2 per cent of total deficit) came as foreign loan. After amortisation of Tk 2725.3 crore, a net amount of Tk 5188.9 crore was used to fill 40.1 per cent of the total budget deficit. Thus, within the foreign financing component, foreign grants contributed 34.2 per cent while net foreign loan (after amortisation) added 65.8 per cent to the total foreign financing.

Within the domestic resources part the main source was borrowing through banking instruments that accounted for Tk 4363.7 crore, which is 91.9 per cent higher than the corresponding figure of the previous year. Another Tk 3329.7 crore was borrowed from the non-bank source, which is, however, (-) 27.2 per cent lower than the matched period of FY2004. The remaining Tk 62.3 crore was received from the privatisation process. Share of bank borrowing in total deficit financing has increased from 20.1 per cent in FY2004 to 33.7 per cent in FY2005. On the other hand, share of non-bank borrowing has dropped from 40.4 per cent in FY2004 to 25.7 per cent in FY2005. Bank and non-bank sources account for 56.3 per cent and 42.9 per cent of total domestic financing respectively in FY2005, which were 33 per cent and 66.5 per cent respectively in FY2004.

From the above discussion, it becomes amply clear that during FY2005 the government has used both its foreign sources (mainly loan) and domestic banking sources as major sources of deficit financing. According to traditional theory of government debt, "budget deficit leads to lower national saving, lower investment, and trade deficit. In the long run, it leads to a smaller steady-state capital stock and larger foreign debt" (Mankiw, 2000). It is worth mentioning that trade deficit-GDP ratio has increased from 4.1 per cent in FY2004 to 5.5 per cent in FY2005. This trend in trade balance may further distort the fiscal balance.

4. DEVELOPMENTS IN THE MONETARY SECTOR

4.1 Domestic Credit Expansion

According to money supply (M3) data, total domestic credit during the FY2005 registered a substantial 16.19 per cent growth over its matching figure for FY2004. This is significantly high when compared with the average credit growth of 14.67 per cent during the FY2001-04 period. The growth rate was even lower during the FY2004, at 14.94 per cent.

Outstanding domestic credit in FY2005 stood at Tk 189032.2 crore, of which Tk 115771.4 crore was in the private sector and the remaining Tk 73260.8 crore was in the public sector. The share of the private sector (61.24 per cent) was slightly higher when compared with the average share of 59.37 per cent as was observed during the past five years (FY2000-FY2004).

Government Borrowing and Public Debt

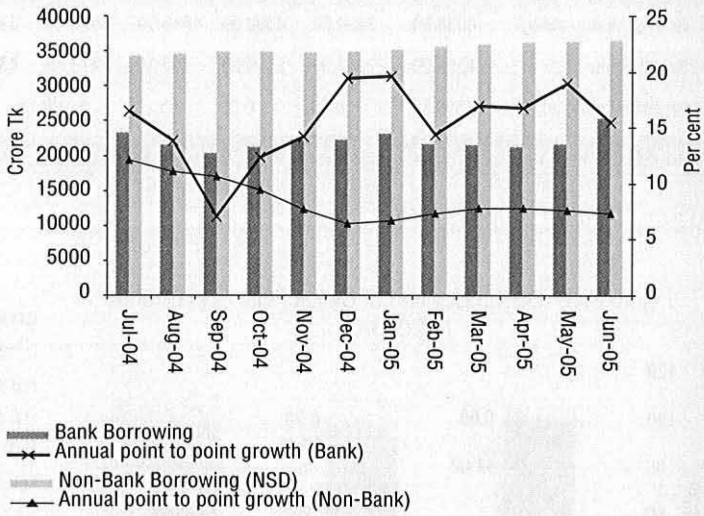
During FY2005, government borrowing experienced a major shift as regards its source by way of making a shift from non-bank to banking sources. This process has been underpinned by a drastic fall in the net sales of National Savings Deposits (NSDs). Share of bank borrowing in total outstanding public debt increased from 39.53 per cent in FY2004 to 41.20 per cent in FY2005. Outstanding public borrowing in FY2005 stood at Tk 62135.9 crore, registering a 12.10 per cent growth rate over the previous fiscal year. While borrowing from banking sources increased by 16.84 per cent, borrowing through non-bank instruments also rose by 7.39 per cent.

Outstanding public debt (domestic) as per cent of GDP remained stable in FY2005 as it crept up to 16.86 per cent from 16.65 per cent at the end of FY2004. While borrowing from non-bank sources as per cent of GDP reduced from 10.22 per cent to 9.91 per cent, borrowing from banks as per cent of GDP increased from 6.58 per cent to 6.95 per cent between FY2004 and FY2005. In other words, two-thirds of the domestic public debt is attributable to non-bank sector, while the remaining to the banking system.

Hence, in FY2005, the government borrowing was financed mainly by the banking sector. The second quarter experienced the highest growth of 20.97 per cent for government bank borrowing. It was observed that in the third quarter (January- March) the government repaid the bank borrowing and borrowed mainly through NSD instrument. However, the overall growth of government borrowing was low. But during the last quarter (April-June) the growth from bank and non-bank sources were as high as 18.80 per cent and 16.07 per cent respectively.

One may explain this upward trend in domestic credit expansion by the government's expansionary approach following the floods of July-August 2004. Curiously enough, high growth of credit was also noticed before the flood in the government sector, as it increased its share in total domestic credit from 15.28 per cent in May 2004 to 18.32 per cent in July 2004, squeezing out the share of private sector from 77.8 per cent to 74.6 per cent between the same periods. However, soon after the flood during July-August period, the government restrained its borrowing to give more room to the private sector.

Figure 4.1: Public Debt (domestic) in FY2005: Changes in Outstanding Stock



Source: CPD-IRBD Database, 2005.

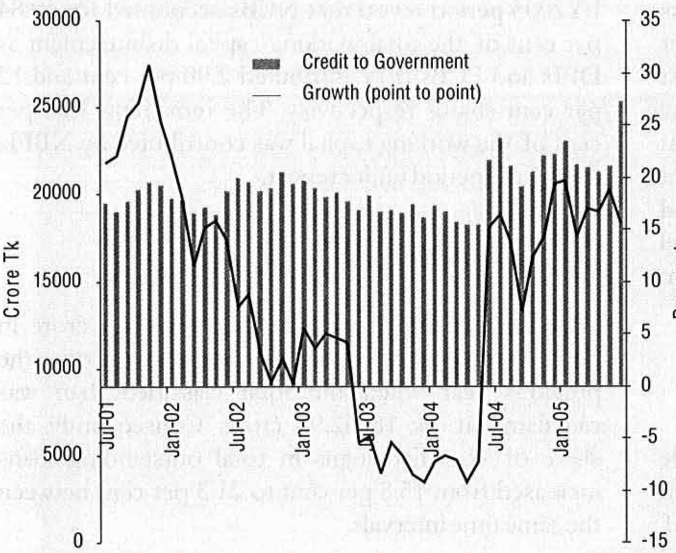
Sale of NSD certificates during the FY2005 stood at Tk 10180.48 crore registering a 5.19 per cent growth, while the repayment of principal increased by 33.18 per cent registering a (-) 36.18) per cent negative growth in the net sale including the capital market.

This decline in the sale of savings certificates is a response to the government's decision of lowering the interest rate of NSD certificates to minimise the cost of borrowing and encouraging people to invest in the economy. The recent upward movements in the capital market can also be correlated with the declining trend of NSD sale. Though the second aim of the government for lowering the interest rate, i.e. to encourage private investment, was somewhat achieved, it however backfired with a sharp nosedive in NSD sale, putting the government at a risk of financial inadequacy in the face of budget deficit.

In that case, the government will have to increase its borrowing from the banking sector, which will then create a negative impact on the private sector investment by squeezing the private sector's share of borrowing from the bank.

In the context of this dilemma, the government has taken some decisions to increase the sale of NSD certificates with the same lowered interest rate. The government has increased the limit of investment in NSD certificates, for single owner from Tk 20 lakh to Tk 25 lakh, and in dual name, from Tk 40 lakh to Tk 50 lakh, which is equally applicable for re-investment. Besides, one can also reinvest his/her interest along with the principal amount. The commission of banks and post-offices has also been changed from the fixed rate of Tk 20 for each transaction to "5.0 per cent for each transaction" to encourage their sales efforts.

Figure 4.2: Monthly Trend in Credit to Government (in M2)



Source: CPD-IRBD Database, 2005.

One of the distinguishing features of the fiscal year was the high increase in "other public sector" credit, which experienced a galloping 24.90 per cent growth. This high growth was observed in the backdrop of the recent hike in global oil price. Bangladesh Petroleum Corporation (BPC) had to borrow heavily to finance the high import payments for POL products.

Private Sector Credit

The private sector credit experienced a stable growth of 18.3 per cent during the FY2005. The outstanding amount of total domestic credit to private sector stood at Tk 115771.4 crore, 93.5 per cent of which came from banking sources, while the remaining 6.5 percent came from non-bank depository corporations (NBDC).

It may be noted here that the correlation of credit growths between public and private sectors often appears to be negative. When government borrows excessively from the banking sector, it usually squeezes banks' private sector lending capacity. However, excess liquidity in the banks provides enough room for government sector borrowing to expand without crowding out the share of the private sector. As observed during FY2005, credit to the private sector increased in terms of absolute volume but private sector share declines slightly as a result of high growth of public sector borrowing.

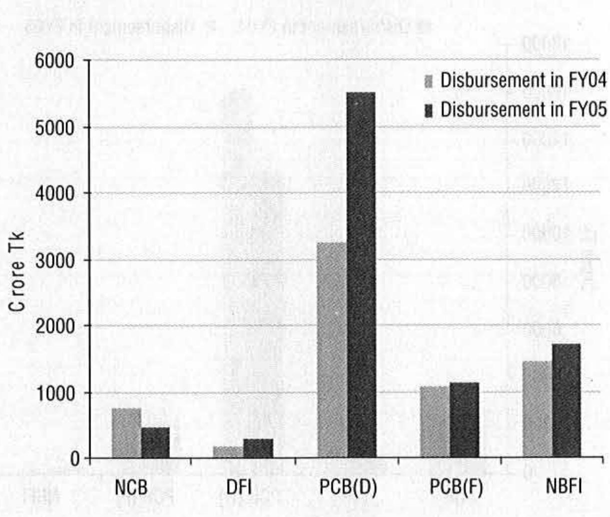
4.2 Industrial Credit

Term Loan

During FY2005, as against the sanction of Tk 10789.45 crore, an amount of Tk 8700.0 crore was disbursed as term loan, registering a 30.2 per cent growth over the previous year. The high growth in import of capital machineries and industrial raw materials (discussed afterwards) can be linked with this high rate of credit disbursement.

In the backdrop of the slowdown in growth of industrial term loans in the previous years (since FY2001), the disbursement record for FY2004 was quite impressive at Tk 6675.91 crore, i.e. a 68.5 per cent growth. Following a recovery of Tk 4963.44 crore in FY2004, the net flow to the sector was Tk 1712.55 crore, which compares favourably with the outflow of Tk 126.87 crore during the comparable period in FY2003.

Figure 4.3: Disbursement of Term Loan in FY2004-05



Source: CPD-IRBD Database, 2005.

However, net disbursement during FY2005 was (-) 90.80 per cent less than the equivalent figure of the previous year. Thus, the net flow of term loan stood at Tk 157.54 crore, which was Tk 1712.55 crore during FY2004.

One interesting feature to be noticed here is that loan disbursement by NCBs during this period declined by (-) 40.16 per cent, though the loan sanctioned was 12.55 per cent higher than that of FY2004. However, such low disbursement does not mean that there is a decline in consumer demand; rather this decline in loan disbursement is by government decision as a part of the NCB reforms.

Loan disbursement from private commercial banks (PCBs) (domestic) shows a growth rate of 69.66 per cent, which has also emerged decisively as the largest contributor (little above 60 per cent) to total industrial loan disbursement. NCBs accounted for 4.95 per cent of the total term loan disbursement while development finance institutions (DFIs) and PCBs (F) contributed 3.32 per cent and 12.53 per cent to the total respectively. The remaining 18.92 per cent of the term loan was contributed by NBFIs during the FY2005.

Working Capital

The flow of working capital also showed a mentionable increase during the FY2005, both in terms of sanction and disbursement. During this period, an amount of Tk 22070.0 crore was disbursed against the sanctioned amount of Tk 18917.39 crore for the same period. During this time, the sanctioned amount increased by 18.72 per cent, while the disbursement grew by 26.1 per cent over the corresponding figure of the previous fiscal year.

As in the case of the term loan, PCBs (D) registered an expansionary 26.58 per cent growth rate. It can be noted that PCBs (D) has the highest 73.03 per cent share in total disbursement of working capital. While the disbursement of DFIs decreased by (-) 25.70 per cent, and NCBs registered a negative (-) 11.57 per cent growth during the FY2005 over the corresponding figure of the preceding fiscal year.

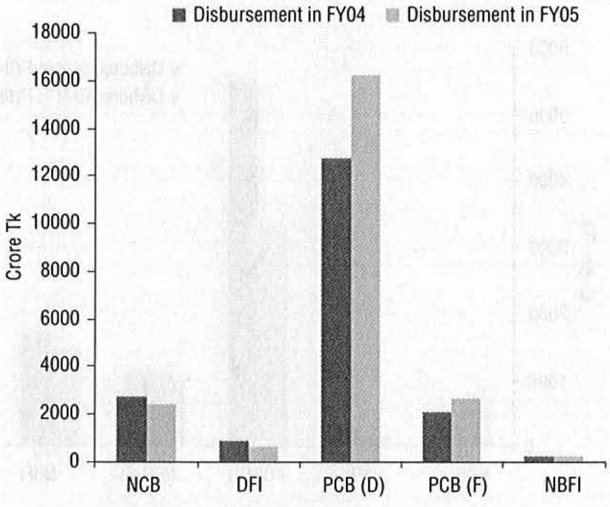
Relative contributions of working capital during the FY2005 period reveal that NCBs accounted for 10.84 per cent of the total working capital disbursement as DFIs and PCBs (F) contributed 2.90 per cent and 12 per cent shares respectively. The remaining 1.24 per cent of the working capital was contributed by NBFIs during the period under report.

Loan Default Scenario

Total classified loan stood at Tk 21082.80 crore in FY2005, registering a 14.7 per cent growth over the previous year when the total classified loan was calculated at Tk 18442.94 crore. Consequently, the share of classified loans in total outstanding loans increased from 15.8 per cent to 21.3 per cent between the same time intervals.

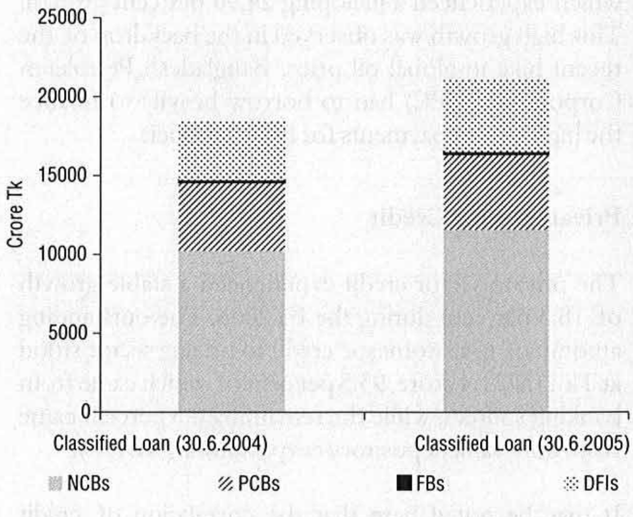
Only foreign banks (FBs) made significant progress

Figure 4.4: Disbursement of Working Capital in FY2004-05



Source: CPD-IRBD Database, 2005.

Figure 4.5: Classified Loan by Banks



Source: CPD-IRBD Database, 2005.

during the FY2005 in reducing the total classified loan. FBs recorded a negative growth rate of (-) 16.99 per cent over FY2005. NCBs, PCBs, and DFIs recorded growth rates of 13.21 per cent, 10.58 per cent and 22.71 per cent respectively over the preceding year (FY2004).

4.3 Reserve Money and Liquidity Position

The increasing trend of reserve money continued in FY2005. During FY2004, reserve money stood at Tk 1943.3 crore, registering a substantial increase of 8.0 per cent against that of FY2003 (Tk 779.5 crore or 3.3 per cent during FY2003). In FY2005, the figure for reserve money growth was even larger at 12.53 per cent and total reserve money stood at Tk 3290.6 crore. This significant change mainly occurred due to claims on Government (net) of Tk 3826.7 crore. Claims on private sector also experienced a high rise this year. However, net foreign assets along with claims on Government (net) played the key role in this regard. Reserve money multiplier increased from 4.94 per cent at the end of June 2004 to 5.13 per cent at the end of June 2005.

Total liquid assets of Scheduled Banks stood higher at Tk 30570.97 crore at the end of June 2005 compared to Tk 28689.64 crore in end-June 2004. Excess liquidity of Scheduled Banks, however, stood lower at Tk 10941.61 crore at the end of June 2005 compared to Tk 11754.04 crore at the end of June 2004.

4.4 Agricultural Credit

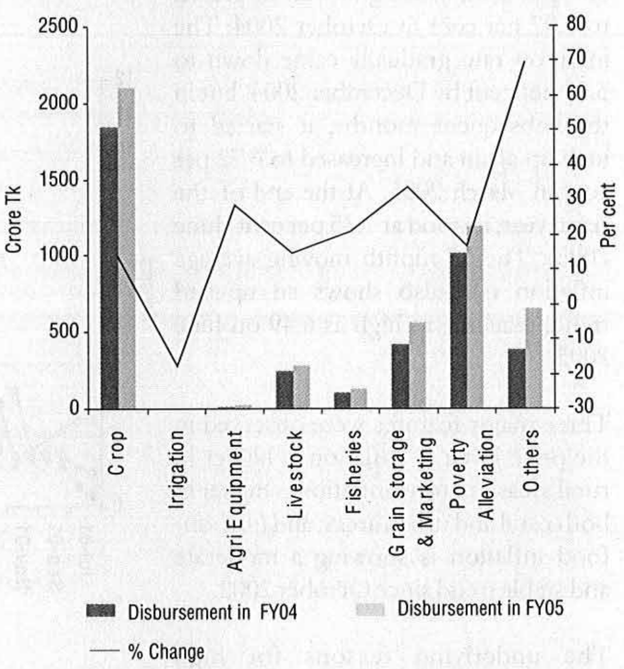
It was expected that the post-flood rehabilitation programmes of the government will be reflected by an increase in the agricultural credit. However, agricultural credit expansion during the FY2005 presents a mixed scenario. Though disbursement has increased, the target has not been achieved.

Credit disbursement to the agriculture sector stood at Tk 4956.78 crore in FY2005, which is 22.5 per cent higher than the disbursement of the previous year. However, this extraordinarily high growth rate can be explained mostly in terms of the expansionary approach of the government in the post-flood months by its lower benchmark during the previous year.

While in the FY2004 only Tk 913.09 crore was disbursed for the rural economy, total net flow in the FY2005 stood at Tk 1785.63 crore, almost double compared to the previous year.

However, it can be mentioned here that the disbursement during this period is 89.51 per cent of the total fiscal target. A higher target achievement was desirable during this period because of the Boro production.

Figure 4.6: Agricultural Credit Expansion by Sector



Source: CPD-IRBD Database, 2005.

Crop loan followed by "Poverty Alleviation" received the highest amount of credit, while "Grain Storage & Marketing" registered the highest sectoral growth during the period under consideration. Interestingly, due to a low disbursement rate in FY2004 and a moderate recovery in FY2005, the overdue agricultural credit as percentage of outstanding loan was 41.18 per cent in FY2005. Overdue loan as per cent of outstanding loan declined at the same time by an impressive (-) 17.36 per cent rate.

It may be recalled here that the high growth of agricultural credit (11.03 per cent) during the flood year 1999 declined in the subsequent years, as lower disbursement (-5.56 per cent) and higher recovery (56.37 per cent) rates in FY2000 led to an outflow of Tk 1.45 billion from the rural economy. The economy might witness a similar trend during the next (FY2006) fiscal year.

4.5 Inflation

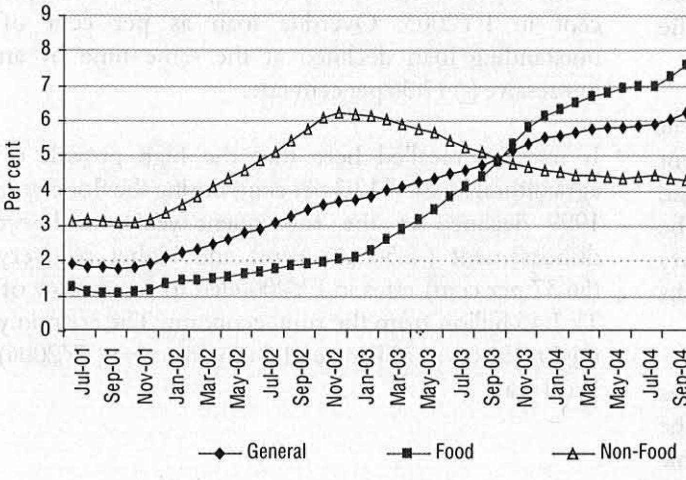
Consumer Price Inflation

The rising trend in inflation has been a major concern in FY2005. The national overall inflation on point-to-point basis at the beginning of FY2005 (July 2004) was 5.65 per cent, which gradually increased to 7.92 per cent in October 2004. The inflation rate gradually came down to 5.50 per cent by December 2004, but in the subsequent months, it started to inch up again and increased to 6.72 per cent in March 2005. At the end of the fiscal year, it stood at 7.35 per cent (June 2005). The 12-month moving average inflation rate also shows an upward trend, reaching as high as 6.49 on June 2005.

Three major features were observed in the price level: (i) inflation is higher in rural areas; (ii) food inflation is higher in both rural and urban areas; and (iii) non-food inflation is showing a moderate and stable trend since October 2002.

The underlying reasons for high inflation in FY2005 are: (i) supply shortage due to flood in July-August 2004, and excessive rainfall and flash flood in September 2004; (ii) global price hike of food, oil, fertiliser and steel; (iii) increase in the price of public utilities such as gas and water; (iv) weakening of Taka against US dollar that made imports costly; and (v) expansionary monetary policy.

Figure 4.7: Inflation (Moving Average)

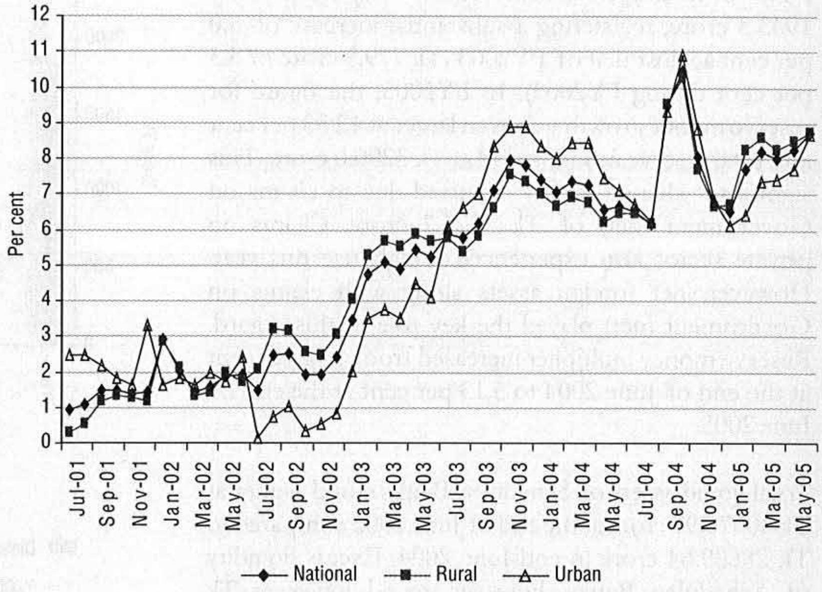


Source: CPD-IRBD Database, 2005.

Food Inflation

The 2004 flood appears to be the most influential factor in triggering the rise in food prices, although the upturn started back in January 2003. The food inflation in FY2004 was 6.64 per cent (on point-to-point basis), which then started to accelerate and in October 2004, it reached 10.46 per cent (on point-to-point basis), a record high since FY1999. After October 2004, food inflation gradually declined to 6.52 per cent in January 2005, and then steadily increased to 8.73 per cent in June 2005. Rising inflation will be one of the major challenges for the upcoming FY2006 and the government will need to keep a watchful eye on the inflation curve.

Figure 4.8: Food Inflation (Point to Point)



Source: CPD-IRBD Database, 2005.

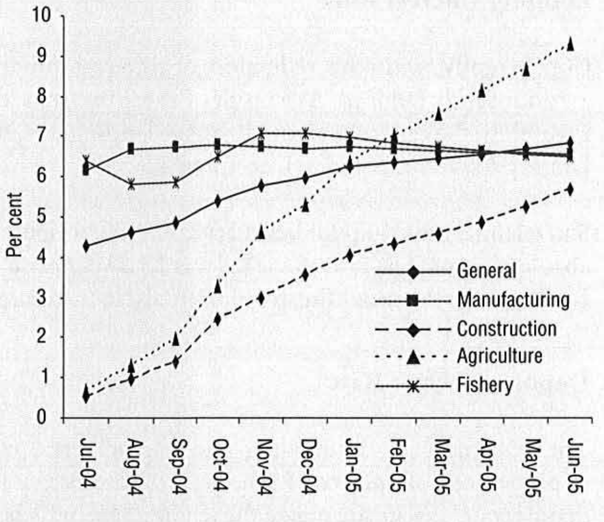
Wage Inflation

Latest available figure shows that the general wage index grew only by about 6.84 per cent in June 2005, as against 3.9 per cent growth in June 2004. Sectoral analysis shows that wage index of manufacturing and construction workers had grown only 6.55 per cent and 5.66 per cent in June 2005, as against 5.89 per cent and 0.18 per cent in 2004 respectively. The wage index of agricultural workers grew at 9.26 per cent, which was stagnant at zero per cent in June 2004. Meanwhile, the fishery sector marked a 6.51 per cent growth as against 6.07 per cent in June 2004.

Agricultural wage inflation has been rising since the beginning of this year. Considering the high CPI inflation and food inflation in rural areas, it seems that agricultural wage inflation has, to some extent, helped to keep the real income at a constant level.

The crucial point here was that CPI inflation was increasing at a higher rate compared to wage inflation. Thus, real income of average wage earners fell in FY2005.

Figure 4.9: Wage Inflation

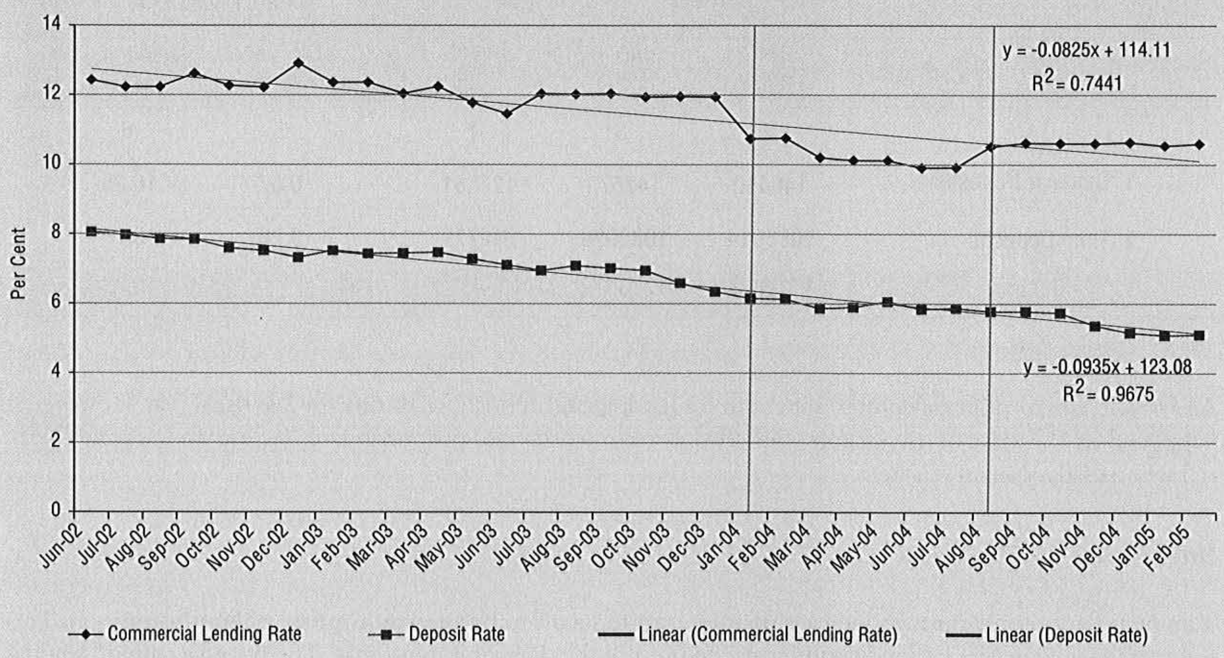


Source: CPD-IRBD Database, 2005.

Box 4.2: Interest Rate Cut: At Who's Cost?

Several financial sector reform programmes since the mid-1980s attempted to bring in competition in the financial market through interest rate deregulation. Most of those reforms failed to generate results as those ignored market structure. For creating more vibrant private sector participation, a liberal licensing policy was pursued by two governments since the 1990s. However, the interest rate rather rose as a result of wild chase after the depositors' money by newly formed private commercial banks. The fundamental bottleneck in operationalsing a market-based interest rate was high interest rate in government bonds. The government finally decided to slash interest rates on government bonds with effect from January 2004.

Trends in Commercial Interest Rate



Data Source: Economic Trends, Bangladesh Bank, Various Issues.

Lending Interest Rate

Concurrently, with the reduction of interest on the government bonds, the lending rate of NCBs also autonomously reduced. As a result of these two measures, the overall lending rate started to fall immediately [see Figure]. In the case of weighted average lending rate, the interest rate fell from 11.94 per cent to 10.74 per cent in January 2004, compared to December 2003.

Since January 2004 up till February 2005, the weighted average commercial lending rate fell by 1.44 per cent in absolute terms. The rate of the fall was 13.59 per cent. It should be noted that parallel pressure of the Bangladesh Bank and the Finance Minister himself also contributed to the reduction in interest rate.

Deposit Interest Rate

The reduction of the lending rate was achieved mainly through reduction of cost of fund, not through improvement of quality of lending. If we observe the trend of commercial deposit rate, the decline of the deposit rate was steady unlike the lending rate, which follows an erratic pattern, and the weighted average fall in deposit rate in absolute terms was 1.84 per cent (compared to the lending rate fall of 1.44 per cent). The rate of the fall was 36.01 per cent. The higher rate of decline in deposit interest rate shows that the entire exercise of interest rate liberalisation during the last 20 months (July 2003-February 2005) benefited the commercial banks more by having average premium from depositors of 0.4 per cent. Based on the total deposit for the period as Tk 2959.83 billion, the loss of depositors as interest income comes to about Tk 1183.93 billion annually. It is also to be noted that due to reduction of deposit interest rate, the growth of time deposit slowed down [see the following table]. The time deposit growth rate for demand deposit was 0.57 per cent below, on the other hand, for time deposit it was 0.28 per cent. For March 2004 and March 2005, the respective growth rates were 16.35 per cent and 15.19 per cent respectively.

Growth of Time and Demand Deposit, March 2004 and March 2005

Items	March 2005	February 2005	March 2004	Percentage Changes March 2005 Over February 2005	Percentage Changes March 2005 Over March 2004
1	2	3	4	5	6
1. Demand Deposits	148410	147573	127551	0.57	16.35
2. Time Deposits	1086014	1082999	942779	0.28	15.19
Total	1234424	1230572	1070330		15.33

Source: Bangladesh Bank.

As a whole, the commercial interest rate both for lending and deposit fell during the last fiscal year. However, it happened at the cost of depositors with two components: one, proportionate decline and second, extra reduction of deposit interest rate.

Interest rate and Inflation

Taming inflation only through increase of interest rate seems to be an inappropriate policy proposition. This policy will facilitate rise of lending interest rate but not the deposit interest rate. The positive gain of lending interest rate reduction will be lost because of such move. If one correlates the reduction of lending interest rate and growth of industrial credit, a positive relationship is to be found. In an environment of stagnant investment this trend became positive in the recent past. The predictability of investment environment will be destroyed. The automatic controller of interest rate as a leverage for controlling inflation is not workable in the fragmented financial system of Bangladesh. Lack of relationship between the bank rate (which is now 5.0 per cent) and the interest rate shows that the financial market is still fragmented. It is not that the government will be able to reduce interest rate immediately after inflation gets under control.

Alternatively, it was possible to increase the CRR and SLR, which could reduce the lendable money from the bank immediately and control the lending factor of inflation. After the normalisation of the inflation rate, the CRR could be reduced. Furthermore, reduction of deposit rate contributes more to the inflation pressure than the reduction of lending rate, through increase of consumption by the potential depositors. The reasons of recent inflationary pressure lie elsewhere, not in the financial market. Those factors should be addressed. However, some of these are out of the government's control like the rise in global fuel and food prices.

5. PERFORMANCE OF THE REAL SECTOR

5.1 Agricultural Production

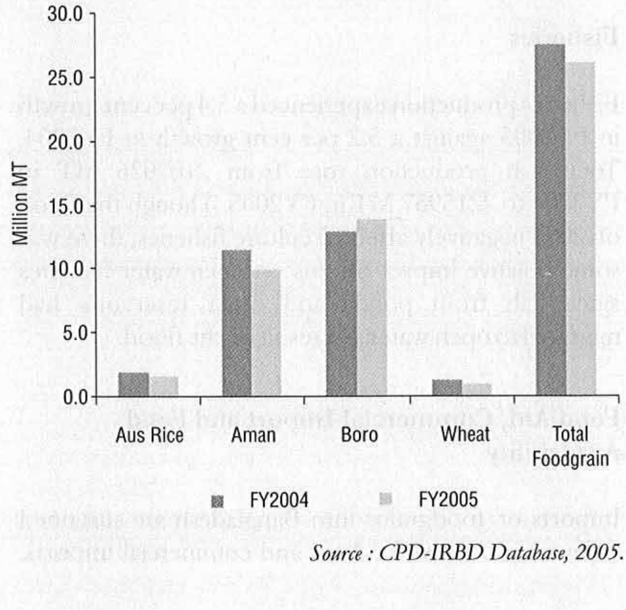
Foodgrains

Foodgrains sector in FY2004 recorded the highest production since the independence of Bangladesh. Total production of foodgrains (rice and wheat) was 27.44 million metric tonnes (MT), which was 2.80 per cent higher than that of FY2003. It may be mentioned here that wheat production has been gradually decreasing since 1999/00. Thus, it appears that increase in total foodgrain production in recent years is mainly due to the increase in rice production (mostly Boro).

The operational target for foodgrain production in FY2005 was set at 30 million MT, which is 9.32 per cent higher than the actual production in FY2004. According to the BBS, production of Aus rice has declined from 1.83 million tonnes in FY2004 to 1.50 million tonnes in FY2005 and Aman production has declined from 11.52 million tonnes in FY2004 to 9.82 million tonnes in FY2005. In other words, Aus and Aman rice production in FY2005 are respectively 18.1 per cent and 14.8 per cent lower than that of FY2004. Decrease in Aus and Aman output was mainly due to the damage by the July-August flood, which affected 46 districts, and excessive rain and flash flood in September, which affected 24 districts.

Farmers could offset this loss by producing more Boro rice (13.8 million MT), which recorded a 7.8 per cent growth in FY2005 over the preceding year's yield. Bumper production of Boro is the result of the following factors: (i) farmers' special effort to compensate for the losses occurred by 2004 flood; (ii) distribution of seed and balanced fertiliser, and modern seeds under post-flood agricultural rehabilitation programme of the government; (iii) good weather condition, particularly rain in March before the flowering stage of Boro plants. Wheat production on the other hand registered a negative (-) 22.1 per cent growth, declining from 1.25 million MT in FY2004 to 0.98 million MT in FY2005.

Figure 5.1: Production of Foodgrains in Bangladesh: FY 2004-05



Source : CPD-IRBD Database, 2005.

Total rice production in FY2005 was 25.2 million MT, i.e. 3.9 per cent less than that of FY2004 (26.2 million MT), and total foodgrain production in FY2005 was 26.1 million tonnes, i.e. 4.8 per cent less than that of FY2004.

Other Crops

During FY2005 farmers have taken extra effort to increase winter vegetable production after their experience of high prices of vegetables during August-October 2004. Extra effort of farmers led to an increased production and supply of vegetables since November 2004, which helped to reduce the price. However, farmers' success in increasing vegetables yield had been penalised through drastic fall in winter vegetable prices. In some areas, farmers were not able to sell their winter vegetables even at production cost.

Livestock

The Directorate of Livestock Services (DLS) projected that milk production in FY2005 is likely to be 2.03 million tonnes against 1.99 million tonnes in FY2004, while meat production in FY2005 would be 0.96 million tonnes against 0.91 million tonnes in FY2004. On the other hand, number of eggs produced in FY2005 is expected to be 5161 million against 4780 million in FY2004. In FY2005, growth in milk, meat and egg production is likely to be 2.01 per cent, 5.49 per cent and 7.97 per cent respectively. It may be noted that growth in milk, meat and egg production in FY2004 was 9.34 per cent, 9.64 per cent and 0.06 per cent respectively. Slow growth of these products in FY2005 owes largely to the flood of 2004.

Fisheries

Fisheries production experienced a 5.4 per cent growth in FY2005 against a 5.2 per cent growth in FY2004. Total fish production rose from 2102026 MT in FY2004 to 2215957 MT in FY2005. Though the flood of 2004 negatively affected culture fisheries, there was some positive impact of this on open water fisheries since fish from ponds and other reservoirs had migrated to open water as a result of the flood.

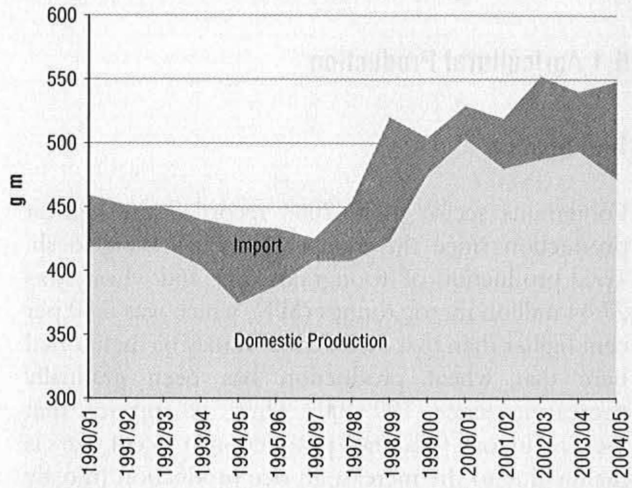
Food Aid, Commercial Import and Food Availability

Imports of foodgrains into Bangladesh are sustained from two sources: food aid and commercial imports. The latter comes both through government and private channels.

During FY2005, total rice import (public and private sector) was 1311,000 tonnes against an import of 801,000 tonnes during FY2004 (i.e. 63.7 per cent higher). On the other hand, wheat import (by public and private sector) in FY2005 was 2076,000 MT against 1998,000 MT in FY2004 (i.e. 3.9 per cent higher). Thus, total food grain import (3387,000 tonnes) in Bangladesh in FY2005 was 21.0 per cent higher than that of FY2004.

Per capita food availability in FY2005 was 536 gram (gm) per day against 552 gm in FY2003 and 540 gm in FY2004 (Figure 5.2).

Figure 5.2: Per Capita Daily Foodgrain Availability



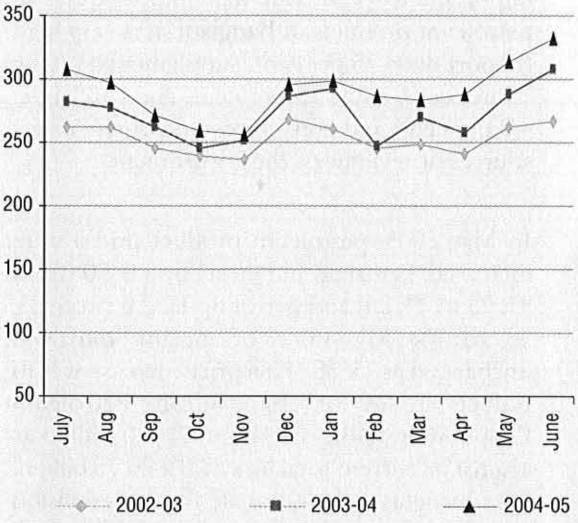
Source: Bangladesh Foodgrain Digest.

5.2 Industrial Production

The country observed an encouraging recovery in the industrial sector during the FY2005 after the devastating flood. Quantum Index of Production (QIP) of medium and large scale manufacturing industries showed a considerable improvement, QIP jumped to 290.8 in FY2005 against that of 272.1 in FY2004, which indicates a 6.9 per cent growth in industrial production in the current fiscal. However, weighted average growth of production (base year 1988-89) shows a growth of 4.7 per cent, which would jump up to 10.9 per cent if the base year is changed to 2000-01. This indicates that there is a need for substantive revision in the weight of industries if the estimates are to reflect the ground realities.

Starting with a very high level of production this year (QIP in July 2004 was 308.18); major manufacturing industries could not maintain it in the following months mainly because of the 2004 flood, QIP dipped to 256.5 in November 2004. After a quick recovery in December (QIP 294.8), production level again went down in the subsequent months. However, industrial production once again gained rhythm at the end of the year. With a substantial increase in the production level, QIP reached 332.51 in June 2005, accounting for a 48.79 point increase since April 2005.

Figure 5.3: Quantum Index of Industrial Production during FY2003-05

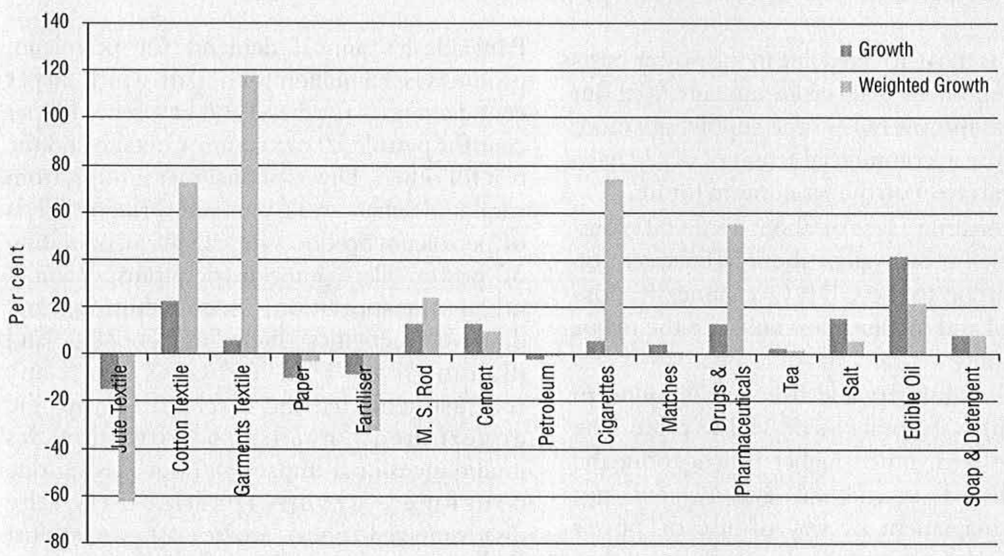


Source: CPD-IRBD Database, 2005.

Manufacturing of cotton and garments showed 22.81 per cent and 6.10 per cent growth respectively, supporting the high growth performance of export by these sectors. Other sectors, which showed modest to high growth during this period include: MS rod (12.85 per cent), cement (12.96 per cent), and drugs and pharmaceuticals (13.21 per cent). This growth was mainly due to increasing domestic and international demands. However, fertiliser, jute textile, paper and petroleum products showed negative growth during this period, registering (-) 8.48 per cent, (-) 14.87 per cent, (-) 10.43 per cent and (-) 2.17 per cent negative growth respectively, mainly because of declining local and international demands (in the case of jute) or increasing import (in the case of paper and petroleum products).

On the other hand, production of small scale manufacturing industries has increased by 8.23 per cent in FY2005 compared to the previous year. This increase is even higher than the growth in large-scale industries. All small-scale industries have experienced growth in the current fiscal year at varying degrees. Small industries that achieved relatively moderate and high growth are: non-metallic mineral products (25.01 per cent), textiles, leathers & apparel (10.62 per cent), wood and wood products (7.71 per cent), and paper, printing and publishing (18.44 per cent). On the other hand, industries that experienced relatively lower growth are: chemicals, rubber and plastic (4.26 per cent), food, beverages and tobacco (6.23 per cent), metal products machinery (5.59 per cent), and basic metal industries (4.69 per cent).

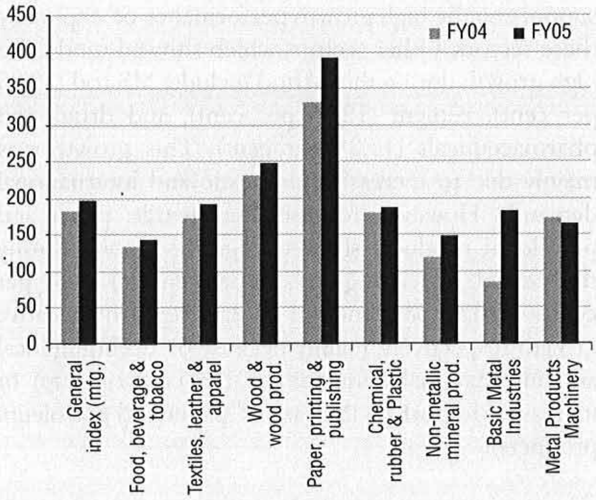
Figure 5.4: Growth in Major Industries During FY2005



Source: CPD-IRBD Database, 2005.

Growth of industrial production in different small-scale industries, therefore, indicates a close association with the growth of different large- scale industries. However, quarterly growth in production in the last three quarters of the FY2005 is very low (only 2.3 per cent on an average), mainly because of damages incurred due to the flood.

Figure 5.5: QIP of Small-Scale Manufacturing Industries



Source: CPD-IRBD Database, 2005.

Box 5.1: Crisis of Power Supply and Its Economic Cost

Power supply situation in Bangladesh is experiencing a serious crisis over the last few years. This worsening trend is afflicting huge loss to the economy. What is the economic cost of this power crisis to the nation? CPD carried out an analysis of the power crisis and has estimated the possible losses incurred by the economy in FY2004 on this count. CPD's estimate also provides for sectoral decomposition of the losses.

According to the findings of the aforesaid study, the economy of Bangladesh has suffered a total loss of Tk 6,850 crore in FY2004 due to power supply shortage. This figure is equivalent to about 2.0 per cent of the GDP. The commercial sector accounts for maximum share of the loss (58 per cent) followed by industry (34 per cent) and agriculture (8.0 per cent).

- Commercial sector is most affected due to the power crisis and its total loss is about Tk 4000 crore annually. Without an improvement in the overall power supply situation, growing electricity use in commercial activities would have negative incremental effect on the economy in future.
- Industrial sector is bearing a loss of about Tk 2,000 crore-Tk 2,500 crore, which is equivalent about 5.0 per cent of its sectoral contribution to the GDP. Over time, this loss has increased. Small and medium size units are the major sufferers in this sector.
- Agriculture (including forestry and fisheries) is found to be least affected with a sectoral loss of Tk 518 crore. The burden could have been much higher if irrigation, the major electricity-based agricultural activity, did not undertake load management by way of use of power mainly during off-peak hours.

Historically, it has been observed that the growth of industries is closely associated with the surge of private investment in the country, which is noticed in the case of investment in large, medium and small-scale industries in the current fiscal year.

Box 5.2: Political Economy of Petroleum Product Pricing

For the second time in FY2005, the government resorted to price hike of petroleum products. This was done in order to reduce the losses incurred by the government due to the large price differentials between subsidised local and international markets. It is important to point out that import duty on petroleum products in Bangladesh is very high (import duty: 25 per cent, supplementary duty: 15 per cent, VAT: 15 per cent, and surcharge: 4.0 per cent) and constitutes one of the major sources of revenue of the government.

In May 2005, petroleum product prices were increased: kerosene and diesel by Tk 3.0 (from Tk 23 to Tk 26) and petrol by Tk 2.0 (from Tk 33 to Tk 35). Price of octane remained unchanged at Tk 35. This price increase was to reduce losses of Bangladesh Petroleum Corporation (BPC) by about Tk 9.0 billion as against its current total loss of Tk 20.75 billion. One recognises the rationale for such revision of prices, particularly in the backdrop of escalating global price of petroleum products. However, it is difficult to miss the distributive implications of this particular government measure.

Bangladesh's annual demand for petroleum products is 3.8 million tonnes, of which 50 per cent demand is for diesel and kerosene, 1.0 per cent for petrol, 3.0 per cent for octane and the rest for others. Diverse consumer groups, from rural and urban areas, demand different kinds of petroleum products for irrigation, operation of power tillers, inter-district transportation, urban transportation, manufacturing, and domestic activities including cooking and illumination. This indicates that any readjustment in the fuel price by the government needs to consider its multidimensional impact without leaving one consumer group (particularly the disadvantaged ones) worse off as against others.

Readjustments of Fuel Price in Bangladesh (Tk/litre)

Year	Kerosene		Diesel		Petrol		Octane	
Oct. 2001	15.5		15.5		23		25	
27 Dec. 2001	17		17		28		30	
06 Jan. 2003	17		20		33		35	
01 May 2004	20		20		33		35	
23 Dec. 2004	23	13.1 per cent ?	23	13.1 per cent ?	33	6.1 per cent ?	35	0 per cent
24 May 2005	26		26		35		35	
West Bengal, India (November 2004)	**13.6 (Rs.9.01)**		**33.4 (Rs.22.7)**		**52 (Rs.35.4)**		**56.2 (Rs.38.2)**	
Difference with India	12.4		7.4		17		21.2	

Source: Prepared by CPD based on Financial Express, Bangladesh and www.bharatpetroleum.com

It can be deduced from the table that diesel and kerosene price has been increased by 13 per cent, while petrol price was raised by 6.0 per cent, at a rate less than half of the former. A substantial increase in diesel price will raise cost of irrigation, as well as cost of transportation of agricultural commodities along with other effects. At the same time, enhanced kerosene price will put pressure on cost of living of rural people who use it substantially. Therefore, rural poor, i.e. the largest social strata of the population will be directly and adversely affected because of higher cost of diesel and kerosene.

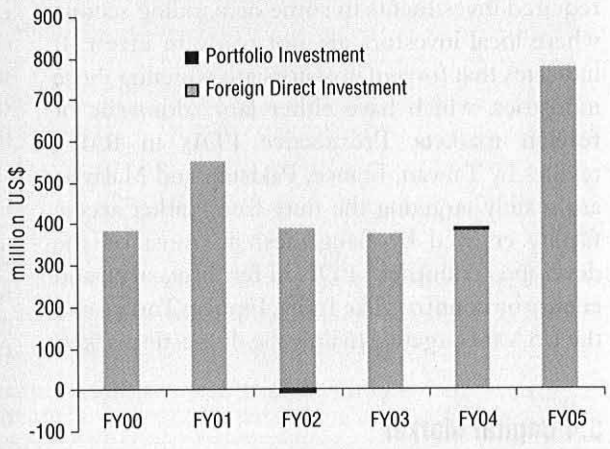
Conversely, comparatively low rise in petrol price will affect urban dwellers having cars and other transports only marginally. Indeed, price of octane, which is largely used in the cars of affluent people, did not undergo any change. One of the major reasons cited by the government in favour of this petroleum products price hike was to deter the possibility of the items being smuggled out to the neighbouring country. The table will further indicate that the price differential with West Bengal, India is highest in the case of octane (Tk 21.2), followed by petrol (Tk 17), kerosene (Tk 12.4) and Diesel (Tk 7.4). If diesel can be carried as head load, cannot petrol and octane be carried as well? One would be rather tempted to suggest that the revealed fuel price adjustments have been thoroughly biased in favour of urban affluent people without due consideration to the interests of the rural poor.

5.3 Foreign Investment

Foreign investment has gone trough ups and downs in recent years. In FY2000, foreign investment was $383 million. In FY2001, Bangladesh received almost $550 million as foreign investment. But there was a decline in the flow of foreign investment in FY2002 and FY2003. During FY2004 the country received a net amount of $391 million as foreign investment, registering a marginal 3.6 per cent annual growth over the previous year. So, it increased in FY2001, decreased in FY2002 and FY2003, then again increased in FY2004 and FY2005.

Foreign investment almost doubled as Bangladesh received $776 million as foreign investment in FY2005. There was no new portfolio investment during this period. Total flow of foreign investment is 98.5 per cent higher in FY2005 than the previous year (FY2004). The very high growth of foreign investment is a very significant change from the previous years. Of course, if and when Tata's investment gets on track, the

Figure 5.6: Foreign Investment during FY2000-FY2005

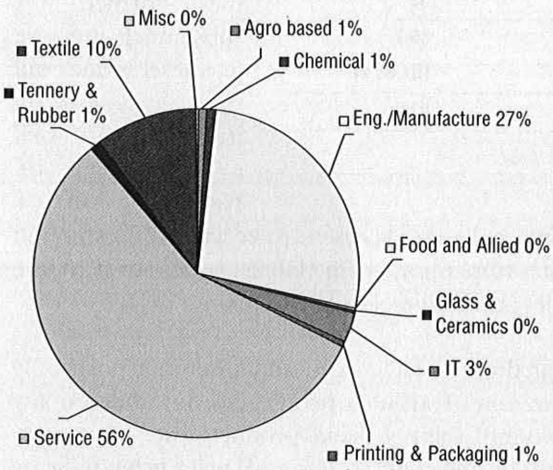


Source: Bangladesh Bank Report, 2004.

position of FDI inflow will hopefully improve significantly.

The sectoral decomposition of FDI flow in FY2005 reveals that the majority of the FDI in Bangladesh has targeted the service sector (such as telecommunication, energy and power and mining and quarrying), accounting for about 56 per cent of the total FDI flow. Among other sectors, the major industries are: engineering/manufacturing sector (27 per cent) and textile (10 per cent).

Figure 5.7: Sectoral Composition of Registered FDI, FY2004



Source: Board of Investment.

Recent FDIs are targeting country's prospective opportunities in energy and textiles industries, along with chemical and fertiliser, pharmaceuticals, infrastructure, financial sector and telecom, which may partially meet the required investments in some demanding sectors where local investors are not ready to invest. It indicates that foreign investors are targeting those industries, which have either large domestic or foreign markets. Prospective FDIs in RMG, textiles by Taiwan, France, Pakistan and Malaysia are mainly targeting the duty-free market access facility enjoyed by Bangladesh in most of the developed countries. FDIs in fertiliser, steel, and energy by countries like India, France, Turkey and the USA are targeting mainly the domestic market.

5.4 Capital Market

During the FY2005 both Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) observed an increase in share price index. The all share price index of DSE marginally dropped from 1319.0 in June 2004 to 1310.6 in June 2005, registering about (-) 8.4 point decrease. General

Box 5.3: FDI Inflow: Discrepancy between BOI and Bangladesh Bank Data Continues

In the backdrop of significant divergence between the Bangladesh Bank (BB) and the Board of Investment (BoI) regarding estimates of FDI inflow to Bangladesh, both the institutions have been publishing FDI data since 2002 based on their respective surveys of foreign enterprises. Both institutions undertook the surveys because of substantial under-reporting in the banking data compounded by definitional problems. Following publication of their first reports (2002), it was found that while BB estimated an inflow of $328.3 million in January-December 2002, BoI put forward a figure of $328.1 million, indicating an insignificant difference between the two. Curiously, in the following years (2003, 2004 and 2005), survey data of both institutions on FDI flow gradually diverged as can be seen from the table below:

Discrepancy between BOI and Bangladesh Bank Data.

Source	FDI Inflow (Calendar Year)		
	2002	2003	2004
BB	328.3	350.2	370
BoI	328.2	441	550
Difference	0.1	90.8	180

Source: Compiled by CPD based on data from BB and BoI.

Data collected under Bangladesh Bank survey appear to be methodologically more robust than that of BoI. Examining questionnaires of both institutions, it is found that BoI collects FDI inflow data only, while BB's is a rigorous attempt to collect, along with the inflow figure, information on the companies' paid up capital, claims and liabilities, operating profit and net income, and stock of FDI etc. Such information, available from BB survey, allows us to crosscheck the authenticity of the inflow data. Besides, different monetary units used in the two surveys, 'thousand taka' by BB and 'US $ Million' by BoI, may create discrepancies during currency conversion. The two institutions also use different reference periods for reporting of data: BB uses fiscal year (July-June), while BoI uses calendar year (January-December).

It is not obvious which of the institutions have the mandate to collect FDI related data. As such, the foreign companies may not feel obliged to provide the solicited information to BoI. Bangladesh Bank also has no direct authority over foreign enterprises other than to make request under Article 69 (Bangladesh Bank Order, 1972).

Whatsoever, it seems some progress has been made in reporting and reconciling the information on FDI in Bangladesh since CPD first pointed out the discrepancy in this regard in 2002. This process may be further improved if BB is made the sole focal point for collection of FDI related information, while BoI may provide logistic support in conducting the survey.

index (AB), on the other hand, registered a significant 394.3 points increase from 1318.9 in June 2004 to 1713.2 in June 2005. DSE-20 index also raised by 243.9 points during the same period, from 1628.6 in June 2004 to 1872.6 in June 2005. For the first time since 28 July 1997 all share price index crossed 1000 mark on 4 April, and then 1200 on 3 June 2004, which is now hovering around 1300. CSE also followed the same trend when all share price index increased by an amazing 943.6 points, from 2292 in FY2004 to 3347.0 at the end of June 2005.

Market capitalisation of the DSE has increased by 57.8 per cent from Tk 142.4 billion in FY2004 to Tk 224.6 billion in FY2005. The CSE experienced a higher increase (58.6 per cent) during the stated period. On the other hand, the issuance of Initial Public Offerings (IPOs) has increased during FY2005 compared to FY2004 as 20 new IPOs entered into the capital market between FY2004 and FY2005. However, the new entrants are mostly from the banking and financial sectors. This is still below the expected level, hence following the simple law of demand-supply the rate of over subscription has gone up. During the FY2004 public subscription was 2106 per cent of the public offerings. The share of public subscription in the public offers during FY2005 was 1226.20 per cent.

There is a substantial amount of liquid money in the hands of common people and at the household level outside the banking system of Bangladesh. In view of the fact that the income potentials from sources like banks and NSD certificates have gone down due to lowering of interest rates, a number of small and medium investors are now coming into the capital market with their investible surplus. Following the boom and bust in the capital market in 1996, several initiatives undertaken by the Securities and Exchange Commission (SEC)[7] have also contributed to the over subscription of IPOs.

Notwithstanding the oversubscription, the capital market continues to remain both shallow and skewed in Bangladesh. Current market capitalisation in DSE is only 6.10 per cent of GDP in June 2005, which was even lower at 4.3 per cent in June 2004. Three groups of listed companies, viz. banks, pharmaceuticals and chemicals, and food and allied products together controlled about 60 per cent of the market capitalisation.

Banks, insurance and investment activities attracted most of the investors' interest. After the Lafarge Shurma Cement's enlistment in the share market in November 2003, no IPOs have come from the real sector. No IPOs from telecom services were observed as yet though the sector is picking up recently. In general, banking and financial institutions performed better in the securities market. Out of 29 enlisted banking and non-banking financial institutions (NBFIs), 21 are of 'A' category, whose price earning ratios are mostly about 10. It seems that private commercial banks have performed well under prudent law and regulation, and better supervision by the Bangladesh Bank, introducing new products such as government treasury bills, prize bonds, shares of public limited companies, treasury dealings both in local and foreign currency, automation tools such as ATM, SWIFT, extended consumer credit scheme, merchant banking, credit card operation and Islamic banking.

The major reason behind profit-making companies for not entering into the capital market could be the absence of managerial expertise to expand their business further. Some also fear to lose their family ownership in the company if they go public. Besides, this also would have called for more accountability and transparency in terms of profit-making. The presence of "professional" shareholders, which creates nuisance in the AGMs, with a nominal share also distorts the market.

The dividend and profit provided to the investors for their hard-earned shares are not adequate, and thus everyone is buying and offloading their shares at a higher price to make profit, which is causing this phoney increase in share price index. It neither relates to the performance of the share offering companies nor does it show the overall macroeconomic trend of the country[8]. The recent attempt by one of the local private banks to offload shares in the capital market by opening 15,000 fake beneficiary owners' (BO) account is a case in point.

[7] Such initiatives include abolition of kerb market, introduction of automated trading system, Central Depository System (CDS), and overall technological changes.

[8] However, since the new IPOs are coming from the CDBL system and there is no curb market, at least this increase is not coming from any fake share certificates as it was observed in 1996. Besides, the major increase in share price index is seen mainly on high value companies (DSE 20 and CSE 30) who are giving 10 per cent dividend to their shareholders.

IPOs from the real sectors also need to be encouraged. If new IPOs do not come in the market to absorb this high demand and necessary market corrections are not visible, this spurious surge in the capital market will soon fizzle out as only buying and selling of share certificates cannot sustain this bullish trend. Therefore, along with the telecommunications entities and other private sector companies, government blue chips should also be encouraged to come into the market. Share of the profitable multinational companies and of other local companies owned by the government may be floated. Enlistment with the share market could be the part of the conditionality for setting up new business in Bangladesh by the foreign companies, such as those belonging to the banking and telecommunications sectors. Indian business giant Tata, which is going to make huge investment, could also be asked to float its share in the market. IPOs may also be encouraged through tax benefit.

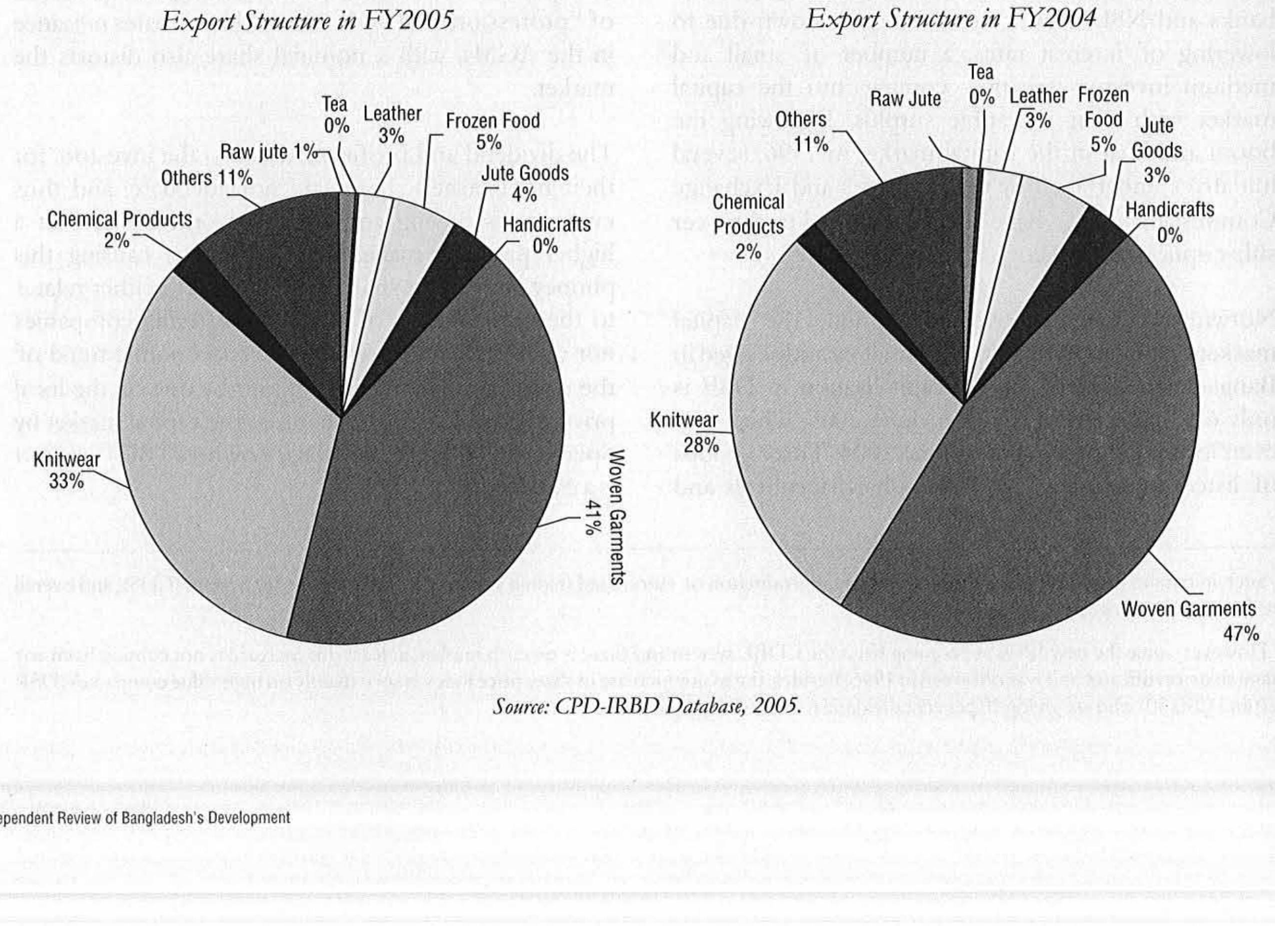
6. BEHAVIOUR OF THE EXTERNAL SECTOR

6.1 Export Sector

Export earnings for the period FY2005 stood at $8654.52 million, showing a highly encouraging growth of 13.83 per cent, as compared to $7602.99 million in FY2004. During this period, export earnings have attained the strategic export target (which was $8565.78 million for this period), thanks mainly to the robust performance of the manufacturing sector with a growth of 13.57 per cent.

Export sector's robust performance in FY2005 is all the more remarkable since this particular year coincides with the full and final phase-out of the MFA quotas. Although quota was phased out on January 1, 2005 the order for the winter-spring season had started to come in early FY2005 (September-November, 2004) and it does credit to Bangladesh's producers that the country has continued to remain on the radar screen of buyers. Export earnings from woven garments have marginally increased by 1.70 per cent, from $3538.70 million to

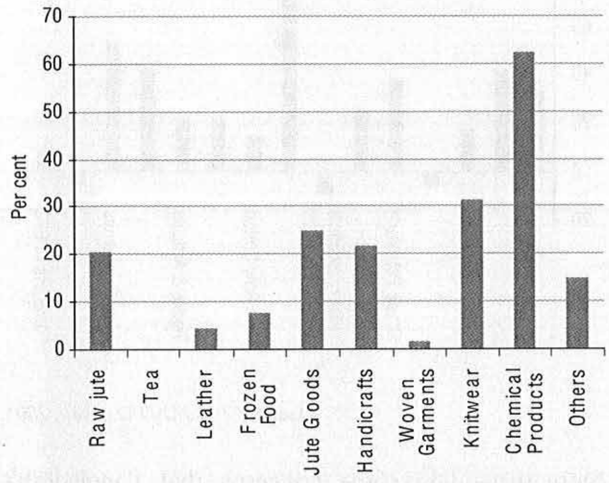
Figure 6.1: Export Structure for FY2004 and FY2005



Source: CPD-IRBD Database, 2005.

$3598.20 million during FY2005, whilst knitwear showed a phenomenal growth of 31.26 per cent. Export of knitwear increased from $2148.02 million in FY2004 to $2819.47 million in FY2005. This was all the more remarkable since knitwear exports had increased by 29.9 per cent in FY2004, and the sector suffered some damage, particularly in Narayanganj area, because of the floods in July-August 2004.

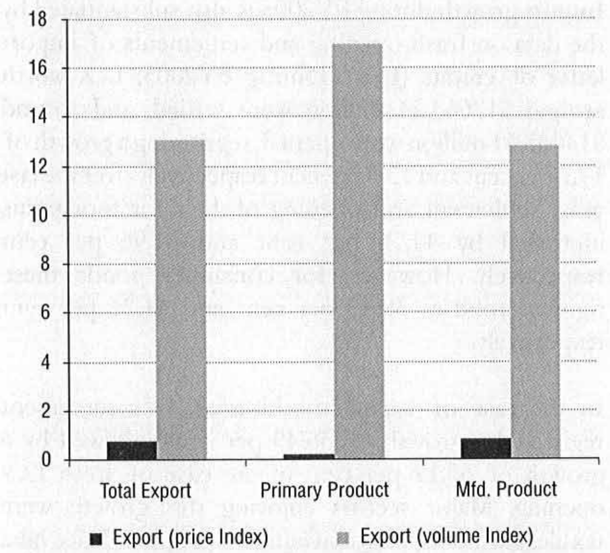
Figure 6.2: Commodity wise Growth of Exports during FY2005



Source: CPD-IRBD Database, 2005.

Export earnings from other manufactured goods such as leather (4.5 per cent), chemical products (62.3 per cent) and handicrafts (21.9 per cent) also experienced modest to high growth rates. Jute's downward spiral was halted this year, with export of raw jute and jute goods registering an encouraging 20.7 per cent and 24.3 per cent growth respectively. However, other than tea, which posted a modest 0.2 per cent growth, export earnings from all other principal primary commodities including frozen foods (7.8 per cent) have shown moderate to high growth rates during the period under analysis.

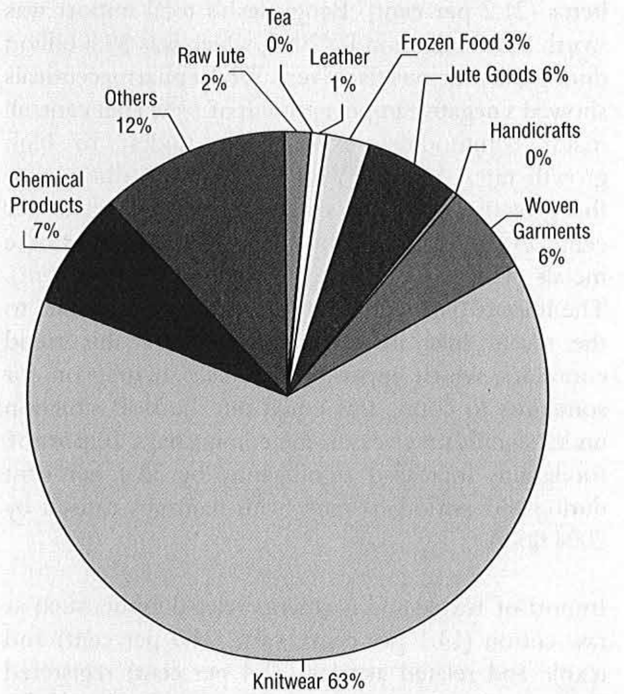
Figure 6.3: Price and Volume Index of Export during FY2005



Source: CPD-IRBD Database, 2005.

However, a decomposition of export growth presents a mixed scenario. Most of the growth in export earnings has been sustained through increase in volume. On the other hand, the export price index shows no significant rise in the average prices of Bangladesh's export goods in the global market. During FY2005 about 95 per cent of the export growth was accounted for by a rise in export volume as against only 5.0 per cent that was accounted for by rise in the average prices: export quantum index has risen by 13.1 per cent whilst export price index has posted a rise of only 0.8 per cent. As would be expected, this trend is mostly explained by movements of volumes and prices of manufactured commodities, which accounts for the lion's share in Bangladesh's total export. Volume index of manufactured goods rose by 12.8 per cent while the price index rose only by 0.8 per cent during the period under analysis. However, primary commodities experienced a rise of 0.18 per cent in its price index, though the overall growth was significant since volume index increased by about 17 per cent.

Figure 6.4: Contribution in Incremental Exports during FY2005



Source: CPD-IRBD Database, 2005.

However, the dominance of RMG in the export basket of the country has continued as 69 per cent of the incremental export was accounted for by the growth of RMG exports. Among others, chemical products accounted for 7.0 per cent, jute goods 6.0 per cent and frozen food only 3.0 per cent of the incremental export.

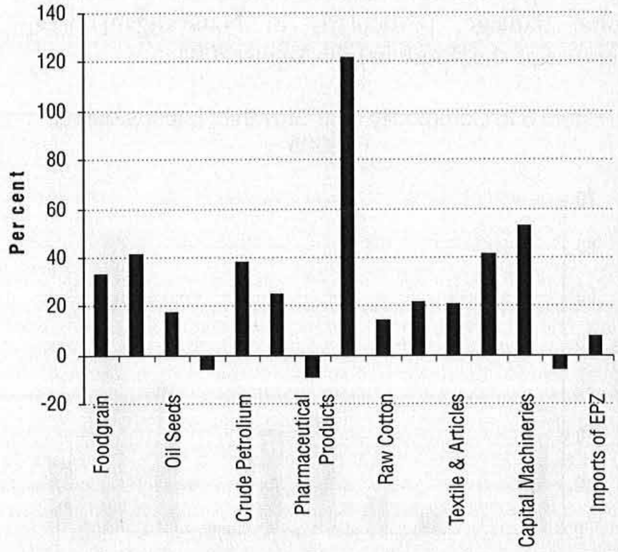
Export diversification must be given due priority to minimise Bangladesh's risks in the volatile global export market of Bangladeshi products. Active initiative should be taken to diversify frozen food export to reach its export destination. Moreover, quality control is also crucial for creating greater access of Bangladeshi products to the developed markets.

6.2 Import

Bangladesh has been experiencing a steady growth in its import since the time of market deregulation in the 1990s. Though there was a negative growth of import in FY2002, the economy experienced remarkable recovery in the subsequent fiscal years. Available data for FY2005 also shows a continuation of that restoration process. Imports to Bangladesh during FY2005 registered a significant growth of about 21.4 per cent compared to the corresponding figures of FY2004. When imports by EPZs are included, growth of import stands at 20.6 per cent. It is to be noted that import growth was accounted for both by growth of imports of foodgrains (33.4 per cent) and non-food items (21.2 per cent). Bangladesh's total import was worth $11.9 billion in FY2005, which was $9.8 billion during the previous fiscal year. Whilst pharmaceuticals showed a negative import growth of (-) 9.3 per cent, all major commodities experienced modest to high growth rates during FY2005. Major contribution to this growth came from capital machineries (53.0 per cent), POL (62.6 per cent), iron steel and other base metals (41.8 per cent) and fertiliser (121.7 per cent). The import payments for POL products rose due to the recent hike in world oil price. If this trend continues, which apparently is likely to drag on for sometime to come, this could put the BoP situation under significant stress in the coming days. Import of foodgrains increased significantly by 33.4 per cent during this period to cope with damages caused by 2004 flood.

Import of textile and garments related inputs such as raw cotton (14.1 per cent), yarn (21.9 per cent) and textile and related articles (21.4 per cent) registered impressive growth rates during the period under analysis, supporting the high export performance of knitwear and woven garments in recent times.

Figure 6.5: Sectoral Growth of Imports during FY2005



Source: CPD-IRBD Database, 2005.

Notwithstanding some concerns that Bangladesh's development is largely dominated by the service sector, while the contribution of the real sector is gradually waning, the high growth in imports of raw materials and capital machineries is a positive development, which is expected to have favourable impact on investment and growth in the real economy.

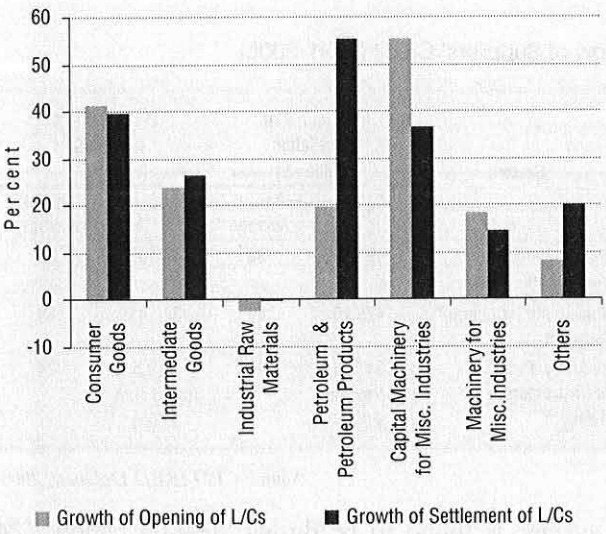
Opening and Settlement of Import LCs

Import growth during FY2005 is also substantiated by the data on fresh opening and settlements of import letter of credits (LCs). During FY2005, LCs worth around $12663.24 million were settled, and around $14068.61 million were opened, registering a growth of 17.2 per cent and 13.5 per cent respectively over the last year. Settlement and opening of LCs for foodgrains increased by 44.75 per cent and 81.96 per cent respectively. However, for consumer goods these figures stood at 39.43 per cent and 41.21 per cent respectively.

In the case of capital machineries, LCs settlement registered a growth of 36.49 per cent followed by a growth of 55.17 per cent in the case of fresh LCs opening. Major sectors enjoying this growth were textile, garments, pharmaceuticals and jute. Price hike in international oil market is the main cause for the growth in LCs opening and settlement for petroleum and petroleum products.

Both settlement and opening of LCs for textile fabrics and accessories for garments experienced a negative growth of (-) 13.64 per cent and (-) 18.76 per cent respectively, which is obviously a cause for concern as far as the expected performance of particularly the woven RMG was concerned.

Figure 6.6: Growth Rates of Opening and Settlement of LCs of FY2005 Over FY2004



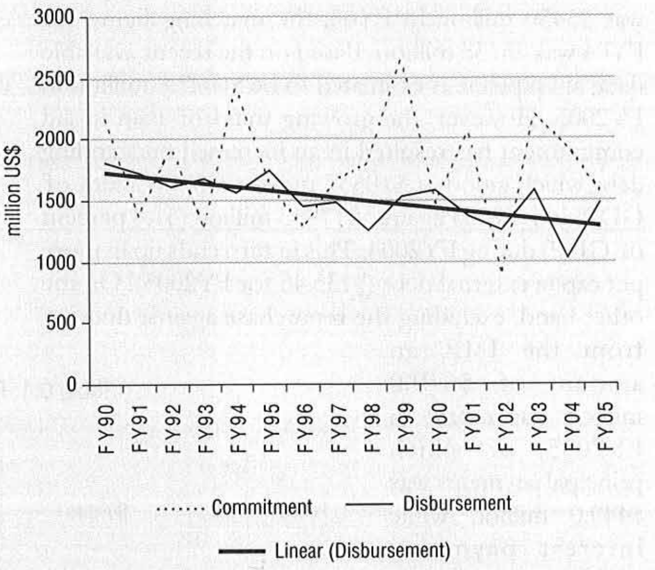
Source: CPD-IRBD Database, 2005.

6.3 Foreign Aid

The declining trend of foreign aid disbursement, both in absolute and in relative terms, deteriorated in FY2004 when it came down to \$1033.4 million (only 1.9 per cent of GDP) from that of \$1585 million (3.1 per cent of GDP) in FY2003, registering a (-) 34.8 per cent negative growth. However, in FY2005 the flow of foreign aid has experienced a reasonable increase in terms of disbursement.

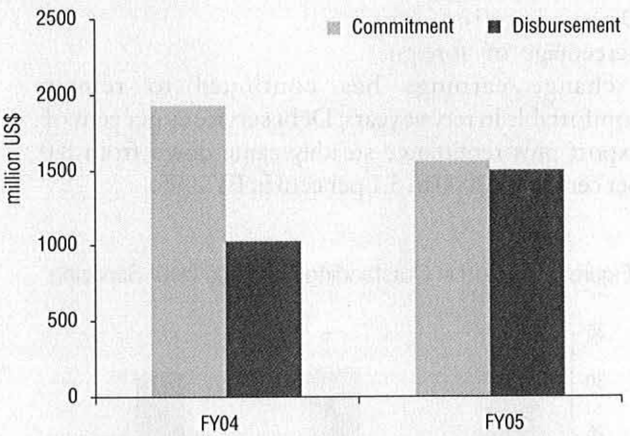
Disbursement of foreign aid in FY2005 stood at \$1491.0 million, whereas the matching figure for FY2004 was lower at \$1034.0 million. This indicates that the disbursement of foreign aid was about 44.2 per cent more compared to the previous fiscal year. Another \$1552.3 million worth of new commitment of foreign aid came during FY2005. Commitment of foreign aid in FY2005 was 23.9 per cent less than that of FY2004 (\$1923.1 million).

Figure 6.7: Flow of Foreign Aid in Bangladesh during FY1990-2005



Source: CPD-IRBD Database.

Figure 6.8: Flow of Foreign Aid during FY04-05

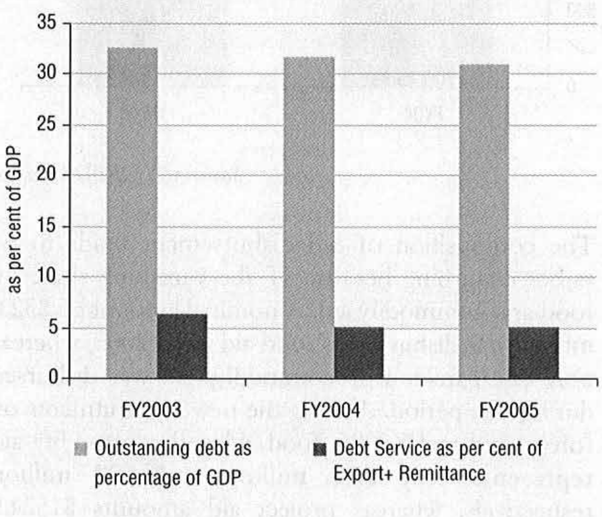


Source: CPD-IRBD Database.

The composition of aid disbursement tends to be rather disturbing because of the vanishing share of food and commodity aid. A nominal amount of \$32.0 million was disbursed as food aid in FY2005, whereas only \$22.0 million of commodity aid was disbursed during this period. Among the new commitments of foreign aid in FY2005, food aid and commodity aid represents only \$5.8 million and \$22 million respectively, whereas project aid amounts \$1524.5 million.

There is no denying that Bangladesh has been experiencing a ballooning aid pipeline in recent years. This is corroborated by the fact that while this pipeline was $5450 million in FY03, the matching figure for FY04 was $5738 million. Based on the recent available data, aid pipeline is estimated to be $6027.8 million in FY2005. However, the growing trend of loan in aid commitment has resulted in an increased outstanding debt which stood at $18557 million (30.9 percent of GDP) in FY2005 against $17953 million (31.8 percent of GDP) during FY2004. This in turn ends up in more per capita external debt ($135.45 for FY2005). On the other hand, excluding the repurchase against drawing from the IMF, an amount of $640.0 million was repaid in FY2005, of which principal payments was $449.0 million while interest payments stood at $191.0 million in FY2005. This repayment was $78.0 million or 13.9 per cent higher than the corresponding figure of the preceding year. Debt service as percentage of foreign exchange earnings has continued to remain comfortable in recent years. Debt service as per cent of export plus remittance steadily came down from 8.0 per cent in FY2000 to 5.1 per cent in FY2005.

Figure 6.9: Trend in Outstanding Debt and Debt Servicing



Source: CPD-IRBD Database.

Suppliers' Credit

A period-wise comparison of flow of hard-term loans extended to the Bangladesh government by external agencies reveals that net contract of suppliers' credit has continued to remain high. Although the average annual net contract amount during 1991-95 and 1996-2000 was $98 million and $89 million respectively, the same is found to be only $87 million during the 2001-04 periods. If one predicts that another $100 million will be added during the remaining period of FY05, it might surpass the matching figure for the period 1996-2000. However, as for disbursement, the lowest annual average is found to be during 2000-05 period ($24 million). These, during the 1991-95 and 1996-2000 periods, were $78 million (total disbursement $389.53 million) and $69 million (total $347.41 million) respectively.

Table 6.1: Flow of Suppliers' Credit (1991-2005)

Period	Nos.	Sources	Sectors	Amount net of Cancellation (million $)		Disbursement (million $)	
				Total	Annual Average	Total	Annual Average
1991-1995	07	China, North Korea, NDF, Pakistan, Russia	Power, Industry, Agriculture, Mining	491.69	98	389.53	78
1996-2000	11	Russia, Sweden, UK, China, India	Power, Infrastructure, Telecom	425.10	89	347.41	69
2001-2005	06	China, Japan, Spain	Industry, Power, Infrastructure, Telecom	347.15 (up to June 2004)	87	119.5 (up to June 2005)	24

Source: CPD-IRBD Database, 2005.

Grace period for suppliers' credit has been squeezed during the last decade. While the average grace period for the projects covered under the period 1991-95 was 4 years, the same was 2 years and 3 years respectively for the periods 1996-2000 and 2001-05. This, indeed, is a major concern as it creates immediate pressure to go for repayment. However, the average amount of down payment of project loans during the three periods under review is somewhat similar ($9.0 million or about 16 per cent of the total commitment for the three periods). A similar trend is also witnessed in the context of international service charge with $5.0 million being the average for all the three periods. As regards the length of repayment period, the minimum was 7 years with 30 years being the maximum. This may be a matter of relief in some cases, but not so encouraging in other areas.

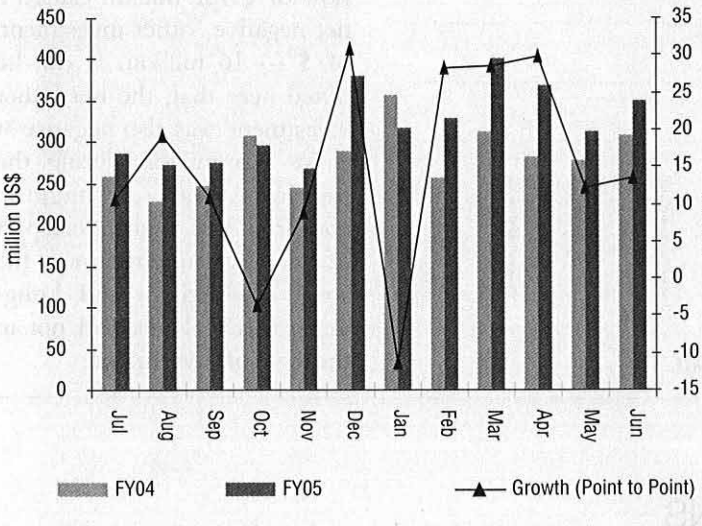
The foregoing discussion supports that suppliers' credit continues to play a significant role in accessing external resources and that the performance of the present regime is no less active in comparison to the previous one. It is to be seen to what extent the government contracts further suppliers' credit during the last year of its tenure.

6.4 Foreign Remittances

The flow of worker's remittance sent by the expatriate Bangladeshis has now become a significant contributor to the total foreign exchange earnings and current account balance of the country. During FY2005, remittances have registered an impressive 14.13 per cent growth over the previous fiscal to stand at $3848.29 million.

After the moderate growth rates visible in the 1990s, remittances experienced phenomenal growth from FY2002 and continued to register this during FY2005. The relatively moderate growth of remittance during FY2005 is remarkable particularly in view of the high benchmark posted during the previous years. In total expatriate labour force, the share of low paid labour (unskilled and semi-skilled) is quite high. Illegal and inhuman transportation of labour is also becoming a nagging worry. This sector should be given high priority by Bangladesh's policymakers in view of the emerging and possible opportunities in the global labour market.

Figure 6.10: Monthly Trend in the Flow of Remittances during FY2004-FY2005

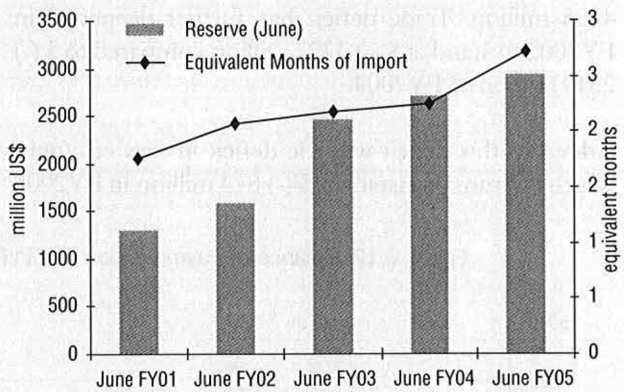


Source: CPD-IRBD Database, 2005.

6.5 Foreign Exchange Reserves

After the pinnacle attained in FY1995 when the foreign exchange reserve of Bangladesh reached $3070 million, the country experienced a sustained decline in the foreign exchange reserve till FY2001 when it stood at $1307 million. Since then, the foreign exchange reserve has started to move up and in FY2004 standing at $2705.2 million. Since FY1995, the foreign exchange reserves again crossed the $3.0 billion mark at the beginning of FY2005.

Figure 6.11: Foreign Exchange Reserves and Equivalent Months of Import



Source: CPD-IRBD Database, 2005.

Foreign exchange reserve stood at $2930 million at the end of June 2005, which is about 8.3 per cent higher than the corresponding year. However, earlier in end- April 2005, Bangladesh Bank created some tension and contusion by delaying foreign exchange payment in order to keep the reserves at $3.0 billion level as required by IMFs' performance indicator[9]. In spite of the recent upturn in the reserves, since imports are rising, the current growth momentum in reserves may not be sustained.

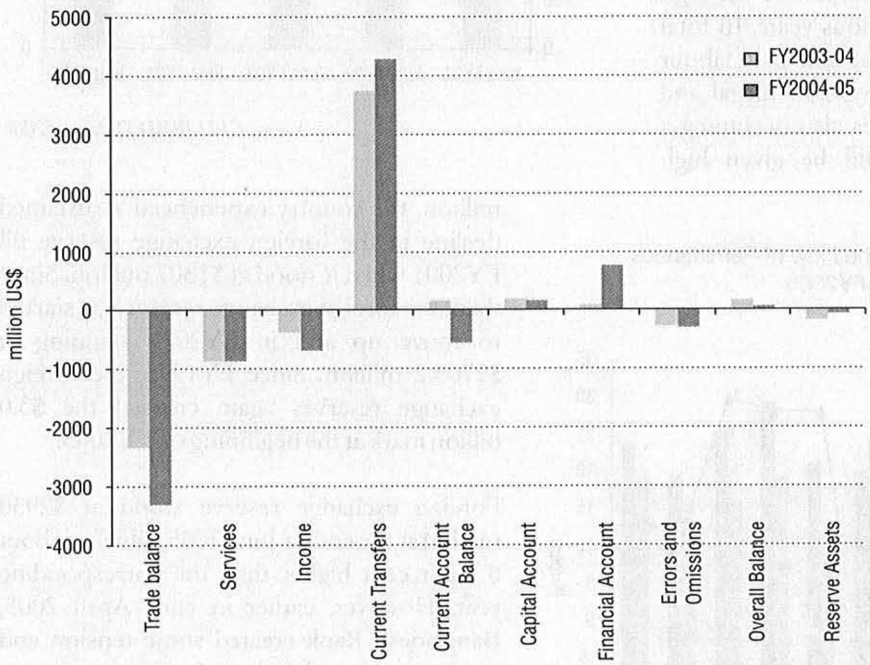
[9] It may be pointed out that Bangladesh, because of the conditionalities under the PRGF of IMF, is committed to ensure cumulative increase in net foreign exchange reserves on a quarterly basis. It was not possible for Bangladesh to keep this commitment for June 2005 because of increasing import payments (under the PRGF, the incremental reserves for the March-June, 2005 quarter was $348.0 million).

6.6 Balance of Payments

The overall balance stood at $67 million during FY2005 compared to $171 million in FY2004, hinting at a deterioration in the BoP situation. Higher import growth has offset the benefits of the robust export growth and high levels of remittance flow resulting in a deficit of $ (-) 557 million in current account balance during FY2005. In contrast, during FY2004 current account balance stood at $176 million. If remittance is excluded (which is about 45 per cent of the total export earnings), the current account balance during this period would further decline to a deficit figure of $ (-) 4405 million. Trade deficit has further deepened in FY2005 to stand at $ (-) 3297 million compared to $ (-) 2319 million of FY2004.

Added to this deficit was the deficit in services (net), which is almost constant at $ (-) 874 million in FY2005 compared to $ (-) 870 million in FY2004. The deficit under the income category came down from $ (-) 374 million to $ (-) 680 million. The surplus in current transfer has increased from $3743 million to $4290 million. Thus, the positive movements in the balance in income (net) and current transfer (net) were not enough to offset the deficits in the balance in trade and services (net) which, in the end, led to the deficit in the current account of FY2005. The CPD analysis again reemphasises the crucial role that current transfers, mainly remittances, have come to play in terms of providing Bangladesh with a comfortable cushion with respect to the balance of payments position in the current account.

Figure 6.12: Balance of Payment Scenario in FY2004-05



Source: CPD-IRBD Database, 2005.

A few words need to be uttered as regards financial account situation in the BoP, which stood at $760 million, registering an astonishing growth of 874.36 per cent. Financial account has three major components: net FDI, portfolio investment and other investment. While foreign direct investment experienced a robust 101.56 per cent growth, no portfolio investment was observed during this period. Among the other investments, MLT loan experienced a rise from $544 million in FY2004 to $940 million in FY2005. However, amortisation of $449 million and net negative capital flow of $ 182 million caused a net negative `other investment' of $ (-) 16 million. It can be noted here that, the net 'other investment' was also negative at $ (-) 313 million during the previous year. A nagging concern is that a substantial part of other investment came in the form of Medium and Long-Term (MLT) loans and not in the form of investment.

7. CONCLUDING OBSERVATIONS

The foregoing analysis of major macroeconomic trends as well as developments in the real economy suggests that the overall state of the Bangladesh economy remained steady during the fiscal year 2004-05. Driven by both domestic and external demand, the economy may very well achieve the scaled downed GDP growth target of 5.5 per cent. However, Bangladesh's current growth performance continues to lag behind that of its South Asian neighbours.

During the first half of FY2005, the economy was positioned between the twin shocks of 2004 floods and the total phase-out of the MFA. As of date, the economy has recovered reasonably well from the flood-related devastations. Adverse consequences of full quota removal are yet to tell upon the export sector.

During the second half of FY2005, strains have generated on the BoP situation due to high import growth fuelled by generous credit expansion in the private sector. Paradoxically, whenever private investment picks up in Bangladesh, it affects the external balance, which in turn enfeebles the fiscal balance. The macroeconomic situation got further weakened due to crawling rise of consumer price index.

Notwithstanding the fact that the macroeconomic stability has improved during the last couple of years, the growth payoff in Bangladesh had not been adequate, particularly from the poverty alleviation perspective. It is now well established that macroeconomic stability is a necessary condition, but not a sufficient one for better economic growth and more so for a pro-poor growth.

It is in this context that one can readily identify the following six major sources of fragility and credibility gap, which afflict the current apparent macroeconomic stability in Bangladesh.

- Systematic inability to implement public investment programme.
- Failure to undertake complementary reforms for improvement of the micro-conditions for private investment.
- Slow progress in domestic revenue mobilisation as dependence on international trade tax continues, and direct tax collection is increasing at a pace that is slower than domestic VAT.
- Upsurge in inflation rate is underwritten by cost-push factors.
- Notwithstanding robust export and remittances growth, the balance of external payments remains delicate.
- Widening disparity in income distribution is limiting the growth prospect including its sustainability.

The major source of the fragility emanates from the stagnating investment scenario of the country. The apparently buoyant proxy indictors of investment (e.g. term loan disbursement and import of capital machinery) take a new meaning when we observe the stagnating national investment rate. It is now being contended that the failure to deliver an augmented package of public investment projects is the root cause of the aggregate investment stagnation. The private investment rate continues to be subdued as it is deprived of the "crowding-in effect" of a vigorous public investment programme.

Systematic inability to implement an enlarged ADP is the primary cause of the prevailing investment deficit. One may identify a range of issues to explain the low implementation rate of ADP, but it seems that the major problem lies in contracting these usually lumpy and lucrative projects to suitable companies. This process has often been afflicted by uncertainty leading to long gestation period. It has been also characterised by inadequate transparency that fuels cost escalation. One may cite, in this regard, a long list of big projects, which did not get materialised during the recent past.

The lack of predictability and inadequate transparency in economic transactions in the public sector has had concomitant negative impact on the private sector investment. The second major source of weakness underlying the growth payoff situation comes from the credibility gap emanating from slow progress in market facilitation reforms. Lack of complementary reforms to improve the micro-conditions for economic growth further aggravated business climate. These reforms basically relate to improvement of governance in public infrastructural facilities and utilities, regulatory framework for capital and debt market, contract enforcement through judicial process, transparency in public expenditure, etc.

The third major source of macroeconomic vulnerability relates to the country's very low revenue effort. Such vulnerability gets accentuated in the face of low off-take of foreign aid. Notwithstanding deep trade liberalisation, international trade taxes still account for more than 37 per cent of total revenue collection in Bangladesh. More importantly, direct taxes (e.g. income tax), which are progressive in nature, have grown at less than 9.0 per cent between FY2000 and FY2004, while VAT (domestic), which is not mean tested, has grown at about 18 per cent per annum during the same period. Increasing tax base, plugging leakages, revamping tax administration, improving payee service, etc. are some of the measures, which can improve the situation. One waits in anticipation to see the performance of the newly instituted office of the Tax Ombudsman

Inflationary pressure (the fourth factor) on the macroeconomic situation has increased largely due to a number of cost-push factors some of which are beyond the control of the government. These include high global prices of food, fuel and fertiliser. Indeed, inflationary process in an economy like Bangladesh is usually structural in nature. It will be inappropriate to seek solution to the problem in a contractionary monetary policy. Changes in consumption structure and productivity growth can provide some respite. But one needs to see to it that increases in wage goods prices does affect competitiveness of the economy.

The fifth of the major fragilities in Bangladesh's macroeconomic situation is exposed by the thin elbow-room, which the BoP of the country enjoys. Import growth spurred by enhanced investment demand creates increased tension. It is an unfortunate coincidence that the investment growth in Bangladesh overlapped with spiking of global prices of certain critical commodities. While one needs to slow down the import growth along with export and remittance promotion, it is a question of finding the appropriate instrument for it.

The sixth aspect of the growth scenario in Bangladesh relates to its inequitable distribution. It is held that some of the current sources of growth are supposed to be pro-poor, e.g. crop sector and export-oriented manufacturing. However, some other sources of the current growth are more dominant and income in-equaliser, e.g. foreign remittances and rural non-farm activities. Widening income and asset disparity cannot only decelerate the growth process, but can also undercut social cohesion. Growing regional disparity can also emerge as a political problem. Finding the right recipe for an inclusive growth track remains an intellectual and practical challenge.

Outlook for Budget FY2006

Issues relating to Policy Framework will be the most interesting part of the forthcoming budget.

Bangladesh, for the first time, is going to have a budget under the framework of its newly finalised Poverty Reduction Strategy Paper (PRSP) for FY2005-FY2007. In this sense, the forthcoming budget will be more predictable than the previous ones as we already know its macroeconomic parameters from the Medium Term Macroeconomic Framework (MTMF) of the PRSP. It will, however, be a matter of special interest to observe whether the Finance Minister, in order to bring more predictability, accountability and transparency in the budgetary process, announces a Medium Term Budgetary Framework, a three-year rolling Public Investment Programme and a Medium Term Expenditure Framework with expenditure ceiling. The minister may also go ahead and propose an independent oversight Financial Reporting Council.

It will be also a matter of interest to see whether the process of unification of revenue and development budgets get deepened further. Similarly, it is expected that the independent budget preparation by ministries will get a fresh boost by going beyond the present six (Agriculture, Health, Education, Livestock and Fisheries, Flood and Disaster Management, Social Welfare).

The second dimension of the forthcoming national budget will be its macroeconomic stance. Given the emerging tensions in the macroeconomic front, suggestions have been put forward (by IMF) to increase the interest rate to slowdown the monetary growth. Some others (economists) have suggested "flexibility in exchange rate" (euphemism for devaluation) to stem the pressure on demand for foreign exchange. The major macroeconomic challenge for the next budget will be to sustain the investment demand without jeopardising the macroeconomic stability.

In this context, it is maintained that no single policy instrument can fully diffuse the gathering clouds on the macroeconomic horizons. Possibly, a combination of three major approaches will be necessary to adapt domestic demand, external demand and aggregate demand to their allowable maximum limits. These instruments are (i) adjustment of nominal interest rate in line with the inflation rate making the real rate marginally positive; (ii) downward revision of the exchange rate of Taka to attain its equilibrium value; and (iii) moratorium on government's recurrent expenditures and streamlining of ADP.

A judicious mix of these approaches may keep the growth process on track without fatiguing macroeconomic balances. Such a mix will also promote convergence between the fiscal and monetary policies. It will be a matter of great interest to observe to what extent the national budget for FY2005 comes close to this approach.

The third and the most interesting aspect of the upcoming national budget will be its fiscal measures. The allocative priorities for the ADP for FY2005 are well known by now. The Ministry of Local Government got a resounding increase, followed by Health and Population, Education and Religion, Power and Transport. Agriculture is also going to get an added allocation, particularly on account of subsidies. Revenue expenditures may be projected with 10-12 per cent growth, taking into account the declared pay increase for the government employees.

On the revenue front, possibly no new taxes will be introduced although some revisions will be in order (e.g. increasing the taxable income limit and the minimum income tax payable). The provision for new enterprises' tax holiday may be disciplined by provisioning it only for certain sectors. Tariff structure may move towards a three-tier system with a maximum of 25 per cent. One may also see reduction of zero tariff items. It is to be observed whether streamlining of the para-tariffs e.g. Supplementary Duty, Infrastructure Development Surcharge, etc. are on the cards.

The upcoming budget is definitely going to accompany some measures to broaden the safety net programmes either through expansion of the old ones or through introduction of new schemes.

Economic Policy-making during the Time of Political Transition

The upcoming fiscal year will be the last year of the present tenure of the incumbent government. All over the world, pre-election political correlates do influence the nature of economic decisions. However, in many countries, thanks to the presence of strong oversight institutions, the scope for expedient tampering with economic policies is greatly reduced. Regrettably, Bangladesh is not endowed with such institutions and regulatory frameworks. Thus, one notices that successive regimes in Bangladesh have manipulated public resources and overstretched their decision-making authority to improve their chance of being voted back to power, sometimes with too ambiguous consequences. It is in this context that we conclude our review by identifying eight hazards of policymaking during a period of political transition, which Bangladesh is bracing for in 2006.

(i) Bloated Public Investment Programme

Most outgoing governments seek to get access to maximum amount of public resource for placating the electoral constituencies. In the same tradition, the ADP for FY2006 has been fixed at Tk 24,500 crore, i.e. 19.5 per cent more than the revised figure for FY2005. It has been mentioned earlier that in the recent past the government has failed to utilise, on an average, 20 per cent of the original development allocations. Indeed, the present government is currently incapable to execute such a grandiose public investment programme. Thus, this raises an apprehension about misuse of the earmarked resources.

(ii) Adverse Selection of Projects and Programmes

A bloated public investment programme by definition cannot constitute only demand-driven projects. Not only these projects are included on political considerations, these are also included in sectors and programmes, which allow unaccountable use of revenues. Thus, no wonder, in the ADP for FY2006, the Ministry of Local Government was awarded the highest increase (28.4 per cent) a large part of which will be used to "develop" rural infrastructure. On the other hand, more than 75 per cent increase in Block Allocation under the ADP for FY2006 speaks volumes for itself.

(iii) Tendentious Award of Tax and Tariff Relief

In their pursuit to generate election finance, governments are often tempted to award tax relief or tariff rebate to their powerful elite supporters. This may take the form of targeted tax breaks in certain areas. Alternatively, it may look like a universal policy, which ultimately benefits a chosen few. One such policy happens to be tax amnesty for undeclared income. The Finance Minister has repeatedly mentioned that he will not resort to such policy distortions any more, but one will have to wait till the budget day to watch him live up to his promise.

(iv) Contracting of Questionable Suppliers Credit

As has been depicted earlier, all political regimes in Bangladesh have accessed hard term foreign loans of questionable value. In fact, succeeding governments have routinely restored to various justifications to go for suppliers' credit. The present government, in fact, made a big issue about the suppliers' credits contracted by the earlier regime, only to revive most of them under conspicuous circumstances. The present government in four years has already signed up

$347 million worth of hard-term foreign loans as against a total of $425 million of the earlier regime. One wonders how much more is to come soon.

(v) Patronage Distribution through Public Procurement

In order to control rent seeking through projects involving public resources, the government has recently introduced, not without hiccups, the Public Procurement Policy. Notwithstanding that, apprehension remains real about the government bending the rules (if not violating them) to suit its favoured contractors. The state of affairs in the power sector gives credence to this concern. The ill-fated Sirajganj Power Project has emerged as the best case study in this context. One needs to only observe how in the coming months various government-sponsored contracts are dished out to the usual suspects.

(vi) Patronage Distribution through Privatisation of State-owned Enterprises

The process of privatisation of state-owned enterprises has earned a bad name in Bangladesh. It has become co-terminus with unscrupulous transactions where public assets change hands for private benefits. This process may receive fresh impetus as the electoral frontier draws near. Presently, the government has a substantial pipeline of financial and industrial enterprises earmarked for privatisation. The government will be under the dual pressure of improving its performance by clearing this pipeline and satisfying the prospective buyers of certain allegiance. The test case in this regard will be the Rupali Bank as the most prized giveaway in the current privatisation list.

(vii) Issuance of New Bank Licences

Regrettably, award of licences for setting up of new banks and non-banking financial institutions in Bangladesh till now has been more an issue of having the right contacts with power elites, rather than having the right professional and business credentials. During 1991-96, a total of 25 financial institutions (bank and non-banking) were awarded licenses, whereas during 1996-2001 the number was 29. The present government as of date has issued 9 licenses. While a couple of dozens of applications for opening new banks remain pending with the government, it is being speculated that a fortunate few may indeed become successful. Given the current need for consolidation of the financial sector, entry of new banks will only put fresh strains on the sector.

(viii) Issuance of New Insurance Licences

In the context of weak regulatory framework, setting up of insurance company has turned out to be a lucrative venture in Bangladesh. In fact, those who failed to get a bank licence ended up being a co-owner of an insurance company. Antecedents of these owners do project a certain profile. Between 1991 and 1996, a total of 10 insurance companies were established, while during 1996-2001 the number increased to 29. Although no insurance licence has been issued during the last four years, but it is to be seen whether during the next fiscal year the government opens its account on this count.

The abovementioned list of eight hazards of economic policymaking of a pre-election government is not an exhaustive one. But this list may very well work as a select point of reference for establishing economic accountability during a period of heightened electoral politics. One is inclined to believe that the upcoming budget will assuage citizens' concerns in these areas.

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Participants at the Expert Group Meeting

CPD-IRBD 2005

As part of the CPD-IRBD tradition, CPD organised an Expert Group Consultation Meetings on January 12, 2005 at the CPD Dialogue Room. The First Interim Report on the *State of the Bangladesh Economy: Early Signals of FY2005* was shared at this in-house meeting with a distinguished group of policymakers and professionals with direct exposure to macroeconomic policy crafting in the country. *Professor Rehman Sobhan*, Chairman, CPD chaired the session. CPD-IRBD Research Team acknowledges the participants for sharing their views and comments on the draft report. However, CPD is solely responsible for the observations and analysis made in this paper.

A list of the participants of the meeting is provided below in alphabetical order:

Dr Q K Ahmad	President, Bangladesh Unnayan Parishad (BUP)
Dr. Quazi Mesbahuddin Ahmed	Member (GED), Planning Commission
Professor Amirul Islam Chowdhury	Former Vice Chancellor, Jahangirnagar University and Former Chairman, Sonali Bank
Dr. Mirza Azizul Islam	Chairman, Securities and Exchange Commission
Mr. M. Hafizuddin Khan	Former Finance Advisor to the Caretaker Government and Chairman, Public Expenditure Review Commission
Professor Wahiduddin Mahmud	Former Finance Advisor to the Caretaker Government and Professor, Economics Department, University of Dhaka
Dr. A.K.M. Masihur Rahman	Former Secretary, ERD, Ministry of Finance
Mr. Mustafizur Rahman	Former Chairman, Revenue Reform Commission and Director, Far-East Finance and Investment
Dr. Quazi Shahabuddin	Director General, Bangladesh Institute of Development Studies (BIDS)
Mr. M. Syeduzzaman	Former Finance Minister and Chairman, Bank Asia

Chapter II

Analysis of the National Budget for 2005-06

Analysis of the National Budget for FY2005-06

1. INTRODUCTION

The Bangladesh economy experienced a respectable growth rate of about 5.5 per cent during the FY2005 in spite of having struggle with two exogenous shocks, viz. floods of July-August 2004 and phasing-out of apparel quota from 1 January 2005. The economy posted a double digit export growth notwithstanding the challenges emanating from a quota-free global trading regime in apparel. A bumper Boro crop, estimated at 13.75 million MT, helped recover from the crop losses due to the flood. A US$2.5 billion worth of foreign direct investment (FDI) proposal from the Tata Group of India transmitted an optimistic signal to the potential investor community. The Privatisation Commission was reactivated with new off-loading mandate. The capital market received a new lease of life, thanks to increased liquidity flow. High import of capital machineries in the wake of robust credit expansion in the private sector and also strong growth of agricultural credit energised the economy in FY2005. Off-take of foreign aid improved marginally, and remittance flow continued to be buoyant and is expected to reach about US$ 3.8 billion by the end of the current fiscal.

However, the macroeconomic achievements could not be translated into overall robust economic development due to a number of weaknesses in the economy. These include failure to implement public investment programmes, coupled with poor revenue collection effort, particularly in non-NBR and non-tax components. The macroeconomic correlates are particularly under pressure from the third quarter of FY2005 due to stressed balance of payment as import greatly outpaced export growth and stretched fiscal balance in the face of runaway growth of revenue expenditure. A rising trend in consumer price index created new tensions in the macroeconomic stability; a deepening state of weak governance with a stillborn Anti Corruption Commission and stagnation in the public administration reform and local government undermined the overall economic management.

In this context, the major challenge before the national budget for FY2006 was to sustain the private investment growth without weakening the macroeconomic stability. In order to sustain the macro-stability in the current context manifested through sober consumer's price index, stable exchange rate and sound interest rate, the budget needed to address the following six major sources of fragility. These are:

(i) The inability to implement public investment programmes in the face of the runaway growth in recurrent expenditures;
(ii) Slow progress in domestic revenue mobilisation with continuing dependence on international trade tax, with direct tax collection increasing at a pace that is slower than the domestic VAT;
(iii) Upsurge in inflation rate underwritten by cost-push factors, such as high global prices of food, fuel, fertiliser and steel;
(iv) The delicate balance in external payments situation notwithstanding the robust export and remittance growth;
(v) Failure to undertake complementary reforms to ensure improvement of micro-conditions for private investment, including improvements of governance in public infrastructural facilities and utilities, regulatory framework for capital and debt market, contract enforcement through judicial process and transparency in public expenditure; and
(vi) Widening disparity in income distribution which is limiting the growth prospect including its sustainability.

The budget of FY2006 was placed in the backdrop of the above described macroeconomic scenario. The efficacy of the budgetary measures ought to be looked at from the vantage point of whether it is able to address these concerns or not. On the other hand, the Government of Bangladesh (GOB), for the first time, has prepared a budget ostensibly under the three year framework of the Poverty Reduction Strategy Paper (PRSP). Thus, an additional point of query is whether and to what extent the new budget is in consonance with the Medium Term Macroeconomic Framework

(MTMF) of the PRSP and its allocative guidelines.

It is to be acknowledged that the budget speech of the Finance Minister was more precise in nature; both the text and the issues were restructured is a manner that gave the budget more concreteness and also the presentation was more lucid the current state of the affairs. However, in some brevity led to lack of transparency, for example, the budget speech did not provide information on net outcome of fiscal measures by source.

It may be mentioned here that four (4) of CPD's pre-budget fiscal suggestions were reflected in the new fiscal proposals.

In the present review, the analysis of the budget for FY2006 has been organised under two major blocks of measures: Fiscal Measures (Section 2) and Social Sector and Safety Net Programmes (Section 3). The present analysis of the budget ends with a set of concluding observations.

2.FISCAL MEASURES

2.1 Personal Income Tax

- Budget FY2006 has proposed to increase the limit of tax-free income from Tk 1 lakh to Tk 1.20 lakh, while restructuring the upper limits of taxable income for each of the four slabs. It can be mentioned that in India, the income tax exemption threshold is Tk 1.45 lakh (i.e. Rs 1 lakh).
- Comparing the proposed income tax structure and that of FY2005, it is found that salaried income tax payers will pay relatively less in income year FY2006 than they did in FY2005. However, people in the high income brackets will pay relatively less than the people in the relatively low income brackets. For example, a person with Tk 10,001 monthly salary will pay 10 per cent less than what s/he paid in FY2005, whereas a person with Tk 30,833 or Tk 55,833 monthly salary will pay 18 per cent and 14 per cent less tax respectively.
- It is however unfortunate that people having income of an amount of Tk120,001 will pay an income tax at a rate of 10 per cent, while people having black money will pay at a rate of 7.5 per cent, much lower than the poor tax payers (See Table 9).

Table A.1: Implications of Revised Income Tax Rate for Individual Assesses for the Income Year 2005-2006 (Tax Assessment Year 2006-07)

Income	Rate	Per Month Salary (Tk)	Tax (Tk)		Difference	
			2004-05	2005-06	Amount (Tk)	Per cent (%)
Tk 120,001		10,000	2,000	1,800	(2,000)	- 10
Tk 370,000	10%	30,833	30,500	25,000	(5,500)	- 18
Tk 670,000	15%	55,833	81,500	70,000	(11,500)	- 14
Tk 1,020,000	20%	85,000	157,500	140,000	(17,500)	- 11
Above	25%	-				
Minimum taxable income			8,333	10,001	1,668	20
Minimum Tax			1,500	1,800	3,000	20
Exemption			100,000	120,000	20,000	20

Note: Tax rate table for the income year 2005-06, for which the Tax Assessment year is 2006-07.
Source: Estimated from CPD - IRBD Database.

- Budget will allow the banks to make provisions for bad and doubtful debts up to 1 per cent in place of 2 per cent of the total outstanding loans till assessment year 2006-07.
- The budget proposes to withhold advance income tax at 10 per cent on dividends making it taxable for shareholders.
- Rate of advance income tax applicable to profits from approved securities and bonds are proposed to be reduced to 10 per cent from the prevailing 20 per cent.
- Reduced rate of tax at 10 per cent on income from computer software business will be continued up to 30 June 2008.
- To encourage donations to philanthropic and educational institutions by any individual or

industrial enterprise, it is proposed to allow the donors tax-rebate for such donations. However, caution should be exercised against any abuse of such rebate.

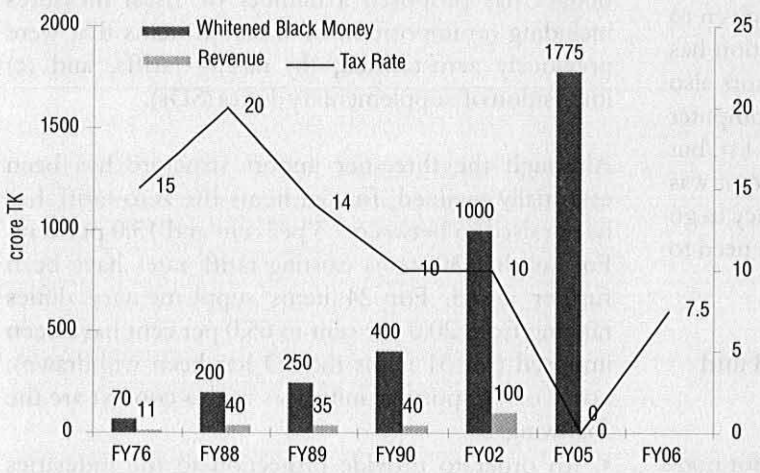
- At present, the rates of advance income tax applicable to "Royalty & Technical Know-how fee" and "Professional & Technical service fee" are 10 per cent and 5 per cent respectively, which often causes confusion because the "fees" are of same nature. In order to remove this confusion, the rates of tax for all these fees have been re-fixed in the proposed budget at 10 per cent. The government could think of considering this as final settlement since this may encourage professionally to declare their incomes and hold mobilisation of direct tax from this largely untapped source.

2.2 Investment of Undeclared Money

The opportunity to allow whitening of the black money has always been controversial. It provides incentive to tax dodgers, encourages income concealment, and is a disincentive for honest taxpayers. This facility was supposed to end on 30 June 2005. The Finance Minister is on record as saying that he is against any extension of this facility, perhaps also because of the weak response to this facility. However, it appears that he has succumbed to pressures, and has now proposed the extension of the provision of whitening undisclosed income, on payment of a 7.5 per cent tax, till 30 June 2006.

Is it justified when lower middle class people in the lowest income bracket are asked to pay income tax of 10 per cent? We believe it is an unethical and inefficient

Figure A1: Whitening of Black Money in Bangladesh.



Source: Estimated from CPD - IRBD Database.

policy for mainstreaming black money, such a facility should not be perceived as a permanent facility. It may noted that in 1997 India under its Voluntary Disclosure of Income Scheme (VDIS), netted tax collections estimated at Rs 10,050 crore and the opportunity was given only once and only for nine months. This was also a transparent policy as regards the use resources collected.

We think that such backtracking by the Finance Minister will send a wrong signal to the tax payers and undercut credibility of other fiscal measures.

2.3 Real Estate

The budget proposes taxing of investment in real estate at a flat rate of 175 Tk/m2 and imposition of 2.5 per cent tax on the price of land to be deducted at source at the time of registration. Such payments are to be recognised as final settlement for the purpose of taxation.

One could argue that this was another way of allowing whitening of the black money and the government should reconsider this proposal.

Increased duties on items such as billets and related construction materials are likely to further increase the cost of construction.

2.4 Tariff Structure

The three-tire tariff structure has been retained with marginal rate of 25 per cent and the five supplementary duty structures have been revised and brought down to three, the infrastructure development surcharge continuing. These measures will bring clarity to the structure of indirect tax and will promote transparency in mobilisation of indirect taxes. The new indirect tax measures indicate a conscious policy to support import-substituting domestic industries (particularly through SDs). However, extension/expansion of VAT, SDs and indirect taxes is also likely to put pressure on purchasing power of consumers.

Reduction of import tariffs for some intermediate inputs would help to combat price hike in both domestic and international markets. For example, the proposal to raise import duty on newsprints by 25 per cent in FY2005 deserves to be reconsidered and reduced.

2.5 Incentives for Investment

To encourage investment, the budget has proposed a number of steps: (a) recasted tax holiday facility for selected industries, (b) continuation of cash compensation scheme, (c) provision for investing for undeclared income, (d) widening the gap between listed and unlisted companies, (e) preferential treatment for import of raw materials, and (f) consideration of tax deduction at source as final settlement of tax.

Tax holiday

Misuse of tax holiday facility gave rise to the apprehension of its total discontinuation from this fiscal year when on 30 June 2005 the duration of the facility was supposed to expire. Instead, the government went for continuation of this facility for 18 selected sectors. The facility was extended up to 30 June 2008. The duration of the facility was, however, brought down from 5 and 7 years to 4 and 6 years depending on location. Sectors which will enjoy this facility included a number of important activities such as textiles, pharmaceuticals, petrochemicals, fertilisers, steel, and agri-machineries. This is likely to have positive impact on investment, although the government could have taken additional measures to plug the loopholes (which encouraged misuse and abuse of the facilities). Extending the facility of accelerated depreciation up to 30 June 2008 is also expected to encourage new investment.

However, the proposal for tax holiday for the RMG sector is somewhat ambiguous as it was only given to the "High Value" RMG sector and no definition has been provided in this respect. Knit-RMG sectors also appear to have been left out. Also, only computer hardware has been included in the tax holiday list, but not the computer software. Besides, energy sector was also not in the tax holiday list. Given the urgency to go for more investment in these sectors, there is a need to review this list.

Enhancing the Dispersion between Listed and Non-listed Company

The budget has proposed to increase tax rate for non-listed companies from 37.5 per cent to 40 per cent. This will further increase the difference between tax rates for listed and non-listed companies. Although the intention to encourage companies to go public and be listed in the stock exchange is understood, such high level of taxation for non-listed companies is likely to harm small and medium enterprises whose scale of operation do not allow them to go public. Government may revise downward the tax rate say from 37.5 per cent to 30 per cent.

2.6 Export Promotion versus Import Substitution

Export Promotion

The budget has proposed a number of steps to promote exports including (a) tax holiday for selected export-oriented industries, (b) continuation of cash compensation scheme (notably for agro-based industries and continuation for backward linkage textile sector), (c) income tax rebate on export earnings, and (d) concessional import duty on raw materials for export-oriented industries. However, a comprehensive initiative to promote export diversification is not seen in the budget.

All the incentives proposed in the budget are more or less continuation of old incentives carried from earlier budgets, barring inclusion of some items for zero-tariff treatment (such as spare parts for export-oriented industries). The budget proposed no new subsidy or any initiative to encourage technological upgradation of export-oriented industries.

Domestic Protection

To provide protection to domestic industries the budget has proposed a number of fiscal measures including (a) imposition of taxes on items that were previously zero-tariffed, (b) raising tariffs, and (c) imposition of supplementary duties (SDs).

Although the three-tier import structure has been essentially retained, for ten items the zero-tariff has been raised to between 7.5 per cent and 15.0 per cent. For another 30 items existing tariff rates have been further raised. For 24 items supplementary duties ranging from 20.0 per cent to 65.0 per cent have been imposed (for 31 items the SD has been withdrawn). Some of the positive initiatives in this context are the following:

- In order to provide protection to the industries engaged in the production of mineral water, the budget has proposed to impose 35 per cent supplementary duty on mineral water at the import stage.

- Imposition of 20 per cent supplementary duty on imported detergents has been proposed in the budget.
- The budget has proposed to impose 20 per cent supplementary duty on all imported lamps and light fittings.
- The budget proposes to enhance supplementary duty from 25 per cent to 35 per cent on some items of processed food and fruit juice.
- Supplementary duty was enhanced from 25 per cent to 35 per cent for all kinds of imported furniture.

The restructuring of the SDs has necessitated moving of a large number of items from existing slabs and putting these into the three slabs. The actual impact of this at the consumer level will need to be carefully assessed.

2.7 Agriculture

Crop Sector

Positive Measures

- Total allocation (revenue and development) for Ministry of Agriculture in FY2006 is Tk 2,213 crore (24.5 per cent more than the original budget of FY2005, but 6.7 per cent less than revised allocation in FY2005).
- It is promised in the budget that in FY2006, agricultural extension, research, field training, production, preservation and distribution of improved seeds, storage and marketing of agriculture produce and irrigation activities will be strengthened. Bangladesh Agricultural Development Corporation (BADC) would be restructured and the Corporation's work involved in seed production, preservation and distribution will be further expanded. This is a pragmatic proposal considering the fact that BADC delivers only about 5 per cent of seed requirement.
- From 1 July 2005 interest on agricultural loan provided for production of pulses, mustard seeds, spices and maize will be reduced to 2 per cent from the existing 8 per cent. This is a welcome measure for promoting agricultural diversification. However, proper utilisation of credit needs to be ensured.
- The budget proposed complete withdrawal of all duties and taxes on some varieties of fertiliser (Magnesium Sulphates, Zinc Sulphates, Disodium Tetraborates). It has also proposed reduction of customs duty from 15 per cent to 7.5 per cent on raw materials needed for the manufacture of parts and accessories of rice and wheat mills. This will be helpful to reduce micro-nutrient deficiency in soil and increase competitiveness of concerned manufacturers.
- The Government has waived interest on classified agricultural loan up to Tk 5,000 as of 31 December 2003. The repayment period of principal amount will be extended from 30 March 2005, as fixed earlier, to 30 March 2006. This will help small loanees.
- The budget has proposed continuation of 20 per cent subsidy on electricity bills of Palli Bidyut Samities (PBSs) for electricity and waiver of minimum charge for all electricity connections throughout the country for irrigation with effect from 1 July 2005. This measure will surely have some positive effect, but this is expected to be limited considering the fact that 83 per cent of the total irrigated area is under diesel operated engines. It is to be noted that in spite of demands from various quarters no support has been given to diesel used for irrigation.
- Cash incentive for export of agricultural products, fruits and vegetables will be continued at 30 per cent. Earlier experience with disbursement of cash incentive indicates that due to absence of clearly spelt out and realistic procedures the allocated amount could not be spent. Hopefully, proper mechanism would be in place and steps for awareness building among potential exporters would be undertaken to promote export of agro-products.

Grey Measures

- The budget proposed increase of agricultural subsidy from Tk 600 crore in the original budget of FY2005 to Tk 1200 crore in FY2006. Subsidy for agriculture will be spent on different types of fertilisers (Urea, DAP, MoP and TSP). It may be noted that total allocation for agricultural subsidy and other assistance in the revised budget of FY2005 was Tk 1315 crore. Thus, it is not clear whether total assistance for agriculture has been increased or reduced.
- Bangladesh Bank will provide refinancing at 5 per cent rate of interest to relevant banks to enhance the agricultural credit flow. It is not clear from the budget speech whether Bangladesh Bank will also ensure that the banks provide loans to farmers at 8 per cent as was stipulated in FY2005.

- It may be noted that total allocation (Revenue+Development) for Agriculture Ministry for FY2006 is Tk 2213 crore i.e. 24.5 per cent less than FY2005 (original) and 6.7 per cent less than FY2005 (revised).

Concern(s)

- Bangladesh needs a comprehensive road map and action plan for promotion of agricultural diversification which must focus on pulses, oilseeds, spices, vegetables, new crops with export potentials (such as maize), fruits, flowers, dairy, poultry and fisheries. Without an integrated road map, agricultural diversification will not be possible.

Fisheries and Livestock

Positive Measures

- The budget has proposed a total allocation (development and revenue budget) of Tk 549 crore in FY2006 (0.48 per cent more than the original budget of FY2005).
- The budget proposed withdrawal of all duties and taxes on the raw materials of dairy and poultry feed, medicine, other medical inputs and capital machinery required by the livestock sector. These are expected to reduce the cost of importing such items and would be beneficial to the poultry industry by reducing cost of production and enhancing competitiveness.
- The budget has proposed extension of tax exemption period on income from fish farming, poultry and dairy farms, poultry feed production, etc. from the prevailing 30 June 2006 to 30 June 2008. This is a welcome measure to encourage investment, employment and growth in livestock and fisheries sector.

Rural Development

Positive Measures

- Allocation to the tune of Tk 100 crore in the revised budget of FY2005 and Tk 120 crore in FY2006 budget was made to the Union Parishads. Though the amount of allocated money is highly limited compared to the need of resources by the Union Parishads, allocation of resources undoubtedly gives a positive impression about government's willingness to support rural development.
- The budget has proposed a total allocation of Tk 2,214 crore, from revenue and development budget, to the Ministry of Fisheries and Livestock, Ministry of Social Welfare, Ministry of Women and Children Affairs, Ministry of Labour and Manpower and Ministry of Youth and Sports in order to implement 113 projects to accelerate development of the rural non-farm sector and to create additional employment opportunities in the rural areas.
- A "Char Livelihood Project" in 5 districts with an outlay of Tk 475 crore is being implemented to raise the living standards of extreme poor people living in disaster prone districts.
- The "Abashan Project" (with an outlay of Tk 447 crore) is being implemented by the Office of the Prime Minister to provide land, houses, credit facility, education, health, family planning services and employment opportunities to 65 thousand landless and extreme poor people.

Grey Measures

- Under rural infrastructure programme, the Local Government Engineering Department (LGED) will construct 10,000 km paved roads, 9,500 km of kutcha (earthen) roads, 346 Union Parishad complexes and 20 cyclone centres, and develop 435 growth centres/hat-bazzars. Theoretically, these are expected to provide a boost to the rural economy by increasing mobility of inputs to and outputs from the rural area. On the other hand, these projects are much vulnerable in terms of implementation. Major challenge would be timely implementation without sacrificing quality.
- The budget proposed to rejuvenate Upazilla central cooperative societies under Bangladesh Rural Development Board (BRDB) by providing agricultural credit fund and inject fresh capital to the Samabaya Bank (co-operative bank).
- The budget allocated Tk 60 crore for newly introduced special programme titled "Development Support through Gram Sarker". In view of the debate around the way these Gram Sarkers have been formed, it is doubtful whether this money will be appropriately targetted and properly used.
- The budget reiterated commitments to provide safe-drinking water to the rural areas and the budget has proposed to provide sanitation facilities for all families by 2010. However, the budget failed to mention indicators to monitor the implementation of such facilities.

Concern(s)

- The abovementioned projects give some indication that the government is aware about its rural inhabitants but does not necessarily ensure us that it has effectively undertaken pro-rural and pro-poor policies. The budget lacks visionary projects for rural development (such as special programmes for backward or poverty stricken areas, a knowledge centre or ICT kiosks in villages) initiative which our neighbouring countries have been successfully promoting.

Agro-Processing and Agro-based Industry

- Equity Entrepreneurship Fund (EEF): The government is continuing the allocation in EEF and in FY06 an additional allocation of Tk 150 crore has been proposed. This fund is reserved for providing equity support to computer software, food processing and agro-based industries. As of now a total of Tk 668.9 crore as EEF has been approved for 181 agro-based and food processing industries which has a project value amounting to Tk 1708 crore. A total of Tk 149.5 crore has so far been disbursed to 55 agro-based and food processing projects under EEF. It appears that the revised system of granting support from the EEF is working well (it may be noted here that CPD has earlier prepared a policy brief to raise effectiveness of the EEF facilities which was submitted to the Bangladesh Bank). The demand for EEF fund has been increased not only in traditional industries such as poultry and fish feed, fruit processing, hatchery and fish production, and software development, but also in non-traditional industries such as crocodile farming, etc. This support needs to be extended and enhanced.
- Tax holiday for agricultural machinery industry has been proposed. This is expected to have positive impact.
- The budget has proposed the increase in supplementary duty from 25 per cent to 35 per cent on some of the items of processed food and fruit juice. This is expected to give some protection to processed food and fruit juice sector.
- Continuation of 20 per cent subsidy on electricity used in agro-based industries has been proposed in the budget. This will be helpful in reducing cost of agro-based industry.

2.8 Power and Energy

- In FY2006, an allocation of Tk 4,293 crore was made in the power and energy sector under the revenue and development budget. This was only 0.47 per cent higher than the revised allocation of FY2005 (Tk 4,273 crore). This appears to be on the low side considering the demand. To compare, India has increased the allocation for energy and power by 33.4 per cent in FY2006.
- In power sector, a total of 51 projects are on stream under seven agencies. Of these, only 22 per cent fund was allocated for generation, 17 per cent for transmission and the rest 56 per cent for distribution. This lower share of generation-related projects indicates that hardly any substantial improvement in the power situation could be expected in the near future.
- Although power generating companies enjoy tax exemption on income for 15 years, it is to be noted that the sector has not been in the tax holiday list as proposed in the budget FY2006.
- Proposed reduction of customs duty on crude petroleum (from 25 per cent to 7.5 per cent) and customs duty on refined POL products (from 25 per cent to 15 per cent) and withdrawal of supplementary duty of 15 per cent on refined petroleum product will help to reduce the burden of loss that Bangladesh Petroleum Corporation (BPC) incurs to some extent. It has no implication for consumers as the price is regulated by the government. However, without rationalising the tariff on POL products as mentioned in PRSP, recent changes will hardly have any positive impact for the rural poor.

2.9 SMEs

- Under the proposed tax holiday facility, major SME oriented industries such as plastic, melamine, ceramic and sanitary ware, insecticide & pesticides, computer hardware, agricultural machineries, boilers & compressors, textile machinery, etc. have been included. This will have positive impact on investment in these sectors.
- There is no new budgetary allocation to finance small and medium enterprises as government did in the last fiscal year (FY2005). Under "Refining Financial Institutions by Bangladesh Bank for Priority SMEs" the government had earlier allocated an amount of Tk 250 crore at 5 per cent interest, which was fully utilised. In view of the huge demand for this type of credit, the lack of support in the present budget is worth mentioning.
- Proposed tax rate for non-listed companies at 40 per cent instead of 37.5 per cent is likely to negatively impact on the growth of small and medium enterprises. If it is an attempt to push non-listed companies to be listed, this could not be achieved easily since most of the non-listed companies do not comply with the required terms

and conditions necessary for enlisting. A large difference of 10 per cent in corporate tax between large and small enterprises is against the spirit of the PRSP.

2.10 Sectoral Issues

Readymade Garments

- In view of the challenges faced by the RMG in the context of the quota-phase out, the support for RMG sector was rather weak. One positive move is that imports of spare parts, dyes and chemicals for RMG have been zero-tariffed. An initiative has been taken to formulate a programme titled "Post-MFA Action Programme" at a cost of US$ 40 million with the assistance from development partners. In FY2005, the government allocated Tk 30 crore for the purposes of retraining of retrenched garment workers. Only high value RMG has been awarded tax holiday facility, but there is no particular criteria proposed to identify such industries.
- The budget has proposed setting up of a special fund of Tk 20 crore for retraining and creating employment opportunities for employees/labourers of garment industries.
- In Sri Lanka, government has proposed establishment of a SME bank by this year to enable banking and financial institutions to provide for required working capital and investment needs of the apparel industry, and to modernise the factories. A total sum earmarked for the issuance of this guarantee will be Rs 60 crore (Tk 34.8 crore) so that the industry will be able to raise Rs 200 crore (Tk 116 crore) from the banking system and other financial institutions. It has also allocated support for productivity improvement measures and promotion of markets for apparel exports.

Textile

- In view of the MFA phase out and the need for strengthening local backward linkage industry, the decision to continue with the current provision of 5 per cent cash subsidy in the next fiscal year for textile sector is a positive step. However, support to the textile sector needs to be further strengthened in view of the MFA phase-out.
- Withdrawal of duties from machines, spare parts, some dyes and chemicals essential for textile, terry towel, hosiery and label is expected to reduce cost of production in this sector.
- Consideration of tax deduction at source (at 0.25 per cent of export income) as final settlement for the purpose of tax is expected to have positive impact.
- Although high value RMG have been provided with tax holiday facility, there was a need for further tax-breaks to stimulate backward linkage activities in the textile, particularly in view of the challenges of a quota-free regime.
- A textile technology upgradation fund would have encouraged the sector to undertake the necessary restructuring and upgradation. The Indian Budget FY2006 had not only proposed a budgetary allocation of Tk 43500 crore (Rs 30,000 crore) (5.83 per cent of total revenue expenditure) but also granted Tk 631 crore (Rs 435 crore) for the purpose of setting up a Technology Upgradation Fund (TUF). Though India already has a strong textile infrastructure, it has introduced a 10 per cent capital subsidy scheme for the textile industry.
- There is no special allocation for handloom industry which is a large rural employer. Bangladesh could have taken the initiative to adopt and promote cluster development approach for production and marketing of handloom products, as was advised in the Indian budget FY2006. India has allocated Tk 58 crore (Rs 40 crore) towards this. Besides, a life insurance scheme for handloom weavers has been taken by the Indian government, which will provide insurance coverage of up to Tk 72,500 (Rs. 50,000).

Leather and Leather Goods Industries

- Investment in leather manufacturing products has increased in recent times. Proposed concessionary rate of customs duty for dyes and chemicals for this sector is likely to have positive impact on investment in this sector.

Telecommunication

- Investment in the telecommunication sector will be encouraged in the next fiscal year as a result of reduction of import duty on telephonic machinery (from 15 per cent to 7.5 per cent) and reduction of supplementary duty (from 15 per cent to 0 per cent) on telephone answering machines and dictating machines.
- Local mobile phone battery producers will be benefited because of the increase in the import duty from 7.5 per cent to 15 per cent.
- Imposition of a tax of Tk 1200 for connection of each SIM/RIM Card, or for the same purpose CDMA technology at local stage is likely to create distortions in the mobile telephone market.

- Firstly, this would create a disincentive for lower income groups since clients will be required to pay same amount (i.e. Tk 1200 for connection + Tk 300 for the set) irrespective of income levels. Secondly, there is an apprehension that this will create entry barrier for new entrants and may encourage anti-competitive behaviour.
- However, on their part the mobile operators, rather than passing the whole burden on the customers, could take up steps towards burden-sharing, e.g. reduce call rates.
- Surprisingly the National Board of Revenue (NBR) has circulated a notice to implement this tax structure with effect from June 09, 2005. Since this is only a budget proposal and the budget has not been discussed and passed in the parliament, such advance implementation undermines the participation of legislature in the national policymaking.

Manufacturing Items

- The current budget proposes to reduce customs duty on some raw materials needed for the manufacture of transformer. At present Bangladesh is manufacturing quality transformers. After fulfilling the local requirements, it is also exporting. Reduction of customs duty on raw materials for transformer manufacturing could not only help meet the demand of the local need but also stimulate export.
- Reduction of customs duty on some raw materials for local bicycle industries has been proposed in the budget. This is a positive move towards diversifying export basket as light engineering (bicycle) is an emerging potential export sector.

Vehicle

Customs duty of vehicles within the range of 1500cc and 1649cc in CKD has been raised from 15 per cent to 25 per cent; also for vehicles exceeding 1649cc in CKD. Will it stimulate local vehicle body building industry?

Tax Base under VAT

Instead of expanding the existing tax base, the government emphasised the need to consolidate the present VAT system and has tried to make it more transparent. For this reason, the current budget did not propose any major change in the existing tax regime. It is firmly believed that government needs to further simplify the collection procedures and ensure proper enforcement of the law and regulations. CPD has earlier proposed broadening of the VAT net to include the professionals; however, this has not been done.

2.11 Local Government

Under 11 heads in the ADP, a total of block allocation accounting for Tk 826.5 crore has been allocated for various local government institutions this amount is 5.3 per cent more than that of the comparable figure in FY04 (revised). Interestingly, the largest increase to place under the head of Gram Sarkar (50 per cent more) and allocation for various Chittagong Hill Tract (CHT) related heads did not experience any growth (Tk 115 crore).

However, Tk 244 crores has been earmarked for the CHT as investment project in the proposed development budget of FY2006 which of 31.1 per cent higher than the allocation is the revised budget of FY2005.

Under the revenue budget, CHT Ministry received Tk 126 crore in FY2006 which is 10.5 per cent higher than the revised budget (Tk 114 crore) of FY2005.

3. SOCIAL SECTOR AND SAFETY NET PROGRAMMES

Towards targeted poverty reduction, social safetynet and employment generation programmes, the budget for FY2006 proposed an additional allocation of Tk 4,600 crore from the non-development budget. This allocation is about 12.1 per cent of the total non-development budget. This allocation (besides ADP) for social safety net include the following: (a) continuation of existing programmes, (b) new programmes introduced, (c) special programme for mitigating economic shocks, (d) special credit programmes for employment generation.

3.1 Social Sector

Education

- As in the last budget, education has received the highest allocation of Tk 9487 crore which is 14.94 per cent of the total budget. Out of this, Tk 3227 crore (34 per cent) will be spent from development budget for implementing 61 projects.

- This allocation is Tk 2366 crore (33.23 per cent) more than the last year's revised budget and 23.53 per cent more than that of the proposed budget.
- Development budget this year is 57.49 per cent more than the revised budget of the previous year and 5.08 per cent more than the proposed budget. Increase in revenue budget is Tk 296 crore (23.4 pre cent) from revised budget and is 35.82 per cent more than that of the proposed budget.
- Share in total GDP allocation is 2.27 per cent which was 1.93 per cent in FY2005 revised budget and 1.84 per cent in the proposed budget.
- In line with PRSP, budget has put a lot of emphasis on girls' education. The budget will bring 29 lakh more students under the stipend programme. In addition, the budget has increased the number of scholarships at various levels.
- Expenditure upto March 2005 was 44 per cent. Number of projects in ADP is 51, of which 13 were targeted to be completed but none was completed. In FY04 budget 39.1 per cent was spent upto March which went up to 88 per cent in June.
- No new project was included in education sector.
- Ministry of education has been brought under the Medium Term Budgetary Framework (MTBF) which is a new initiative of the Government. Indicators of attainment of targets and output target of those indicators are specified under this new initiative. So hopefully the targets can be better monitored.

Health

- Combined allocation in health is Tk 4240 crore which is 6.6 per cent of the total budget. This allocation is Tk 1065 crore (33.5 per cent) more than the last year's revised budget and 31.6 per cent more than the proposed budget.
- Development budget increased by 58.7 per cent compared to the revised and only by 4.7 per cent compared to the proposed budget. Revenue allocation increased by 14.4 per cent from the revised and by 24.9 per cent from the proposed budget.
- Share in GDP allocation is 1.0 per cent as against 0.9 per cent of the last revised budget. This share is 0.9 per cent of the FY05 proposed budget.
- Expenditure up to March 2005 has been only 33 per cent of the allocated amount. Number of projects in the ADP was 16. One was targeted to be completed but was not completed by March 2005. In FY2004 budget 34.4 per cent was spent upto March 2005 which went upto 71 per cent in June.
- Only one new project has been included but this was under the local government division.
- On the whole, allocation in social sector in FY2006 as percentage of total budget has increased by 1.39 per cent.

3.2 Social Safety Net

Continuation of Existing Programmes

Some of these programmes were launched in the earlier regime, and retained and expanded under the current one. This is a very welcome trend.

- Increased monthly allowance under Old-age Allowance and Allowances for the Widowed, Deserted and Destitute Women, from Tk 165 to Tk 180, and increased number of beneficiary coverage from 19.15 lakh to 21.25 lakh.
- Increased number of beneficiaries under Honorarium for Insolvent Freedom Fighters, from 60 thousand to 70 thousand.
- The budget proposed an additional allocation of Tk 75 crore to the Fund for Mitigating Risks due to Natural Disasters.
- The budget proposed an additional allocation of Tk 20 crore to the Fund for Rehabilitation of the Acid-burnt and the Physically Handicapped and an additional allocation of Tk 75 crore to the Fund for Housing the Homeless.
- The budget proposed an allocation of 10.32 lakh tons of foodgrain for VGD, VGF, Food for Works Programmes, Test Relief and Gratuitous Relief (GR) in FY06 which is 18.6 per cent higher than the revised budget of FY2005 but 22.3 per cent lower than original budget in FY05. In addition, it proposed an allocation of Tk 300 crore in FY2006 as Food for Works Programme (Cash) which is 13.6 per cent more than the revised budget of FY2005.
- The budget made a lumpsum allocation of Tk 100 crore to the Ministry of Flood and Disaster Management to meet the emergencies due to natural disaster.

New Programmes Introduced

The budget has proposed introduction of two new programmes in the next fiscal year in addition to the ongoing social safety-net programmes:

- *Allowance for the Fully Retarded:* The budget has proposed to provide a monthly subsistence of

Tk 200 to 104000 fully retarded persons; the budget allocated an amount of Tk 25 crore towards this programme.

- *Seasonal Unemployment Reduction Fund:* The budget proposed to create a fund of Tk 50 crore for the marginalised poor of some selected areas in Bangladesh where remain unemployed per force for certain periods in a year owing to natural and geographical constraints. This is expected to mitigate their miseries by creating employment opportunities for them.

It can be mentioned that, prior to budget announcement, CPD suggested these two proposals to the Finance Ministry.

3.3 Programme for Mitigating Economic Shocks

This nominal allocation only gives indication of the problem, not the solution.

- The budget has proposed to allocate Tk 30 crore to the special funds introduced in FY 2004-05 for Retraining and Employment of the Voluntarily Retired/Retrenched Employees/Labourers.
- The budget has also earmarked Tk 20 crore for Retraining and Employment of Workers/ Employees of the Readymade Garment Industries.

3.4 Special Credit Programmes for Employment Generation

The government has taken up a number of special credit programmes (Tk 831 crore) under both revenue and development budgets for creation of employment opportunities for the poor (see table A2).

However, the test of the actual efficacy of these allocations will be in their implementation and capacity to reach the target groups.

- Up to December 2004, within the purview of different development programmes microcredit amounting to Tk 6,000 crore has been disbursed from Government's own resources through different ministries /divisions/ departments. The budget has proposed a further allocation of Tk 200 crore from the revenue budget to the micro-credit fund which has already been created under the Rural Development and Cooperative Division, Ministry of Fisheries and Livestock, Ministry of Youth and Sports, Ministry of Liberation War Affairs and Ministry of Women and Children Affairs.
- The budget has allocated Tk 281 crore to PKSF (Palli Karma Shahayak Foundation) to implement microcredit programmes through NGOs in FY2006.
- Increased allocation of funds for the Bangladesh NGO Foundation from Tk 50 Crore in FY2005 to Tk 100 crore in FY2006.
- Allocated AN additional amount of Tk 100 crore in FY2006 as Special Fund for employment generation of the hard-core poor.
- The budget has increased an allocation of Tk 50 crore for development of micro-enterprises in the rural areas. PKSF is implementing this programme through 70 NGOs.
- The budget is going to provide credit support of Tk 100 crore through Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, BASIC Bank and Karma Sangsthan Bank to promote agro-based industries.

Table A 2: Special Credit Programmes for Employment Generation: FY2005-06

	Existing (FY05)	Additional Allocations proposed (FY06)
Total New Allocations for Microcredit Programmes		1379
Government departments/ agencies	6000	200
PKSF	*	281
NGO Foundation	50	100
Employment generation for the hard-core poor	*	100
Micro enterprises in the rural areas	*	50
Credit support to promote Agro-based industries		100

** Data not available.*

Hopefully, these programmes will benefit the poor. The test of the actual efficacy of these allocations will be in their implementation and capacity to reach the target groups.

Comment

An analysis of actual expenditure of money allocated as special block allocation for poverty reduction in FY2005 (Tk 230 crore) under ADP revealed that not a single Tk was spent until March 2005. On the other hand, data on utilisation level of targeted programmes for poverty eradication and employment creation during the FY2005 is not available. In the absence of utilisation level, it is not known how far they were implemented in FY2005 and what will be the fate of these allocations in FY2006.

Finance Minister in his budget speech mentioned, "Fifty-four per cent of revenue and development budget will be spent to finance direct and indirect poverty reduction programmes in the next fiscal (FY2006)". However, he does not mention how he has derived these figures and which ministries/agencies/programmes/projects are included in this. A separate annex at the end of the speech could have resolved this problem. Currently, the most important public development document of the country lacks transparency regarding resource allocation to its most important objective, i.e. poverty alleviation.

4. CONCLUDING OBSERVATIONS

Three major trends may be observed from the proposed budget for FY2006.

- First, care has been taken to upgrade some sectors in terms of allocative priority from poverty alleviation consideration. These include the initiatives in the area of health and education. Other initiatives belonging to this category are those contributing to agriculture and rural development. There had also been a conscious effort to expand and deepen the social safety net programmes. However, without a proper poverty audit, it will be difficult to say what is the actual pro-poor intensity of the budget FY2006.
- Second, with a view to provide support to investment and employment generation in the backdrop of limitation of available resources, the budget for FY2006 has made a number of compromises. This has been reflected through recasting of tax holiday provisions, continuation of a number of cash incentive schemes for selected export sector, and rationalisation of tariff and para-tariff structure.
- The third trend in the proposed budget for FY2006 suggests that the fiscal measures were in fact generated through collusive behaviour. The extreme manifestation of this was the extension of the time period for tax amnesty for undisclosed income. Some other fiscal measures would also invoke such suspicion (for example, tax on SIM card).

At the end of the day, the "reality check" of the budget for FY2006 will be in its implementation. If the implementation behaviour pursues its earlier track record, then both the fiscal and external balances will be in jeopardy, ultimately undermining the savings-investment prospect. Admittedly, under such a scenario, the poor will be affected more than the rich.

Some of the "not so pro-poor trends" in the public finance basket are the following. First, revenue expenditure increasing at a rate faster than that of revenue earnings and development expenditure. Second, increased contribution of the VAT in incremental contribution to the total revenue intake. Third, extremely poor level of utilisation of resources allocated to some of the social sectors (e.g. primary health care and education sectors) which essentially benefit the rural poor.

As a result of the above, the economy is already under performing in contrast to the targets set by the MTMF.

The concern for such a grim possibility increases as the government's[1] inclination to commit one by one all the "eight sins" identified by the CPD earlier. These were:

(i) *Bloated Public Investment Programme*
(ii) *Adverse Selection of Projects and Programmes*
(iii) *Tendentious Award of Tax and Tariff Relief*
(iv) *Contracting of Questionable Suppliers Credit*
(v) *Patronage Distribution through Public Procurement*
(vi) *Patronage Distribution through Privatisation of State-Owned Enterprises*
(vii) *Issuance of New Bank Licences*
(viii) *Issuance of New Insurance Licences*

We regretfully observe that the tally has reached three through the budget for FY2006. Will the rest follow as well?

[1] *See for details IRBD 2005 Second Reading.*

Chapter III

Final Assessment of Flood 2004

Final Assessment of Flood 2004

Background

Flood 2004 has been one of the most severe floods in the recent history of Bangladesh since the last major flood in 1998. In view of the severity of flood 2004, and its possible impact on the economy and implications for policies to be pursued in terms of post flood rehabilitation, CPD undertook a study in July-August 2004 on Rapid Assessment of Flood 2004 under its IRBD programme.

As the flood continued through August and there was heavy rainfall in early September in some of the areas of the country, CPD continued to work on updating the findings of the study including the damage estimates, and also has put under scrutiny developments as regards implementation of the government's rehabilitation programme.

In order to carry out the study, CPD has adopted the following methodology:

i. Generation of information from primary sources;
ii. Collection of information from secondary and unpublished sources; and
iii. Validation of the information and study findings through dialogues with policy makers, experts and knowledgeable persons.

Primary information was collated from field surveys. Secondary sources of information included: (i) media (both print and electronic); (ii) government ministries and agencies; and (iii) private sectors and trade bodies.

In order to generate primary information from flood affected areas, CPD sent three teams, each consisting of two CPD researchers, to a number of flood-hit areas. CPD teams visited eleven Upazillas in nine districts of the country.

To discuss and validate an earlier draft of the findings, CPD held an in-house dialogue on 9 August 2004 with a number of high level policymakers working with the government, top level former bureaucrats, NGO leaders, experts and academics. CPD received important insights and information from this dialogue. The report was also shared with the print and electronic media through a press briefing on 12 August 2004 in order to disseminate the findings of CPD's rapid assessment and recommendations which emerged from the study and dialogues with stakeholders. CPD also shared the findings and recommendations of the flood assessment study with the government.

In the second phase CPD members made reconnaissance field level visits in some of the areas which were visited by CPD members in August 2004 during the flood. In order to understand the coping mechanism of the flood victims and post-flood rehabilitation activities CPD sent a team of two members to two districts in November 2004.

Secondary information on updated damage estimates and post flood rehabilitation programmes was collected from government ministries and agencies. Information was also collected on damages caused to various sectors of the economy due to torrential rain in August.

On the basis of the updated information collected from various official sources, CPD has estimated the damages due to Flood 2004 and damages due to heavy rain. The second phase of the study also compares CPD's policy recommendations provided in CPD's initial Rapid Assessment of Flood 2004 with the GOB implementation policies.

Damage Assessment

Updated Damage Estimates: CPD's preliminary (up to 4 August 2004) estimates of damage due to Flood 2004 was to the tune of Tk 11,418.6 crore or US$ 1.93 billion with an anticipation of ranging to Tk 15,000 crore (US$2.5 billion) after the final assessment. The CPD study on assessment of Flood 2004 covers five major affected sectors for estimating the total damage caused by the flood. These broad sectors are: (1) Agriculture, (2) Infrastructure, (3) Industry, (4) Education, and (5) Health. Table 3 presents both the preliminary and updated damage estimates which show that CPD's updated damage estimate due to Flood 2004 stands at about Tk 11,760 crore (US$ 1.99 billion). This is about Tk 341 crore more than CPD's earlier estimate. Ten districts were affected due to heavy rainfall that followed Flood 2004. If the impact of heavy rainfall is accounted for, the damage for the agricultural sector (crop and fisheries) stands at Tk 1733.8 crore (US$ 0.29 billion). Consequently, CPD's final damage estimates due to flood and rain increase to about Tk 13,493.8 crore or US 2.29 billion. This is about 4.05 per cent of total GDP for the FY2004. Information on the impact of rainfall on other sections was not available. Apart from the infrastructure and residential sectors, all estimates of damage due to flood have remained unchanged in CPD's re-estimate.

Comparison of Damage Estimates: CPD's preliminary assessment was the first one of its kind to come up with a damage estimate of flood 2004 with the application of a scientific methodology. Following CPD's study a number of attempts have been made by other organisations to estimate the damages incurred due to flood such as the joint assessment by the Asian Development Bank and World Bank and the Institute of Cost Management Accountant (ICMA). The UN

Table B1: Comparison of Preliminary Damage Estimates

Organisations	*Total Damage(Tk crore)*	*Total Damage (US$ billion)*
Centre for Policy Dialogue (CPD) *Source: Report on Rapid Assessment of Flood 2004*	(a) 11,418.6 *(till 4 August 2004)* (b) 13,493.8 *(Updated, includes rain)*	1.93 2.29
Asian Development Bank-World Bank *Source: Report on Damage and Needs Assessment*	13,450	2.28
United Nations *Source: Quoted in the newspaper*	40,000	6.6
Government of Bangladesh *Source: Quoted in the newspaper*	42,000	7.0
Institute of Cost Management Accountant *Source: Study Report on Damages Caused by Flood 2004*	49,864	8.0

TABLE B2: SUMMARY OF CPD'S DAMAGE ESTIMATES

Sector	Preliminary Damage Estimate		Updated Damage Estimate		Damage from Heavy Rainfall	Total Damage due to Flood and Rain (Tk Crore)
	Amount (Tk Crore)	Share (%) of Total Damage	Amount (Tk Crore)	Share (%) of Total Damage	(Tk Crore)	
	1	2	3	4	5	
Agriculture	2920.0	25.6	2920.0	24.8	1733.8	
Infrastructure	3867.0	33.9	4017.6	34.2		
Residential	3706.0	32.5	3896.8	33.1		
Industry	531.7	4.7	531.7	4.5		
Education	345.4	3.0	345.4	2.9		
Health	48.5	0.4	48.5	0.4		
Aggregate	***11418.6 (US$1.93 billion)***	***100.0***	***11760.0 (US$1.99 billion)***	***100.0***	***1733.8 (US$0.29 billion)***	***13,493.8 (US$2.29 billion)***
Public Sector	4303.0	37.7	4453.6	37.9		
Private Sector	7115.6	62.3	7306.4	62.1		
GDP (2003-04)	332567.0		332567.0			
Damage as % of GDP	*3.4*		*3.5*			*4.05*

Note:

1. Agriculture sector includes crops, fisheries and livestock. Infrastructure sector includes roads, bridges and culverts, railways, embankments, irrigation canals.
2. Income loss due to flood is not considered. Private sector Industry data is partial.
3. Damage in agriculture sector due to heavy rainfall includes the crop and fisheries sectors.

Memo:

1. Estimated Damage of 1998 flood was 4.7% of the GDP of 1998-99 (Chowdhury, Islam and Bhattacharya 1998).
2. The upper bound of the initial CPD damage estimates was predicted to be Tk 15,000 crore (4.5% of GDP).

mission in Bangladesh and the GOB had also quoted some damage estimates. Except the ADB-World Bank assessment all the other estimates are much higher than the CPD estimates and the methodology of these estimates is either unclear or unscientific.

Relief and Rehabilitation

Relief: All types of relief distributed among the flood victims in cash and kind by the Ministry of Food and Disaster Management (MOFDM) were converted into monetary value. Relief distributed by the Prime Minister's Office and by the private sectors could not be included due to unavailability of data. The monetary value of relief distributed to the flood victims by the MOFDM was Tk 192.5 crore. It is observed that the national average of per capita relief distribution has been higher (Tk 51.15) in the updated estimation compared to the earlier estimation (Tk 19.97). The monetary value of relief distributed in the rain affected districts is Tk 6.7 crore and the per capita availability of relief is Tk 14.57.

Rehabilitation Programmes: In an effort to rehabilitate the affected people and reconstruct the flood affected economy the GOB has recently approved a two-year massive flood rehabilitation programme for Tk 1,429 crore, of which ADB will provide a loan of Tk 1,045 crore (US$180 million). The rest will be provided by the GOB. ADB's programme will start in January 2005 and will be allocated for the improvement of five sectors such as rural infrastructure, city, roads, railway and water development. Among the other major donors, the World Bank is planning for a loan of about US$200 million of which US$40 million is new assistance and US$ 160 million is old money which remained unutilised and will be cancelled if not utilised. The UN flash appeal for US$ 210 million to help the flood victims for six months could generate about US$ 42 million till October 2004.

Insights from the Filed on Rehabilitation: CPD team visited Dhunat and Sirajganj Sadar upazillas of Bogra and Sirajganj districts respectively during the second round of information collection. The team found that the reconstruction of road and bridges has not started as yet though the preparation to call for tenders is almost complete. The schools and colleges which have started to operate after the flood also need to be renovated. Small dams have been reconstructed by the local people. The rehabilitation programme for the agriculture sector which included distribution of seed for ropa aman, boro, wheat, maize, lintels, mustard, chilli, fingerlings for fisheries and cash to buy goat and poultry has been appreciated by the people. NGOs undertook similar programmes. In Dhunat upazilla 16,000 VGF cards were distributed till date for an amount of 160 metric tonnes of rice. A few houses were built with the support of the government and NGOs. About 80-100 houses were built in Dhunat with the help of a non-resident Bangladeshi. The presence of NGOs in Sirajganj is less compared to Dhunat.

CPD's Recommendations and GOB Initiatives

In its preliminary report CPD presented a policy package for addressing the post flood situation during the fiscal year 2004-05 which was derived from revisiting the experience of the earlier flood, taking note of the macroeconomic parameters and performance of the real economy, and reviewing the emerging trend of the global economic environment. This policy package included both short-term measures (August-October 2004, i.e. till aman is harvested) to deal with relief activities and medium-term measures (August 2004-June 2005 i.e. till end of the fiscal year) to address rehabilitation and reconstruction programmes. CPD's policy package were related to macroeconomic framework, public finance, credit expansion and inflation, external sector, real economy (agriculture, industry, infrastructure), safety net, government microcredit and utilisation of foreign aid. During the last few months GOB has undertaken various programmes for relief and rehabilitation many of which are in line with CPD's recommendations. However, many more are yet to be undertaken to address the flood affected people and areas.

CPD recommended for an expansionary macroeconomic framework which essentially includes increased public expenditure (investment) and greater flow of credit (both industrial and agricultural) to the private sector. CPD recommended that at least Tk 5,000 crore has to be disbursed as agricultural credit and recovery may be suspended till harvesting of aman crop while a special programme for boro crop has to be undertaken as well. The government has decided to disburse Tk 5,537.91 crore during FY2004-05 through nationalised commercial banks and specialised banks. NCBs and specialised banks disbursed Tk 1,154.78 crore during July-October 2004, which was 58 per cent higher than that of the same period during the last fiscal year.

CPD's report clearly stated that domestic resources can, by and large, finance the reconstruction work. Available information suggests that the government mostly relied on its own budgetary resources. CPD also recommended that within the public expenditure portfolio, activities and projects related to rehabilitation and reconstruction should get priority. The government has taken the decision to reallocate 10 per cent of the ADP for rehabilitation and reconstruction activities, which is about Tk 2,200 crore. Though it is too early to make any assessment as regards the utilisation of the block allocations kept in the ADP, such allocations remained unutilised till September 2004.

CPD recommended that there should be a plan beyond aman season and provision for seed, fertiliser and irrigation during aman and boro seasons at free of cost to the marginal farmers. CPD report added that in view of the rise in global price of oil and upward revision of domestic prices of gas and electricity, the government should consider an ad hoc relief for farmers using diesel operated irrigation. The government has decided to provide seeds free of cost and fertiliser at reduced rates to the farmers through a scheduled subsidy amounting to Tk 271 crore. However, the government has not considered the suggestion regarding the price of diesel for irrigation. Instead, it has increased the price of diesel from Tk 20 to Tk 23 per litre since December 2004. The decision to hike the price of diesel will have adverse impact on boro production since boro relies heavily on irrigation and 83 per cent irrigation is done through diesel operated engines in Bangladesh. This will, in turn, raise the price of rice and have a negative impact on the availability of food. It may be noted that the total import of foodgrains (rice and wheat) by the government and the private sector during July-December 2004 was 1,550 thousand mt compared to 1,851 thousand mt during the same period in the previous year (FY2004). In other words, the total food import in FY2005 is 16.3 per cent less than that of the last fiscal year (FY2004). The decrease in import can be attributed mainly to higher and rising international prices of foodgrains which are expected to increase further in the coming months. This is due to lower production prospect of rice in Thailand, Vietnam and India as a result of abnormal drought. The government should review the decision of increase in diesel price to ensure food security.

CPD's policy package suggested the following measures for export oriented industries: (i) provision of cash compensation scheme and expeditious steps towards timely release of funds under CCS initiative; (ii) support air cargo shipment of exportables including RMG, charter cargo planes, if needed; and (iii) advise banks for deferment of loan recovery for 3-6 months from export-oriented units which have been affected. The government has increased the CCS support to agricultural and agro-processing goods from 25 per cent to 30 per cent, and has taken an initiative to release Tk 150 crore for the knit sector from the CCS fund. The government has also decided for deferment of bank loan recovery from the affected export oriented units.

In order to ensure food availability and food security of marginal families, repair, reconstruction and maintenance of flood damaged rural roads through FFW programme have always been useful. CPD recommended that the amount of foodgrains to be distributed through non-priced channels such as VGD, VGF, FFW, TR and GR should be increased from the planned level of 744 thousand tonnes. The short-term rehabilitation programmes of the government of Bangladesh included creation of a Disaster Risk Mitigation Fund of Tk 75 crore (US$ 12.7 million) for families with a monthly income of less than Tk 3,500, allocation of Tk 170 crore (US$ 28.5 million) and 195 thousand mt of foodgrains for FFW, and operation of TR programme for repairing and reconstruction of schools and basic infrastructures. The government also declared that it would feed 40 million people till December 2004 under the VGF programme. An analysis of the distribution of foodgrains through public foodgrains distribution system (PFDS) reveals that the distribution of foodgrains through FFW and VGD was lower in July-December 2004 (101 thousand mt) than that of JulyDecember 1998 (366 thousand mt) following Flood 1998. This needs to be corrected. The amount of foodgrains distributed through non-priced channels during July-December 2004 was 511 thousand mt and the government has a plan to distribute another 353 thousand mt during January-June 2005. Total distribution of the priced and non-priced foodgrains through the PFDS during July-December 2004 was 637 thousand mt against 631 thousand mt in July-December 1998.

As regards foreign aid, CPD's policy package stated that the government should take initiative to receive food aid as much as possible for keeping the safety net programmes, including VGD and VGF. CPD report added that although the government has recently received a budgetary support of about US$200 million from the World Bank under the Development Support Credit II, it will be worthwhile to negotiate expeditiously for a quick-disbursing budgetary-cum-

BOP support of another US$200 million. The CPD report suggested that project aid, with its low off-take record, can only be entertained for dealing with medium to long-term problems related to flood. In an effort to rehabilitate the affected people and reconstruct the flood affected economy, the government has recently approved a two-year massive flood rehabilitation programme of Tk 1,429 crore of which ADB is expected to provide a loan of Tk 1,045 crore (US$ 180 million). The rest will be provided by the government of Bangladesh. ADB's programme is scheduled to start in January 2005 and will allocate money for the improvement of five sectors including rural infrastructure, city, roads, railways and water development. Among the other major donors the World Bank is planning to provide a loan of about US$ 200 million out of which US$ 40 million will come as new assistance and US$ 160 million from earlier earmarked assistance which remained unutilised and would have otherwise been cancelled. The UN Flash Appeal for US$ 210 million to help the flood victims for six months could generate about US$ 42 million till October 2004.

Table B3 presents a comparison of CPD's recommendations and GOB initiatives and implementation policy as regards addressing the post-flood economic situation.

Table B3: Comparison of CPD's Recommendations and GoB Implementation

Areas of Intervention	*CPD's Recommendations*	*GOB Initiative and Implementation Policy*	*Timeline of Implementation*
Reconstruction and Rehabilitation	* Activities and projects for rehabilitation and reconstruction should get priority * Domestic resource can, by and large, finance the reconstruction work	* GOB will reallocate 10 per cent of ADP (Tk 2,200 crore) for rehabilitation and reconstruction	* Block allocation in the ADP unutilised till September 2004
ADP Implementation	* Implementation of foreign aided projects should not be disturbed * A moratorium should be imposed on all domestically financed new projects for FY2005 which are yet to incur expenditures * Projects for implementation of PRSP should be protected * Size of ADP may be revised if non-debt creating resources are available	* Implementation of low-priority development projects will be staggered and may even be carried over to the next fiscal year to make funds available for rehabilitation and reconstruction	
Revenue and Fiscal Deficit	* GOB may negotiate with IMF and WB regarding relaxation of the cap on domestic borrowing if there is shortfall in the revenue collection and fiscal deficit		
Inflation	* Monitor the rise of inflation carefully, resort to Open Market Sale (OMS), if necessary	* Rising food prices due to poor harvest of aman results in high inflation * OMS to be started soon	* Towards the end of January 2005
Exports	* Support for air cargo shipment of exportables * Timely release of funds under Cash Compensation Scheme (CCS) * Deferment of bank loan recovery for 3-6 months from affected export-oriented units	* Allocation of Tk 150 crore from Cash Compensation Scheme (CCS) * Bank loan recovery for the affected export-oriented units deferred	
Imports	* Imports of CI sheet and cement may be facilitated * Import of foodgrains needs to be facilitated	* During October foodgrain imports were 108 thousand metric tonnes higher than that of the same period in 2003	
Agriculture	* Seed, fertiliser and irrigation for aman and boro crop at free of cost to the marginal farmers * At least Tk 5,000 crore has to be disbursed and recovery may be suspended till harvesting of aman crop and a special programme for boro crop * Funds to the SMEs, particularly those without fixed assets as collateral * Increase flow of funds to NGOs through PKSF, NGO Foundation and commercial banks	* Government provided farmers with seed free of cost and fertiliser at reduced rates * Agriculture sector will get Tk 271 crores as subsidy * Nationalised commercial banks and specialized banks disbursed Tk 1,154.78 crore during July-October 2004 . This is 58% higher than during the same period in last fiscal year * GOB targets to disburse Tk 5,537.91 crore during FY 2004-05 through NCBs and specialised banks	* 20% of the targeted loans disbursed during July-October 2004
Industry	* No new financing facility but improve the efficiency of the existing units * Financial support to SMEs * Cash incentives to export-oriented industries		
Infrastructure	* Prioritise rehabilitation over reconstruction * Reallocation of ADP for repairing and reconstruction * Loans at low interest rate for purchasing house building materials	* Rehabilitation and reconstruction have started * Operation of TR programme for repairing and reconstruction of schools and basic infrastructures	* Being implemented
Safety Net	* Increase the amount of foodgrains in VGD, VGF, FFW and TR, and monitor properly * Full utilization of special funds * Expansion of micro-credit though the NGOs	* Creation of a disaster mitigation fund of Tk 75 crore * Allocation of Tk 170 crore and 195,000 mt of food for FFW * 40 million people will be fed till December under VGF programme	Being implemented
Foreign Aid	* GOB may receive food aid as much as possible for safety net programmes * Negotiate for quick disbursement of budgetary-cum-BOP support from the WB	* Received from ADB and World Bank	ADB's programme scheduled to start in January 2005

Chapter IV

MFA Phase-out: Early Indications and Challenges for FY2005

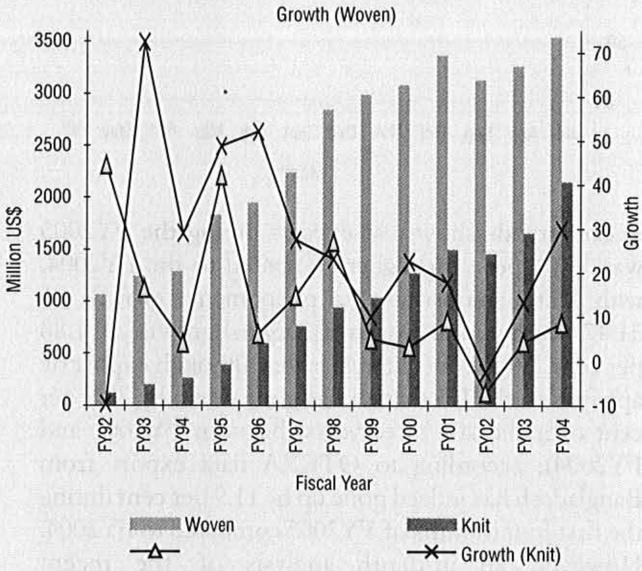
MFA Phase-out:

Early Indications and Challenges for FY2005

CPD was one of the earliest proponents of looking at quota derestriction under the ATC first as an opportunity, and then as a challenge. CPD pointed out the need for building on Bangladesh's track record in the export sector and explore opportunities to increase Bangladesh's export by taking advantage of the MFA phase-out[1]. In the March 18, 2004 dialogue on Surviving in a Quota-free World: Will Bangladesh Make It? CPD pointed out that there were quota categories where Bangladesh had a distinct competitive edge and Bangladesh should at the least aim at retaining current global market share in apparels. This could mean an export of (since global market is expected to expand significantly) up to US $10.0 billion by 2010. CPD urged for a national consensus to attain this target.

Export trends show that over the past few years knit has demonstrated very high growth, with the result that its share in total RMG has gone up from about 20 per cent in FY2000 to about 40 per cent in FY2004. Bangladesh had a very strong global presence in basic items and enjoyed competitive advantage in a number of quota categories both in knit and woven. As a result, in all likelihood Bangladesh is expected to figure in the short list of countries (from the 50 odd current sources) with which buyers were likely to do business in terms of quota categories where Bangladesh had distinctive competitive advantage. In the aforesaid dialogue, CPD underscored that appropriate strategies should be designed to realise the potential opportunities of the MFA phase-out in those categories and that it was possible to enhance Bangladesh's export of those items once the quota was derestricted. The CPD presentation identified a number of such categories. Indeed, this was a time when IMF[2], WB and WTO studies were presenting a gloomy picture about a drastic fall in Bangladesh's exports once the phase-out was over by January 2005. Most of these studies were making projections based on export performance of quota categories which were derestricted under the first three phase-outs under the ATC. BoP support and support under the Trade

Figure C1: Global Export of Knit and Woven RMG and their Growth



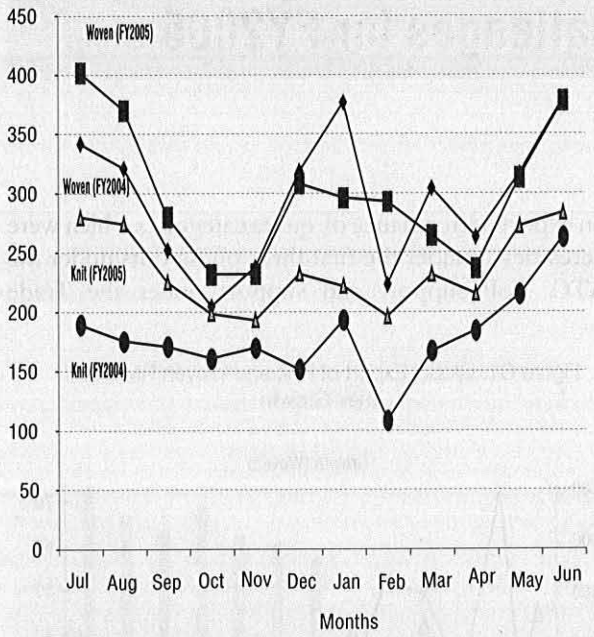
Integration Mechanism (TIM) were mooted to enable Bangladesh to face the eventualities.

In the end, it is still to be seen how things will evolve in the coming few months. However, early signals are encouraging. Bangladesh continues to remain on the radar screen of major buyers as one of the top five sources of apparels for a number of basic items such as sweaters, T-shirts, men's and boys' trousers, shirts, and ladies' wear. Orders for the winter and early spring seasons appear to be robust, and this trend is likely to define the export performance over the next few months of the FY2005.

[1] Presented at a CPD dialogue titled 'Surviving in a Quota-free World: Will Bangladesh Make It?' on March 18, 2004 by Professor Mustafizur Rahman, Research Director, CPD

[2] www.imf.org/external/country/ZAF/rr/pdf/092104.pdf

Figure C2: Bangladesh's Export of Apparels: FY2005 vs FY2004



Recent trends show that exports during the FY2005 was 11.01 per cent higher compared to the FY2004, with knit demonstrating a phenomenal growth of 31.47 per cent and woven a marginal growth of 1.88 per cent. What is of interest is that although export of apparels to the US market has gone down by 25.9 per cent over the last three years (between FY2001 and FY2004); according to OTEXA data export from Bangladesh has indeed gone up by 11.9 per cent during the first four months of FY2005 compared to FY2004. However, an in-depth analysis of the recent performance in the US market shows that exports of particular items has varied performance. CPD analysis reveals that exports of some items have increased between 35 and 400 per cent while export of a few others decreased by 515 per cent. It is important to identify the winners, and take measures to increase their market share.

Post-MFA Scenario will be Different

CPD has indicated earlier that quota phase-out was only one of several factors which is likely to have an impact on performance of Bangladesh's export oriented RMG sector. Future global trade in apparels will also depend on other important factors including China's accession to the WTO, reduced lead time, erosion of quota-premium following the quota phase-out, implication of various Regional Trade Agreements and market access initiatives involving major buying countries, further lowering of MFN tariffs with consequent erosion of preferential margins, and increasing use of e-commerce in apparels trade and business. Bangladesh certainly needs to take note of these emerging factors.

The challenge of the quota phase-out should be taken with due importance. Bangladesh's export of quota categories derestricted in the US market under second and third phases has come down from US $372.10 million in 2001 to US $225.49 million in 2003, a fall of 39.40 per cent. In the EU Bangladesh's exports of derestricted items over the three phases have come down from US $201.85 million to US $124.26 million between 2000 and 2003, a fall of 42.5 per cent. However, it will not be wise to extrapolate these trends to make simplistic projections, particularly in view of the fact that quota phase-out was back loaded and under the first three phases only 18.23 per cent (2001) and 8.18 per cent (2000) of Bangladesh's respective exports to the US and EU markets were derestricted. A number of scenarios may be possible depending on the type of homework Bangladesh is able to do.

Any major shift in global sourcing of apparels will call for large-scale restructuring and capacity building in countries which will potentially stand to win. Major competitors such as China, India and Pakistan, with strong backward linkage in textiles, will require some time to complete their restructuring. Already there are signs of major investments in the textile/apparels sectors in these countries. These ongoing restructuring will take some time to make its impact visible in the marketplace. Besides, much will depend on the ability of Bangladesh's entrepreneurs to offer lower prices in the face of stiff competition from the competing countries. In the recent past, entrepreneurs have been able to sustain this pressure, perhaps at the cost of lower profits, since average price of apparels has gone down by about 15 per cent over the last few years. There is a need to capture the ongoing restructuring in the RMG sector and also the ongoing strengthening of the backward linkage industry in order to fully understand the capacity of Bangladesh's RMG sector to continue to show robust performance in the post-MFA apparels market.

No doubt, many of the smaller RMG units in Bangladesh, which have mainly relied on subcontracts, do not have the capacity to ensure compliance with the various norms and standards required by the buyers and are not being able to make productivity gains, will have difficulty to compete in the emerging market. Many of the smaller firms are likely to face closure and the workers to face layoffs. On the other hand, many of the larger firms are looking at the quota-free regime as an opportunity to expand their market presence in the EU, and also in the USA. Thus, there may be a situation where Bangladesh expands (or at least retains) its market share but with fewer firms operating in the sector, and with a reduced workforce. Production of larger volumes by bigger firms may not be able to offset the number of workers who will lose their jobs; majority of those are likely to be women. In view of this probable scenario, Bangladesh needs to design appropriate measures for these workers. CPD has argued for a contingency fund for retraining and redeployment of such workers[3]. Any large scale unemployment in the sector will have serious consequences in terms of income, poverty and employment. The GOB employers and other stakeholders should get together to design appropriate measures to address this possibility.

It also needs to be appreciated that Bangladeshi entrepreneurs will need to pay increasingly more attention to such issues as minimum wage, working hours, safety and other indicators of decent labour in their factories. Tomorrow's apparels market is likely to become more sensitive to these issues and any negligence on these accounts will be penalised in terms of market access. The GOB should also put forward and implement strict guidelines with respect to worker's rights to decent livelihood in the apparel sector.

It is true that product specific safeguard measures (till 2008) and textile safeguard measures (till 2013) in China's accession protocol could offer some relief to competitors such as Bangladesh. USA has already applied sanctions on Chinese exports to USA by limiting export of four categories of textiles/apparels (by imposing cap of 7 per cent on growth). Requests have been made for another 10 categories, which incidentally include a number of important export items from Bangladesh. EU has also recently excluded China from the GSP beneficiary list on account of China's exceeding the threshold limit of 12 per cent of market share. However, it will not be wise to overplay the importance of these developments. It may be noted here that major retailers and importers in the USA have started to question the sanctions, and have filed law suits challenging such measures by the US Department of Commerce.

Designing an Appropriate Strategy

The Post-MFA Implementation Team set up by the GOB has identified six core areas for training and skills upgradation: (i) Productivity Management, (ii) Quality Management, (iii) Compliance Norms, (iv) Merchandising, (v) Marketing, and (vi) Inventory Management. GOB estimates show that these activities will require an amount equivalent to US $40.0 million. However, till now availability of funds to carry out such activities has been rather low. There is an urgent need to mobilise domestic resources and also trade related technical assistance (TRTA) from development partners in support of these programmes.

The GOB has recently taken a number of steps to address the concerns of the export oriented RMG industry of the country. These include reduced number of steps in terms of clearance at Chittagong Customs from 56 to 12, and from 48 to 6 at Dhaka Container Port, change in insurance charges, revised schedule of down payment for loan by RMG entrepreneurs, and elimination of VAT on selected items of expenditure.

However, a proactive policy, both at global and domestic levels, will be required if opportunities are to be realised, and challenges are to be addressed adequately.

At the global level, Bangladesh should continue to press for zero-tariff access to the US market (about US $306.0 million worth of tariff is imposed in USA annually on import of apparels from Bangladesh). A CPD modelling exercise indicates that such a zero-tariff access is likely to substantively enhance Bangladesh's competitive strength in US market and increase exports by about US $1.0 billion or 50 per cent. It is to be noted in this context that zero-tariff access to the Canadian market in 2001 has helped Bangladesh to increase its apparels export from $97.9 million in 2002 to $256.4 million in 2004, a growth of about 161.9 per cent in two years.

Bangladesh will also need to focus on getting on with the required homework in terms of reducing the lead time, moving up the value chain ensuring standards-compliance, investing in technological upgradation and productivity improvement in the RMG production, and putting in place product and process modification capacities and markets.

[3] Rahman, M. (2005) "Bangladesh after MFA Phase-out"; South Asian Journal, April-June, 2005.

In view of this, there is a need to take some concrete steps to address the emerging challenges. Some of these, based on CPD analyses[4], are:

- Identify the items that are demonstrating competitive strength and go for capacity building in those specific areas;
- Create a Textile-RMG technology upgradation fund to help process and product upgradation and modification;
- Invest in skill development through public-private partnership. In this regard vocational training institutes could be linked to the needs of the RMG sector;
- It appears that it will be a good idea to put on hold the earlier planned phase-out of the support under the cash compensation scheme (currently at 10 per cent);
- There is a need to reduce import duties/taxes on textile/RMG spares, dyes, chemicals and sizing materials;
- There is a need to address the request of RMG entrepreneurs to allow import of fabrics on duty-free basis, particularly and on priority basis for fabrics (synthetic) that are not produced in Bangladesh (the textile sector's interest could be safeguarded through joint monitoring of the facility);
- Support the RMG units in putting in place the initiatives that ensure decent wage and worker's rights, and meet health and safety concerns;
- Help introduce a "Compliance Sticker" (ISO-9000, ISO-14000);
- Help develop clusters and provide common facilities to RMG units through policy support (water affluent facilities, training, R&D, Fashion and Design);
- Make funds available to the RMG/textile producers at globally competitive price, particularly in view of increasing buyer pressure on producers to manage the production chain;
- Facilitate establishment of forward linkage activities through B to B web portals, direct marketing channels (till now the buyers have come to the doorsteps of Bangladesh's producers; future Bangladesh's producers will have to increasingly reach out to the buyers);
- Give priority to promotion of investment (both local and FDI) in products with emerging opportunities (athletic wear, synthetic fibre, 100 per cent polyester).
- Prepare a contingency plan in view of exit of firms to help workers in search for commensurate jobs (GOB-BGMEA partnership should be developed to this end).

[4] Rahman (2004, March) ibid.

Annexes

Dialogue Report on

State of the Bangladesh Economy and Budget Responses 2005

The Dialogue

The dialogue on State of the Bangladesh Economy and Budget Responses 2005, organised by the Centre for Policy Dialogue (CPD), took place on June 19, 2005 at the ballroom of Hotel Sheraton, Dhaka. The initiative was taken with a view to share its observations and analysis on budget FY 2006 presented by the Finance Minister on June 9, 2005 and create a space for discussion between the Finance Minister and the policymakers and experts from both within and outside the government.

CPD Chairman Professor Rehman Sobhan presided over the dialogue while Dr Debapriya Bhattacharya, Executive Director, CPD, presented the keynote paper. The Honourable Minister for Finance and Planning Mr M Saifur Rahman, MP was present at the dialogue as the Chief Guest. Dr Salehuddin Ahmed, Governor of Bangladesh Bank, was present as the Guest of Honour and Mr Zakir Ahmed Khan, Secretary, Finance Division, was the Special Guest of the occasion.

The dialogue incorporated the perspective of a broad representation of the civil society with the participation of mainstream politicians, senior government officials, economists, academicians, representatives of the development agencies and other high level policymakers. The list of participants is attached in Annex 1.

Introductory Remarks by the Chairman

Professor Rehman Sobhan, Chairman of the Centre for Policy Dialogue (CPD), welcoming the guests pointed out that CPD has been organising the budget dialogue since 1994 with the participation of a distinguished cross section of the society. He thanked honourable Finance Minister M Saifur Rahman for his valuable presence and mentioned that from the very early occasions the Finance Minister has been participating in the CPD dialogues, both as Finance Minister and as opposition front bencher. Professor Rehman Sobhan said that this particular occasion is special as it gives an opportunity for the Finance Minister to engage with a broad and distinguished cross section of people to discuss the budget which he has presented before the parliament. This occasion gives a unique opportunity for the Finance Minister to not only listen to what the policymakers, government officials, business leaders, academics and experts have to say about the budget but also respond to their comments in his institutional and professional capacity. He hoped that this tradition of professional discussion will be sustained and CPD will continue to create this space for an engagement between the Finance Minister and his counterpart both in the political world and in the civil society.

Keynote Presentation by Dr Debapriya Bhattacharya, Executive Director of CPD

At the beginning of his presentation Dr Bhattacharya thanked the Finance Minister, members of the parliament and others for their presence and mentioned that it was a privilege for him to present the budget analysis. He noted that it was the third of the series that CPD undertook in connection with the budget session.

Benchmarks

Dr Bhattacharya started with the benchmarks against which the budget of 2006 has been prepared. He mentioned that economy has experienced a respectable growth of 5.5 per cent in a flood year. The export sector showed a double digit growth in spite of phase-out of the MFA. A bumper Boro crop helped recover crop-losses due to flood 2004. A $2.5 billion worth of FDI proposal from the Tata Group has been seen. The country saw reactivated Privatisation Commission with new off-loading mandate. Capital market received an increased liquidity flow during the year. Robust credit expansion in the private sector has been experienced. There was a strong growth of agricultural credit after the flood. High import of capital machineries indicated some vibrancy in private investment. Improvement in foreign aid off-take, though marginal, has been seen. Buoyant remittance flow continued during the year. Dr Bhattacharya mentioned all these as positive benchmarks of the year.

Dr Bhattacharya mentioned that there were some worrying signs during the year also. Among these the first one is the failure to implement the Public Investment Programmes. He said poor ADP implementation has been a systematic issue over the years. But this year it reached a new height. He also mentioned about the poor revenue collection effort, particularly in non-NBR and non-tax components during the year. The third point he mentioned as a worrying sign is the stressed fiscal balance in the face of runaway growth of revenue expenditure. He said revenue expenditure growth was tremendously high during the year in comparison with ADP implementation. Balance of payment got stretched, particularly during the third quarter. As the credit flow increased, the import of machineries increased and it created pressure on the balance of payment situation. Also as import greatly outpaced export growth, it added to the stress on the balance of payment situation. There was a rising trend in consumer price index, particularly food price, partly underpinned by the growth in the world prices of food, fertiliser, fuel and steel. There was also a deepening state of weak governance. Dr Bhattacharya noted that the Anti Corruption Commission was to be launched this year but still to be effective. He also noted with worry that reform in the public administration and local government did not go any further. Mentioning these negative features of the economy Dr Bhattacharya said that to him the major macroeconomic challenge for the budget for FY06 will be to sustain the recent upswing in the private investment growth without weakening the macroeconomic stability.

Among the other aspects the budget needed to address, Dr Bhattacharya mentioned about the slow progress in revenue mobilisation, the inability to implement public investment programmes, upsurge in inflation rate underwritten by cost-push factors, the delicate balance in external payments situation notwithstanding the robust export and remittance growth, failure to undertake complementary reforms to ensure improvement of micro-conditions for private investment and widening disparity in income distribution which is limiting the growth prospect including its sustainability. He mentioned that CPD has been monitoring this disparity with great worry. Although the growth was there, the benefits were unevenly distributed. He noted that the latest poverty monitoring estimates show that during the last five years the income differential between the top 10 per cent and the bottom 10 per cent of the population has increased from 20 times to 24.5 times.

Dr Bhattacharya congratulated the Finance Minister for his condensed budget speech this year and for integrating the two parts of the budget in one. He said that the speech was contextualised. He appreciated the Finance Minister's word that whatever this country has achieved does not belong to a group or a party rather than it is a national achievement. He said a much more poverty friendly language has been seen this time. However, he added that there were some parts missing. For example, as everyone expects, there should be a part at the end of the speech giving the summery of the net outcome of the fiscal measures, that is, how much money is coming due to the new fiscal measures and how much has forgone due to the same. For another example he noted that the Finance Minister in his budget speech stated that 54 per cent of the budget has been allocated for poverty reduction. An annex in the end could have made it clear which sectors and which programmes are really pro-poor to provide an explanation of the number "54%". He expressed his contentment as 4 of the CPD proposals found place in the budget, 2 in the safety-net programmes and 2 in the investment programmes.

Economic Performance

Dr Bhattacharya said that GDP has posted a 5.4 per cent growth this year while the PRSP target was 5.5. He mentioned it as quite satisfactory, keeping the flood in mind. But the problem is, the GDP growth rate of FY2004 has been revised upward to 6.3. He expressed CPD's concern that this substantial upward revision of the GDP figure needs to be somehow clarified. There is a need for transparency and the last thing anyone wants to have is a debate on the GDP figures over time across the board and it definitely creates problem abroad when talking about the country's own economic performance. Dr Bhattacharya added that though GDP growth rate of 5.4 per cent along the flood is quite fine, if this figure is compared with other South Asian countries, it looks quite moderate as most of these countries are targeting 6.5 per cent to 8 per cent of growth. He said most of the South Asian countries and the Asia as a whole are going through high growth spell dynamism and this dynamism is partly touching Bangladesh. The issue is to capitalise on this new growth upsurge in the coming years.

Sources of Growth

Dr Bhattacharya mentioned that following the Flood 2004, negative growth in crop sector of (-) 3.3 per cent in FY2005 is understandable. Most of the other sectors have shown positive growths. But the concern is, the Real Economic Sector, which includes crop, livestock, fisheries, manufacturing, queering and mining all together, declined from 33.6 per cent in FY2004 to 27.3 per cent in FY2005 in their incremental contribution and the contribution of the service sector has increased from 45 per cent to 61 per cent. This indicates that the growth is service sector oriented and quite often this has low employment linkages and the accessibility of the poor remains constraint. He added that the growth is good, but it needs to be changed in favour of the manufacturing sector, in favour of the processing sector, in favour of the labour intensive industrial sector and that will give a better employment impact.

Per Capita Income

Dr Bhattacharya said that per capita GDP and GNI for FY2005 were US$ 445 and US$ 470 respectively. The per capita income of Bangladesh is still very low when compared with the same of other South Asian countries. It is 28.7 per cent less than Pakistan, 44.3 per cent less than India and 135.2 per cent less than Sri Lanka. This indicates that Bangladesh needs to do better.

National and Domestic Savings

Dr Bhattacharya said that national and domestic savings is one of the major indicators of the economic performance and the poverty. He noted that national savings rate has started to move after a long stagnation. The share of national savings in GDP increased moderately in FY2005 to reach 26.49 per cent as against 25.44 per cent in FY04, registering a rise of 1.05 per cent. Domestic savings increased marginally to 20.16 per cent of the GDP in FY2005 from 19.53 per cent in FY2004. When compared with India and Pakistan it can be seen that Bangladesh is doing better than Pakistan but not as good as India. The share was 28.1 per cent in India and 17.6 per cent in Pakistan.

Investment

In his discussion on Gross, Public and Private Investment Dr Bhattacharya mentioned that during the last five years (FY2001-FY2005), the gross investment rate has increased by only 0.3 per cent of the GDP. This is significantly low (by 1.07 per cent of GDP) compared to the MTMF target of PRSP which was set at 25.50 per cent for FY2005. He said that the gross investment has increased by 0.41 per cent. This investment has come in the face of a declining public sector investment of 0.3 per cent and the private sector investment has increased by 0.7 per cent. This means if the public investment was better this year the private investment could have been even more because of the linkage and complementarities which was there. So when looking at the investment situation the villain of the piece is ADP and public investment. Public investment may emerge as the constraining factor for the private investment in the coming years whether it is through electricity generation or it is through port situation or other communication issues. He said it is very much important for the government to improve the performance of public investment.

Revenue Earnings

Dr Bhattacharya noted that growth target of revenue for FY2005 (16.7 per cent) fell short by (-) 5.08 per cent. However, realisation in FY2005 was 10.73 per cent higher than FY2004. He added that the country experienced a 10 per cent to 12 per cent average revenue growth during the last decade which is a steady growth and it is marginally above the inflation growth rate that gives again a marginal growth in the Tax-GDP ratio. New target for revenue earnings in FY2006 is 16.64 per cent. Last year the single largest incremental contribution came from VAT (53 per cent). Customs duty contributed about 18.4 per cent. Incremental contribution of direct tax was 15 per cent. He said tax system is undergoing a change, moving away from international taxes to direct taxes and VAT. The issue is which is going to move at what pace. He made the point that collection from direct taxes should be higher than indirect taxes because direct taxes are income based and indirect taxes are paid irrespective of what people earn, whenever and whatever they consume in a flat rate. So the effort of the government should be on direct taxes. From the growth target of FY2006 it is seen that incremental growth of VAT is targeted to be 32 per cent from 53 per cent and for direct taxes it will increase from 15 per cent to 17 per cent. "It is a welcome change", he said. But he added that what bothers is the non-NBR tax and non-Tax. Dr Bhattacharya said he was surprised to see that in non-NBR tax, the taxes on vehicles registered a negative growth where everyone knew how many new cars are getting on to the streets. Again, the taxes on land transaction registered a negative growth which he mentioned as another surprising issue. He said these are obviously the sources of leakages and need to be plugged. So non-NBR remains a major area for creating resources, he said. Similarly, in non-tax, the TNT is incurring a huge deficit which is affecting the whole revenue collection situation. "We quite often get stuck with the NBR, but NBR is comparatively doing better than the rest of the areas", he added.

Dr Bhattacharya said that revenue-GDP ratio will go up marginally but target set by the PRSP is still very modest. The target set in the budget is less than 11 per cent which is even lower than the PRSP target. He said that PRSP target is found to be very conservative and the budget turns out to be more conservative. So a lack of ambition is seen.

Public Expenditure

Dr Bhattacharya said during the last few years, average growth of revenue earnings was 13 per cent against the public expenditure growth of 8 per cent. He noted it as satisfactory as it is needed to develop the revenue growth at a faster rate than the expenditure growth. Again, in the targets of FY06, revenue earnings growth is targeted at 19.5 per cent and public expenditure growth is targeted as 15.7 per cent. He said that he agrees with the plan but how much will be implemented that remains a challenge. Looking at the macroeconomic stance, development expenditure should grow at a faster pace than revenue expenditure. But in FY05 revenue expenditure registered a 17.4 per cent growth against a 7.9 per cent ADP growth. So the revenue expenditure growth was twice as fast as the investment programmes. If the targeted volume of public expenditure is realised in FY05, still a 38 per cent ADP is achieved against revenue expenditure of 62 per cent. Analysing the sector wise distribution of total public expenditure, Dr Bhattacharya said that other than the public services, single largest growth will happen in health and education sector with 33.5 per cent and 33.0 per cent growth respectively which is quite in line with the PRSP. Also, social security and welfare will receive another 20 per cent increase. Regarding defense, he said it is a sensitive sector and the relative shares have declined from 7.4 per cent to 6.7 per cent in 2006. It is a moderate growth of 5 per cent with incremental allocation of 225 crore taka. But he added that this is not the entire defense budget and defense budget is spread all over the other sectors.

Annual Development Programme

Dr Bhattacharya noted that ADP for FY05 was fixed at Tk 22,000 crore. The new ADP has been fixed at the 24500 crore which is 11.4 per cent higher than the original ADP of FY05 and 19.5 per cent higher than the revised ADP of FY05. But he said implementation of a fuller ADP is the major issue rather than the size and issue of quality is no less important. In a comparison between the political regimes in terms of ADP implementation, Dr Bhattacharya noted that from the beginning year of this government the actual size of ADP is going down and this year it came down to 5.6 per cent of GDP which is lowest ever ADP implementation in the last 15 years. He said it is a major point and ADP implementation remains one of the major sources of vulnerability. So the size of allocation is not the issue, rather the money allocated to various sectors that are not being able to utilise them is the major concern. Taking his discussion on ADP further, Dr Bhattacharya said that the share of block allocation in ADP increased from 12.7 per cent to almost 20 per cent. Among the block allocation there are two types of allocations. One is the sectoral block allocation which is allocated to different sectors and will be subsumed for new programmes in process. The second is the general block allocation. Regarding the general block allocation, he said that the share has increased from 8.2 per cent to 11.4 per cent. "Can we really allocate money without allocating the purpose? Is it really a fiscal balance in that way?", Dr Bhattacharya raised the question.

Within the sectoral allocation of ADP, the single largest increment is taking place in local government. Dr Bhattacharya mentioned it to be a very interesting incident. He said it will be interesting to see whether adequate fiscal transparencies and accountability will be enforced to support such big monetary growth in local government.

Education and Health sector got increase of 6.2 per cent and 5.2 per cent in their respective allocations. Dr Bhattacharya said it is interesting that power (electricity) sector got a negative growth of (-) 3.8 per cent with no new money allocated to it. He said the Finance Minister in occasions has mentioned the need for public investment in order to build infrastructure. If this is the case it is surprising to see why there is no more allocation in infrastructure when the private sector response is poor. The government will have to supply electricity, roads and communication to the people. So it is surprising how the electricity allocation be so low at the moment. He added that it is also bothering to see the health and education sector are also two lowest performers in the ADP.

Revenue Expenditure

Dr Bhattacharya noted that the block allocation within the revenue expenditure has increased significantly. When no more money is needed for pay and allowances, which is the reason for the last year, why it is needed to have so much free money under revenue expenditure needs to be explained, he said. While mentioning the major features of revenue expenditure, he noted the high growth of "Repairs, Maintenance and Rehabilitation" (43.8 per cent) in FY05, largely because of the flood 2004. He added that the interest payment is going up.

Budget Deficit

Dr Bhattacharya said a systematic fall in budget deficit was observed during FY01-04, from (-) 7.0 per cent in FY01 to (-) 4.2 per cent in FY04. This year the budget deficit has increased, partly due to the financing required by the flood. But mainly it is due to the low implementation of the ADP, budget deficit remains under control. So when it is said the deficit is under control, it does not necessarily mean that one has managed it efficiently or managed more resources, but it may mean that one has spent less. But at the end of the day the budget deficit of Bangladesh is under control even when compared with the neighbouring countries. "The deficit is under control but due to the wrong reason", he said.

Fiscal Measures

Dr Bhattacharya termed the fiscal measures as the most interesting part of the budget. He started his discussion with the revised personal income tax.

- **Personal Income Tax:** Dr Bhattacharya noted that tax level has been increased and minimum income tax has been increased. Those who will be earning 10000 taka in a month will receive a rebate of 10 per cent. Those who will be earning 31000 taka per month will be getting a rebate of 18 per cent. Upto 56000 taka income one will get a rebate of 14 per cent. Those who will earn more will get 11 per cent. He expressed his doubt that the benefit is not evenly distributed. He said the benefits are somehow biased towards the middle. He said the exemption limit is much lower than India, Sri Lanka and other countries although their marginal tax rate is higher. Dr Bhattacharya welcomed the new revised personal income tax schedule for the increase in the minimum income level and the minimum income tax. But he also added that new schedule remains most relevant to the salaried people with very transparent income.
- **Tax Amnesty for Undeclared Income:** Dr Bhattacharya mentioned this as a red heading. This is one topic that made people forget all the other major issues that could have been discussed. He termed this measure as unethical and economically inefficient. In no countries in nowhere this measure has been introduced and kept for long. It remains good only when it is done in a time bound fashion and followed up by strong enforcement. If one knows that after the time period is over, even if it is over next year, the government is not going to catch the tax dozers, it will have no effect. In a soft democracy like this country has, where one cannot enforce as much as it is required, this measure is not economically efficient. Dr Bhattacharya mentioned that India introduced this measure in 1997 only for nine months and the disclosers gave them an estimated 10050 crores at that time. He termed the measure as a shock treatment, efficiency depending on the time limit, political will and its enforcement. He added that as there is no account of black money in the country, it will be very difficult to measure how much effective it really was.
- **Tax on Real Estate:** Dr Bhattacharya noted that taxing of investment in real estate has been increased to 175 Tk/M2 and imposition of 2.5 per cent tax on the price of land to be deducted at source at the time of registration. It is also a final settlement. According to him it is another way of whitening the black money because if anyone with black money invests on real estate and it is a final settlement, no one is going to ask any question. But at the same time, he added that this is also going to encourage investment in real estate and he is in favour of that. He expressed his doubt about the efficiency of this measure and expressed his concern that real estate developers will not be very pleased with this measure.
- **Consideration as Final Settlement:** Dr Bhattacharya noted that there are a number of final settlement decisions in the budget. In number of occasions in the budget it has been said that deduction at source will be treated as final settlement. He said it is a good measure which streamlines the tax administration, brings in more transparency and possibly less harassment. He said, in one occasion in the budget, it is mentioned that "Royalty & Technical Know-how fee" and "Professional & Technical service fee" at present are 10 percent and 5 percent respectively, which

very often cause confusion because the "fees" are of same nature. In order to remove this confusion, the rates of tax for all these fees are re-fixed in the proposed budget at 10 per cent. He argued that if other cases have been considered as final settlement, this issue could have been taken as a final settlement as well.

- **Other Direct Taxes:** For other direct taxes, Dr Bhattacharya said most of the measures are positive. He said he agrees that banks are to be allowed to make provisions for bad and doubtful debts up to 1 per cent in place of 2 per cent of the total outstanding loans till assessment year 2006-07. He also agreed with the proposal for rate of advance income tax applicable to profits from approved securities and bonds to be reduced to 10 per cent from the prevailing 20 per cent. He also agreed on the reduced rate of tax at 10 per cent on income from computer software business to be continued up to 30 June 2008. He said continuation of this measure is good, but it would have been even better if supports like tax holidays and others were provided. Dr Bhattacharya said tax-rebate for donations to philanthropic and educational institutions by any individual or industrial enterprise is a positive measure. This measure was introduced before by the Finance Minister in 1992. The minister then took it away due to abuse issue. He said it is also important now to be cautious about the abuse issue but on the whole it is a positive measure. This measure will encourage private philanthropy in the country.
- **Tariff Structure:** The three-tire tariff structure has been retained with marginal rate of 25 per cent. Dr Bhattacharya said this is fine and he also supports that the five supplementary duty Structure has been revised and brought down to three. He said that the whole new tax structure which has been revised, particularly taking away some of the zero tariffs and the overall trend, is going to support import competing industries and the trend is positive. These will bring clarity to the structure of indirect tax and will promote transparency in mobilisation of indirect taxes.
- **Incentives for Investment:** Dr Bhattacharya mentioned a number of steps the budget has proposed to encourage investment. These are recasted tax holiday facility for selected industries, continued cash compensation scheme, widened gap between listed and unlisted companies, provision of preferential treatment for import of raw materials and tax deduction at source as final settlement of tax. He pointed that reduction of import tariffs for some intermediate inputs could have helped to combat price hike in both domestic and international markets. For example, import duty on newsprints increased to 25 per cent in FY05 deserves consideration for reduction.

Tax holiday

Dr Bhattacharya noted that the government has continued tax holiday facility for 18 selected sectors. He termed it as a good compromise and this is likely to have positive impact on investment. However, he pointed out that "High Value" RMG is ambiguous and there is no energy sector within the selected sectors.

Enhancing dispersion between listed and non-listed company

Dr Bhattacharya said that the budget has proposed to increase tax rate for non-listed companies from 37.5 per cent to 40 per cent. He made the point that this difference for listed and non-listed companies is necessary but not at the cost of small and medium industries. He proposed the differential to be done at about 37.5 per cent and 30 per cent because tax rate of 40 per cent on the small industries is like a penalty on them as most of them do not have the financial capacity to get listed.

- Enhancing Domestic Production: Dr Bhattacharya pointed out number of positive measures taken in the budget to enhance production in agriculture, like decreasing of interest rate from 8 per cent to 2 per cent on loan for production of pulses, mustard seeds, spices and maize, increasing of seed production, preservation and distribution activities of BADC, extension of repayment period for agri loan (upto Tk 5,000) without interest up to 30 March 2006, continuation of 30 per cent cash incentive for export of agro-products, fruits and vegetables, continuation of 20 per cent subsidy for electricity and withdrawal of all duties and taxes on selected fertilisers.

For non-crop and non-farm production, Dr Bhattacharya said livestock support, support in fisheries, rural non-farm and agro-processing and agro-based industries that are provided are all positive. However, he expressed his concern about diesel. He noted that 83 per cent of the irrigation is done through diesel and the rest is by electricity. Although 20 per cent subsidy is provided for electricity, no proposals are there for diesel.

- **Power and Energy:** Dr Bhattacharya noted that in FY2006, allocation was only 0.47 per cent higher than the revised allocation of FY05 where India has increased the allocation by 33.4 per cent in FY06. He said power sector is emerging as a fundamental constraint to the industrialisation process of Bangladesh. He also pointed that in power sector only 22 per cent fund was allocated for generation, 17 per cent for transmission and the rest 56 per cent for distribution. He said there is a scope for review of distribution of funds among generation, transmission and distribution.

- **SME's:** Dr Bhattacharya mentioned that under the proposed tax holiday facility, major SME oriented industries such as plastic, melamine, ceramic and sanitary ware, insecticide and pesticide, computer hardware, agricultural machineries, boilers and compressors, textile machinery, etc. have been included. He remarked that this will have positive impact on investment in these sectors. But he expressed his concern that though under "SME Refinancing Scheme" an amount of Tk 250 crore had been allocated at 5 per cent interest in the last year, which was fully utilised, there is no new money allocation this year.

- **RMG and Textiles:** According to Dr Bhattacharya, textile got a lot of support this year. He said government has decided to continue cash compensation for backward linkage textiles, at 5 per cent, which is a positive decision. He also mentioned other positive measures like package of support for deemed export, zero-tariffed import of spare parts for machineries and waste cotton RMG and Duty rebate on import of dyes and chemicals, etc. But he also expressed his concern that within the budget there is not much scope for handloom industries which, according to the PRSP spirits, is a large generator of rural employment. He noted that India has allocated Tk 58 crore to adopt and promote cluster development approach for production and marketing of handloom products. Comparing the RMG and Textiles sector of Bangladesh with other countries, Dr Bhattacharya said that Bangladesh is doing good but not as good as some other countries are doing. At the same time he expressed a word of warning that the export of woven-RMG during January-April of the current year has decreased by (-) 7.1 per cent compared to last year and although knit-RMG is showing robust growth of 32 per cent in the first four months, the overall growth of RMG is 7 per cent. So the competitive pressure is showing up and in 2007 it will show up more. Mentioning the other countries effort, Dr Bhattacharya said in Sri Lanka, government has proposed establishment of a SME Bank by this year to provide required working capital and investment needs of the apparel industry, and to modernise the factories. Sri Lanka has also allocated support for productivity improvement measures and promotion of markets for apparel exports. In its FY2005-06 budget India has offered a number of incentives to apparels/textile sector, for example created a Rs 435 crore Technology Upgradation Fund, instituted a 10 per cent capital subsidy scheme, pronounced cluster development approach, made provision for more than Rs 4000 crore support for textile sector, etc. He said, what is required is more investment in technology upgradation and productivity growth like creating a textile/RMG technology upgradation fund, providing more support to backward linkage activities, supporting the restructuring in the sector, promoting cluster approach for textile/RMG and putting in place a comprehensive plan for RMG workers, both for skill upgradation and rehabilitation.

- **Telecommunication:** Dr Bhattacharya mentioned reduction of import duty on telephonic machinery and reduction of supplementary duty on telephone answering machines and dictating machines as positive measures. He also said that local producers will be benefited by the increase in import duty on mobile phone battery from 7.5 per cent to 15 per cent. But he mentioned imposition of a tax of Tk 1200 for SIM/RIM Card as a negative measure. He said this is likely to create distortions in the mobile telephone market and this is a disincentive for lower income group. This will also create entry barrier for new entrants and may encourage anti-competitive behaviour. However, the mobile operators on their part, rather than passing the whole burden on the customers, could take up steps towards burden-sharing, e.g. reduce call rates, he said.

- **Manufacturing Items:** For manufacturing items, Dr Bhattacharya said reduction of customs duty on some raw materials is a positive measure. He also supported reduction of customs duty on some raw materials for local Bicycle industries. But he expressed his doubt on the vehicle sector. Customs duty of vehicles within the range of 1500cc to 1649cc in CKD and also for vehicles exceeding 1649CC in CKD has been raised. He said it is not understandable whether it will stimulate local vehicle body building industry or not.

Local Government

Dr Bhattacharya noted that an allocation of Tk 120 crore for Union Parishads and Tk 60 crore for special programme under Gram Sarker has been made. Local government also received a total block allocation of Tk 826.5 crore for various institutions under 11 heads in ADP which is 5.3 per cent higher than the revised budget of FY04. He also mentioned that Tk 244 core has been earmarked for the CHT as investment project in FY06, which is 31.1 per cent higher than the revised budget of FY05.

Social Sectors and Safety Net Programmes

About the education sector, Dr Bhattacharya said it has received the highest allocation of Tk 9487 crore which is 14.94 per cent of the total budget. Out of this 34 per cent will be spent from development budget for implementing 61 projects. He mentioned that this allocation is Tk 2366 crore more than last year's revised budget. He also mentioned that, in line with PRSP, budget has put a lot of emphasis on girls' education. The budget will bring 29 lakh more students under the stipend programme. In addition, the budget has increased the number of scholarships at various levels. However, expenditure upto March was only 44 per cent. No new project was included in the education sector. Dr Bhattacharya said the Ministry of Education has been brought under the Medium Term Budgetary Framework which is a new initiative of the Government and hopefully the targets will be better monitored.

For the health sector, Dr Bhattacharya said combined allocation in health is Tk 4240 crore which is 33.5 per cent more than the revised budget of FY05. Development budget increased by 58.7 per cent compared to FY05. But he noted that only one new project has been included which was under the local government division and expenditure up to March 2005 has been only 33 per cent of the allocated amount. However, he said on the whole the social sector has got some support.

For safety net programmes he noted his observation that the Finance Minister has continued some of the programmes introduced in the earlier regime and expanded them and allocated new money on them. Allocations have increased. But he said allocation does not mean implementation. As an example he mentioned the old age allowances scheme. The actual implementation was less. This was also the case for block allocation for poverty alleviation. Not much of money could be utilised there. But he mentioned the increase in the coverage of beneficiaries. He said if 40 per cent of the people over the age of 57 of the rural areas are poor, then coverage of 48 per cent of the disadvantaged people is approached. He said in a country like Bangladesh this is positive. Dr Bhattacharya mentioned the new safety net programmes like Allowance for the Fully Retarded and Seasonal Unemployment Reduction Fund. He said both are positive and supportable. He also mentioned Programmes for Mitigating Economic Shocks as understandable.

Concluding Observations

Dr Bhattacharya termed the budget for FY2006 as a budget of care, compromise and collusion. He gave a brief explanation of these terms. He said caring conscious of the budget has been seen by 1. a maximum increase in the area of health and education, 2. inducement to stimulate agriculture and rural development, and 3. effort to expand and deepen the social safety net programmes. This is why he terms this budget a budget of care. He said like any other budget, this one has also done some compromises and some of which are positive. These compromises are 1. continuation of a tax holiday provisions 2. continuation of cash incentive scheme for certain sectors (textile, leather, agro-processing) and rationalisation of tariff and para-tariff structure that provided protection to particular sectors. He added that the third trend in the proposed budget for FY06 suggests that the fiscal measures were in fact generated through a collusive behaviour, referring to the Tax Amnesty for Undeclared Income. He suggested the withdrawal of this decision and remarked that if this decision is not withdrawn, the creditability of all the positive measures the Finance Minister has come through with good intensions will be questioned in the coming time.

Comparing what the budget was supposed to do in the previous year and what it actually achieved, Dr Bhattacharya said faster revenue earnings growth than revenue expenditure growth was a target that the budget could not achieve. He also mentioned about faster growth of development expenditure than revenue expenditure, one that was also not achieved. He said in general the economy is under-performing when juxtaposed to the targets set by the MTMF of the PRSP.

Dr Bhattacharya made his comment that no single policy instrument can fully address the emerging macro situation. Possibly, a combination of three major approaches will be necessary to address the situation. He mentioned these approaches are 1. Adjustment of nominal interest rate in line with the inflation rate making the real rate marginally positive, 2. Downward revision of the exchange rate of Taka to attain its equilibrium value, and 3. Moratorium on governments recurrent expenditures and streamlining of ADP.

Drawing an end to his presentation, Dr Bhattacharya remarked that all over the world, before the election, number of hazards in policy-making takes place. All the governments have done that before and this time the government should try to avoid those.

Floor Discussion

Poverty

Dr Sheikh Maqsood Ali, former Secretary and former Member of the Planning Commission, stressed on the poverty issue. Dr Maqsood said poverty problem is massive in Bangladesh keeping in mind that around 50 per cent of the 15 crore people, which is half the population of the United States, is below poverty level. He remarked that it is not possible to solve the problem of poverty by the conventional structural reform policies reinforced by PRSP. He mentioned that Bangladesh government has already decided there has to be second front in order to tackle this massive problem, in addition to structural adjustment reform policies. Pointing to the micro-credit programmes, he said the poor are organised in many villages in Bangladesh and they have proved that they are efficient in use of resources and if they are provided with more resources, their efficiency increases. If more sensitive support is given to them, they can come from the periphery to the centre of the plan. And if they can come to the centre of the plan, they can not only contribute creatively to the eradication of poverty but also to the higher extra rate of growth. He said this extra rate of growth is vital for the country because with 6 or 7 per cent growth which is envisaged in this budget, this massive poverty cannot be attacked. "We need 9 to 10 per cent growth for at least threefour decades in order to effectively handle the poverty situation", he said. Dr Maqsood noted that there are a number of fiscal, monetary and commercial policies which are anti-poor. For an example he mentioned that the banking system withdraws the money rather than pumps the money into the hands of the rural poor. He emphasized that there is a need to examine how much of the total resources is going to the upper ten per cent of the people and how much is going to the lower 40 per cent of the people and how the access to the resources of the lower 50 per cent of the people is enhanced.

Mr A Matin Chowdhury, former Chairman, BTMA and Managing Director, Malek Spinning Mills Ltd., said that unemployment and poverty are correlated and textile sector can help in reducing poverty of the country through more employment generation. He said textiles sector in Bangladesh has received support from the government. But further extension of the support like the neighbouring countries can raise export of the country which will extend the business and thus help reduce poverty.

Savings and Investment

Chairman, Bank Asia and Member, CPD Board of Trustees Mr M Syeduzzaman noted that according to the latest figures, the national saving is about 26 per cent and foreign aid is available. Total saving available for investment is about 28 per cent whereas the actual investment is less than 25 per cent. He raised the question on the rest of the money and wondered whether there are idle savings sitting in the economy or not. He mentioned this as a paradox.

Dr Mohammad Abdur Razzaque, MP said investment is extremely low in Bangladesh. He added that considering geopolitical situation of South Asia, one should not be very enthusiastic about the investment situation. He expressed his concern that this government came to power three and half years, investment performance is extremely poor in public sector and private sector.

Former Finance Minister A M A Muhith emphasized on long-term investment policies. He said this country deserves investment policies for five to ten years for specific sectors where it needs to be clarified what tax concessions are offered, what protection is given, what measures are taken to promote particular industries and what kind of infrastructure support is provided. He mentioned that this is one important measure that has not been taken in this country yet where governments of some other countries have been yielding positive results from it.

Revenue

In the discussion on revenue collection effort of the country, M Syeduzzaman, Chairman, Bank Asia and member of CPD Board of Trustees, noted that this year revenue earning is below 5 per cent of the target. He said this year the economy experienced significant respectable growth of industries, respectable very large surge in the volume of the import which provided a much large base for taxation. He said keeping these factors in mind, the performance becomes more disappointing when it is considered under the new GDP growth of 6.3 per cent.

In this regard A M A Muhith, former Finance Minister, remarked that improvement has taken place simply from expectations, not measures. He said if searched for measures in this budget, only two income-tax related measures can be found, namely increment in source collection and advance collection. But he said structural reforms should be considered. He raised the question on why revenue shall be yield substantially from direct income when it needs to have a powerful local government to manage. He suggested delegating the responsibility for VAT to some distinctive local organisations. "That will really result in something creative", he said. He added that it is not impossible but a matter of changing administration, changing objectives and changing policies.

Budget Deficit

Reffering to Dr Debapriya's presentation, Christine Wallich from the World Bank said that the discussion has made a lot of point about the size of the deficit but it has not said much about the fiscal deficit. She remarked that the fancy terms for the deficit is hidden in all sorts of places including the losses of SOEs. "This is not actually a deficit yet, but it's a government liability, a government obligation needing to be paid some point in future" she said. She added that from the World Bank's view, the biggest source of fiscal deficit comes right now from the losses of BPC. She noted that it is losing around 450 million dollars a year and in Taka it comes to about 27.9 billion this fiscal year. And these losses are being covered through various means including loan from the banking sector. She said what happens is that BPC cannot pay its loan back. It is a case of fiscal deficit and she mentioned it as a government obligation.

Dr Salehuddin Ahmed, Governor of Bangladesh Bank, said budget deficit actually does not become 4.5 and this year it will be around 3.5. He assured that the monetary policy will be congenial and Bangladesh Bank will do as much as possible in order to encourage the private sector.

Development Vs Non-Development Budget

Honourable Member of the Parliament Dr Mohammad Abdur Razzaque mentioned from the budget that this year revenue income will be 45,000 crore taka. It is about 6,000 to 7,000 crore taka higher than the last year's revised income. He noted that only 10,000 crore taka will be spent for development activities and most of the funds will be used for non-ADP expenditures, although non-ADP includes some development activities, small about 2500 core taka. He said budget has been increased but only ten thousand will be spent for development. And there will be non-development fund for government officers, bureaucrats for buying vehicles and other support services. Dr Razzaque expressed his concern that the Finance Minister in his budget has not mentioned any suggestion regarding how the non-development expenditure to be brought down. He also mentioned about the SOE's. He wondered whether the Finance Minister has decided to disinvest those or not.

Referring to Dr Debapriya's presentation, Mr M Syeduzzaman, Chairman of Bank Asia and member of CPD Board of Trustees, said that growth rate of revenue expenditure is much higher than the growth rate of revenue earnings and growth rate of revenue expenditure over the growth rate of development expenditure is even higher. He noted that this year it is 62 per cent of revenue expenditure and 38 per cent of development expenditure. He said this is a worrying indicator and it is needed to increase the development expenditure as compared to revenue expenditure.

Annual Development Programme (ADP)

A very much live discussion among the participants took place regarding the annual development programme. Major topic of discussion was the poor implementation issue.

Honourable Member of the Parliament G M Quader emphasised on the issue of timely release of fund. He remarked that if the line ministries are asked why a project is not being implemented, they always refer to the Finance Ministry that the money has not been given to them. Allocation is there but money is not released. So it is not the line ministries that are failing the ADP all the time. Fund availability to the ministry is not always done at the correct time. He added that the development budget mainly fails due to the inability to collect the revenue in proper time. This time the budget gives a very ambitious target for revenue earnings and also a very ambitious revenue expenditure and development budget. So there is a risk that so much of money will not be collected in the revenue and the country will not be able to spend the money in development and also in revenue as per the target as have been stipulated in the budget.

The same issue has been raised by Mr Abdul Khaleque, honourable member of the Parliamentary Standing Committee on Ministry of Finance. Mr Khaleque said that certain problems are faced as a member of parliament. He said projects are taken but funds are not released at the right time. Also the Ministers say they are not getting funds from the Finance. He remarked that to implement the projects timely release of fund is a must. He added that in Bangladesh only six months are available to work, especially in the villages, due to the rainy season. So fund release should be done accordingly so that projects are timely implemented.

Honourable Member of the Parliament Dr Mohammad Abdur Razzaque remarked that the implementation level of ADP is extremely poor. It is never more than 80 per cent. This year's challenge is to take it over 90 per cent. But this requires new strategies to follow. He expressed his concern that the budget did not provide any such suggestions.

Block Allocation

Block allocation in the annual development programme was another major point of discussion among the participants. Most of them expressed their concern about the possibility of misuse of the fund.

Honourable Member of the Parliament Mr G M Quader said like everyone else he is worried about the money allocated as block allocation. He said he agrees with Dr Debapriya that when everything has been taken care of like the increased pay scale, this special allocation is not logical and should not be kept in every place. He also mentioned that Gram Sarkar is formed by government nominated members. He expressed his worries that 60 crore taka allocated as block allocation for the Gram Sarkar may be used just for performing upcoming election works. He said it is not clear where these funds are going and there is lack of transparency that gives rise to these questions.

Md Abdus Shahid, honourable Member of the Parliament and Chief Whip of the Opposition, mentioned the block allocation of 6000 crore taka is very objectionable. He said he thinks it is rather a drive to the party workers and with this money they will work for the party in the elections.

Supporting the comments of Mr G M Quader regarding block allocation in Gram Sarkar, honourable Member of the Parliament Dr Mohammad Abdur Razzaque said that Gram Sarker is not in agreement with the constitution of the country. He said it is not an administrative unit and without an elected representative a government institution cannot be formulated. But this institution has been formed and now question is raised whether it really functions or not. He said resource is scares in Bangladesh. Village people cannot even buy medicine to bring down the temperature of their children. In this situation 60 crore taka for Gram Sarkar will be a total waste.

Honourable Member of the Parliament and Chairman of the Parliamentary Standing Committee on the Ministry of Finance Mr Mushfiqur Rahman noted that BNP is a political government and it was a pre-election commitment of BNP to the people to have an institution at the grassroot level like Gram Sarkar. So BNP has been voted to form this institution. Therefore, this cannot be bad, he said. Every government has its own strategy, philosophy and programmes. So 60 crore taka for the Gram Sarkar is not outside the commitment of the political government as this was in the manifesto of this party.

Agriculture and Agricultural Subsidy

Regarding diversity of agricultural production, honourable Member of the Parliament Dr Mohammad Abdur Razzaque said that there is a need for more funds and more allocations in the agriculture sector. He said only subsidies or diversification from one crop to other crop is not enough to provide the support this sector needs. Effort is needed for diversification of livestock, fisheries and other commodities as well.

Chairman, Bank Asia and Member, CPD Board of Trustees Mr Syeduzzaman made a suggestion regarding funds availability to the deserving farmers. He said there are 12 million farmers in the country, 2.5 million are large farmers, and the rest are small and marginal farmers. So other than the large farmers there are 9.5 million farmers. If a cash disbursement of 1220 taka is given to each of these farmers it comes to roughly 12 crore taka which is the amount of subsidy in the ADP. Mr Syeduzzaman said in that way it will be progressive because the smaller farmers will get much higher subsidy per acre of his cultivated land than the large farmers. The question is, to implement this all the small and marginal farmers are required to be identified. But everyone has access to the land records which shows how much land is owned by everyone. So identifying the small and marginal farmers will not be an impossible task. But Mr Syeduzzaman also mentioned that to monitor this there is a need for effective local government. He said that this country unfortunately does not have a strong local government. At the same time, he brought it to the attention of the Finance Minister that like the pay commission, effective local government was also an election pledge of this government.

Honourable Member of the Parliament Mr G M Quader said it is the concern of the entire nation that the farmers are being marginalised and they are becoming poorer every day. This country is losing number of farmers as they are becoming Rickshaw pullers and other labours. So agricultural subsidy, both in the production and in the price support, should be there. Though amount is being increased every year, in the fields the farmers are not being benefited out of these agricultural subsidies at all. They are getting poorer, prices of fertilisers and other inputs are increasing and government price is not found in the local level market. At the time when they need these, the prices are always high.

RMG & Textile

Mr A Matin Chowdhury, Former Chairman, BTMA and Managing Director, Malek Spinning Mills Ltd, acknowledged that the textiles industry has been in the forefront of all government policies and in every budget support has been provided by the government which helped the business to come up. He said two problems in hand are the employment and the BOP, and textiles in the garments sector is the only area which can address both of these problems. But he said that the market is in global competition with the removal of the quota. It has now become a business of effectiveness. As a result, huge investment has taken place all over the world and Bangladesh is in risk with those who are much bigger like China, India, Pakistan, and Turkey. These countries are appropriating more resources to their industries which is therefore creating an uneven business fields for Bangladesh. Quoting Mr Chowdhury Mustaq Ali Chima, Textiles Minister of Pakistan, he said that because incentives are not allowed, Pakistan is framing it under development programme and giving 6 per cent incentives for research programmes. The Indians are giving 5 per cent extra subsidy to the sector under the Technological Upgradation Fund, again bypassing the requirement of the WTO. Something new is that, India is giving 10 per cent capital subsidy, which means for a project of 100 crore, government is going to give 10 crore and then negotiate with the bank on a 8 per cent interest, the government will give 5 per cent and the industry has to pay 3 per cent. These are creating a very uneven competition for Bangladesh. Mr Chowdhury added that the Finance Minister has reduced the duty on dyes and chemicals. But the industries are still paying 32 per cent duty on dyes and chemicals whereas both India and Pakistan have taken away the interest and textiles has been exempted 100 per cent from sale tax and import tax. So those are areas which are big challenges for Bangladesh. "We know our resources are constraint but we still need to look at bigger challenges and we need huge investment", he said.

Export

Sayeeful Islam, President, DCCI and Managing Director, Concord Garments said everyone is concerned what the post MFA scenario is. The government in some places has mentioned the economy be based on export led growth strategy. So there is the issue of export diversification. He said in this issue the government has really not worked because the country is in extremely vulnerable position is being dependent on one product. It is really of extreme concern that RMG and textiles remain such so preponderantly dominating the export scene. He mentioned that the Commerce Ministry has identified some thrust sectors, IT, and agro-processing. But to really diversify the export, there needs to be linkage between import policy, export policy, industrial policy and most importantly the education policy of the country. He noted that for the education policy there has been a correct move - far more allocation in the vocational education sector. He said without vocational training the country cannot go into new products. Now the concern is to make sure that this is reflected in the implementation. How this vocational training is going to be made needs to be addressed, he said.

Research Director of CIRDAP Professor Momtaz Uddin Ahmed mentioned that in his recent study on the export policy-making of Bangladesh, it was revealed that policy-making effort in Bangladesh is not a coordinated affair. There are several sub-sectors there like special sub-sectors, special development sector, etc. He said as many as seven sectors are there and there is a long list of priority sectors made by the Ministry of Industries. This indicates that there is a serious lack of policy coordination at the very higher level of the government policy-making machinery. It is neither the Finance Minister nor the Communication Minister who alone can perform this task, he said. It is the combined responsibility of all the ministries to play their part and to play the part in a highly effective and coordinated fashion.

Interest rate

Professor Abu Ahmed, Department of Economics, University of Dhaka, Chairman, Board of Directors, Bangladesh Shilpa Bank, said everyone apprehended there will be some problems when switching on to the floating exchange rate. But fortunately, credits to the BB, it was well managed at the beginning and then upto this time. But recently some fluctuations have been observed, upto 4 taka within a week. And at the same time a signal is given that intervention should move up. Two or three years it took to bring the interest rate 2 to 3 per cent down and when everyone was saying that the economy was expanding or credit flow to the private sector is also going up, suddenly a signal is being passed over that the interest rate should be moved up again. He said one year is not enough to make good results out of the low interest rate. It is a recognised fact that minimum three to four years time is taken for the low interest rate to give the desired results. He raised the question whether to move to a higher interest rate and higher price than exchange rate which is going against the Taka or not. Professor Ahmed requested the CPD to conduct a study to reveal whether Taka is really over valued or not.

Chairman, Bank Asia and Member, CPD Board of Trustees Mr Syeduzzaman noted that this year it was 62 per cent revenue expenditure and 38 per cent development expenditure. There is no revenue deficit and there is a slight public sector surplus. But he raised a danger signal that this year if the revenue is not materialised and foreign aid is not materialised, there is a risk that the interest rate may even go up higher next year. He also brought it to the attention of all that during the whole budget speech there is not a single sentence urging the people to cut down the expenditure and reduce wastage.

Whitening of Black Money

A live session took place regarding whitening of the black money issue, which was probably the most debated issue of the budget 2006.

Regarding the black money issue, Md Abdus Shahid, honourable Member of the Parliament and Chief Whip of the Opposition, mentioned that, over 10 per cent tax has been imposed on the general people but in case of black money to be white it is only 7.5 per cent. He mentioned it as an unfair measure. He said this is not only unethical in a sense that the black money owners are getting advantages, but this measure also demoralises professional ethics.

Honourable Member of the Parliament and Chairman of the Parliamentary Standing Committee on the Ministry of Finance Mr Mushfiqur Rahman said that a very interesting debate is going on in the country about whitening of the black money, as if it is a new thing. But he noted that this whitening of black money has been going on for long time, even during the previous government. He mentioned that the Finance Minister is also not in support of this. But, on the other hand, there is an economic side also for this measure. He said it is not right to blame only from the unethical ground. But there is an economic ground also. He remarked that the Finance Minister is fully aware of the matter and the government would like to see how this measure works this time hoping that some improvements may come out.

Inflation

Former Deputy Speaker Professor Ali Ashraf mentioned that inflation is a very important issue which is affecting the common people in different ways. But he added that the Finance Minister in his budget speech did not mention in any programmatic way how to lower the inflation rate.

About the inflation Dr Salehuddin Ahmed, Governor of Bangladesh Bank, said that it cannot be reduced in a short time by monetary policy instruments. He said Bangladesh Bank is trying to shed up the inflationary expectation which is really bad. He assured that the monetary policy will be geared towards the inflation expectations so that in the future inflation is not created. That will be the major aim of monetary policy.

Governance

Former Deputy Speaker, Professor Ali Ashraf said that in the budget nothing has been mentioned about the governance and about the transparency and accountability of public funds when the country have been a champion in corruption for last three or four times. He said there is no measure taken in the budget to curb the corruption. He also mentioned about the alarming disparity between the poor and the rich. In this context he said that the allocation is very huge and it has placed lots of hopes and aspirations before the people. But he warned if corruptions are not curbed and transparency and accountability are not ensured, all the efforts will go in vain.

Former Finance Minister Mr A M A Muhith stressed on the poor institutional setup throughout the country and the ever increasing corruption that further deteriorates the governance situation. He said core emphasis should be given on the improvement of governance issue, whether to improve the implementation of the ADP or to eradicate poverty from the country.

Miscellaneous

Diesel: Pointing to the diesel price, honourable Member of the Parliament Mr G M Quader said this is the most important and interesting part. He said diesel is used for the large part for agricultural purposes. Almost 85 per cent of the agriculture in this country depends on the supply of diesel and diesel is not being supplied in proper quantity at the time the farmers need it. The price is also high and in this situation the government has raised the price further up. He said that the farmers will have to pay at least 25 to 30 per cent over to that price.

Defense: Regarding defense, honourable Member of the Parliament Dr Mohammad Abdur Razzaque expressed his concern about the defense expenditure issue. He said defense is a sensitive issue and there are some strategic things in defense that cannot be discussed publicly. But there are also other development expenditures like construction of buildings, mosques, etc. in the defense that are not strategic and there is no reason why these cannot be discussed in the parliament or in civil society forums.

SIM/RIM Card: While making comments on the much talked SIM tax issue, Christine Wallich from the World Bank said that the telecom sector is the largest single source of tax revenue and it is a market if allowed to grow, could grow at a very rapid clip. But in Bangladesh the market is growing at a lower rate than expected. The high tax on cell sets and now on SIM cards is part of the reason for that. She expressed the World Bank's recommendation to replace the tax with necessary surcharge on VAT on call revenues but not the SIM card tax which will substantially slow the growth of the call market and the country in general.

Honourable Member of the Parliament and Chief Whip of the Opposition Mr Md Abdus Shahid said in IT sector, the mobile phone is a part of the family. The imposition of tax on SIM card is discouraging for this market. He said this market is playing important role in creating job opportunities. Twenty-five million new faces are coming to the labour market for job every year. Only half a million is getting job facilities and the rest remains unemployed. He said this is a major question and the honourable Finance Minister should look into it more seriously.

Response from the Government

Responding to the debate on block allocation in the budget, Finance Secretary Mr Zakir Ahmed Khan made some technical comments. He said in the revenue budget the block allocation is about 1100 crore which is there every year to meet unforeseen circumstances and there is about 600 more this year, which is very transparent. Block allocation is for development projects transferred to the revenue budget if the allocation is unutilised and when the time is over. There is another allocation which is for new recruits as many ministries are depending on priorities and they will be recruiting people. As it is not known how many will be coming, block allocation is kept. Also, due to the integration of the budget with PRSP goals, a transitional phase is going on. There is a long list of unapproved projects which need to be linked with PRSP targets. These projects are subject to more scrutiny before approval. So once they are approved, they can get money from the block. Mr Zakir Ahmed Khan mentioned that this is a sectoral block which is not transferred from one sector to another and in this transition phase, when new projects are in line, block allocation has to be there for the time being. In fact, this block will gradually move as more projects come in line with the PRSP goals, he said.

While responding to the issue of revenue budget being higher than the development budget, Mr Zakir Ahmed Khan said that a clear-cut distinction between development and non-development budget is not followed. He said previously there was much expenditure in the revenue budget that now has been brought under the development budget. Referring to Dr Bhattacharya's presentation, he said much has been said about the social safety net programmes which are in the revenue budget. But these programmes cannot be distinguished as development or non-development programmes. "What we need is neither revenue budget nor development budget but one budget", he said.

Response from M Saifur Rahman, Minister for Finance and Planning

Honourable Finance Minister M Saifur Rahman in his initial comments thanked CPD for organising the budget discussion and getting views from a galaxy of distinguished people. He also mentioned that he has been participating in the CPD budget dialogues from the very beginning. He added that Dr Bhattacharya has worked out certain points which takes serious efforts and it is very good work he has done.

The Finance Minister mentioned that this is a budget of a political government and commitment of government will be reflected in the budget. This is democracy and BNP has got mandate of the people and works as the people want them. It is not an executive budget, it is not a civil servant's budget, it is a budget of a political government. He said it is needed that one goes to every bit of area of this country, every villages of this country, every unions of this country to know what people want, where they want their sanitation, where they want their water supply, what they want in their own area, what school they want. He said many people come to him and discuss this matter sitting in Dhaka and around. "It is alright to discuss these things in a five-star hotel, but when you go to the fields, you find the picture different", he said. The government deals with the people in rural Bangladesh, where majority of the people live, about their education, their health and their welfare. So the budget reflects the party philosophy and the function as a Finance Minister is to work for the overall interest of the nation. He said if the people have voted BNP for the second time then really BNP knows how to govern and how to deliver to them. This budget is meant to deliver that sort of situation. He said during the occasion it has been discussed what percentage the budget is implemented and about the size of the budget. This is a country of 144 or 142 million people. That does not mean the budget has to be conservative. Nowhere in the world budget is 100 per cent implemented. Comparing to the budget implementation situation in the neighbouring India, the Finance Minister said that Bangladesh has a much better situation. So the Bangladeshi people and government together, right from the beginning, managing very well in the budget process and changing of government does not really make any substantial or significant difference in the process. It is more or less the same sort of people worked in 1991- 96 and again the same sort of people in 1996 -2001. Referring to the point Mr Muhith has made, that the whole structure of the budget making, the responsibility, the local government features, etc. has to be changed, the Finance Minister said he agrees that it is needed to bring a change in the institutional setting. The institutions are not excellent or accountable institutions that this country has. The institutions have a lot of weaknesses and there should be seminar or symposium to work out how to strengthen the whole governing processes or make better use of the resources to bring institutional improvement. "Unless we can make the institutions strong, no budgetary allocation will be able to bring the desired result", he said.

Terming the local government institutions as one of the reckless, irresponsible institutions in Bangladesh, the Finance Minister said that if the local government institutions are not strengthened, their accountability are not enforced and their regulations are not introduced then it is very difficult to finance local government.

Referring to Dr Bhattacharya's presentation, the Finance Minister said that the economy registered, despite the three recurrent floods, 5.5 per cent growth. He said everybody including the World Bank and IMF presumed that there will be dooms day for export, as the MFA is withdrawn. But there was no dooms day. Every thing is going fine. He also mentioned about the good production of the Boro crop. He mentioned about the FDI proposal that is coming up because of a hospitable, healthy investment environment. He said that the capital market has been improved and the government is trying to give whatever support is needed for the capital market. Dr Bhattacharya's presentation also said that there is robust credit expansion in the private sector but there is no investment. The Finance Minister explained that the credit is going for the import of capital machinery. The larger part of the import bill having a serious dent on the foreign exchange reserve. He said machinery imports mean investment. If one goes from Dhaka to Mymensingh, he will see many new factories are coming up. Right and left, there is hardly any land available there. He also noted that in Rangpur and Dinajpur or other area, there is also no land available for expansion of poultry and fisheries and such kind of activities. He said Dhaka city based economists making all sorts of remarks will not see it. About inflation the Finance Minister said one will have inflation if he wishes for it. Blaming the perspective of the majority of the country, he said that everyone always saying something negative and do not say something positive. Everyone asked for the Pay Commission, asked for the salary to be increased of the government officers. But when the salary was increased, everyone including the Television started to ask "Will the price go up?". He added that if one wants to create inflation by his wishing, he cannot help it. He also mentioned that it is possible to check inflation though monetary policy measures and the central bank are there. They are controlling the monetary policy. They are managing it. The Finance Minister said that till today they have been doing very well. If something goes bad, the government is trying to rectify its policy in the process.

About the improvement in the foreign aid situation mentioned in Dr Bhattacharya's presentation, the Finance Minister said that the country needs to improve more because it is only a marginal improvement.

Responding to the budget implementation debate, the Finance Minister said it is true that there is no power of the line ministries to spend money to their work. They have to get their money from the Finance Ministry. But he said it is the implementation capability that is hindering the implementation. Implementation capability has to be improved. It is the governance issue. Budget cannot solve all these problems altogether. It runs across the whole government. And it is not exclusively to BNP or AL or any government. Any party who comes to power, the question is to what extent it can make the administration rigorous, dynamic and resilient so that they can take up the challenge of development which is reflected in the budget. When on 20th of the March the finance ministry finds that 1400, 1300 or 1600 crore taka is available as it remained unutilised, it is too late at that time to allocate the budget to another ministry. The Finance Minister mentioned that even in the month of May and June, the finance ministry has been doing the re-appropriation of budget from one ministry to other ministry. The money is just remaining unutilised. This money could have been allocated to local government, education ministry or in other sectors. Responding to the former Finance Minister Mr Muhith, the Finance Minister said it is true that the government is giving the whole budgetary process to the micro ministries, that is the line ministries. They have been given training and detailed directions. They will know what their estimated allocation would be. They have been given guidelines of their objectives within the framework. They will decide their policy within the total package. This is the first year and this will be the first stage. Next years they will be given the indications. First year will be exact, second and third year will be a little bit estimates. The Finance Minister said institution cannot be built up overnight. Budget was previously made by Finance Ministry, now the government is decentralising it. It will take time for this new thing to develop institutionally and take sound route in this country. The Finance Minister assured that if the parliament sits together and brings about a local government institution, he will support it and provide monetary and other support. He also mentioned that the Parliamentarians have responsibilities because whether it is in the Finance Committee or in the Planning Committee; the opposition parliamentarians are as vocal as any parliamentarians and this is why he found more support from them than his own people. They became more vocal. In the Parliament they do not spare any body whether one is in government or not. When one goes to the Committee they make his life miserable. That is where parliament works and that is why the parliamentary committee is very important, he said. He added that when the opposition says something, it is listened very carefully.

Regarding the block allocation the Finance Minister said he personally does not like block allocation. But there are certain circumstances that require it. He said ministries have to recruit, for instance, 3000 doctors or 20,000 teachers. But sometimes these numbers of teachers are not recruited. As soon as the specific ministry says that they need fewer recruits, then the money is transferred to the ministry. Not a single funding from the block allocation is done. The problem of Bangladesh is in the project identification, preparation, implementation and monitoring. These four points still remain a disturbing feature in Bangladesh. Till today, the country has not been able to do very much in this area. For an example the Finance Minister said, to identify a project outsiders come and they identify the project. Then there is a project scheme and the MPs have to sit with a sheet of paper and write what they want without considering the feasibility of that project. This is why the Planning Commission cannot approve the projects. There are certain features, certain traditions how it is to be done. The Finance Minister said he is the most unhappy man for non-utilisation of funds which is due to ineffectiveness of the administrative machinery of the government. But he said this needs time to be improved.

The Finance Minister said people have mostly come up with two issues of this budget. One is the SIM/RIM card issue and the other is the black money issue. He explained the black money issue. He said he was strongly opposing the measure when the decision was made. But people should understand that there may be a good intension for what has been done. He mentioned that although he was against the measure, he observed some behaviour in the capital market, exchange rate, banking liquidity, LC opening and others. He also mentioned that earlier there was some control over LC opening like down payment of 25 per cent. But due to World Bank's pressure every one is now free to open LC's. The Finance Minister said this leaves nothing in his hand to control if something goes wrong. This also requires that sound structure of monetary, fiscal and other management institutes to be put in place. He also noted that this was no new measure. Some governments gave untaxed income full freedom, some gave half freedom and he gave little freedom. But still he is not glorified of that and he is very much uncomfortable with it. But he had to harmonies between the moral discounting and economic compulsions. He said the government is going to strengthen many of the institutions and financial management system. He also mentioned that the government has gone for a floating exchange rate only for two years. He said it is surprising how the government has maintained stability where in many countries when it was introduced it jumped out from sixty to hundred or something like that. He expressed his expectation for the support of all. Otherwise, a good accountable governance will not be achieved. Many of the institutions of this country need to be improved. He said collectively the parliament is failing to improve the democracy in the country. He was unwilling to blame any particular party. He said every one is just not putting their head together to bring about a betterment of the institutions for which the parliamentarians were elected. He said it is a high time to do something about it. May be a third party can be brought into the conference but for him alone it is impossible.

Responding to Mr M Quader's comment, the Finance Minister said that he was a bit surprised as Mr. Quader is one of the most informed people as a leader of the opposition. He noted that the Finance Ministry does not control any money after the budget is over. If any minister says to go to the Finance Minister for any approved project financing, he recommended taking the issue further with the minister as the Finance Ministry is only involved in the fourth quarter of the year to see what has been done actually.

The Finance Minister then responded to the issue of non-development expenditure growth being higher than development expenditure. He remarked that there is no such differentiation like development and non-development expenditure. All expenditures are development expenditure. For example he mentioned about giving salary to the school teacher, scholarships to the students and scholarships to women of the universities. He raised the question whether these expenditures can really be treated as non-development expenditures. He mentioned that previously he has brought many projects out from the development sector to the non-ADP development sector. He said it has been seen that the fisheries ministry are giving projects to create fish fry and the forest ministry is giving projects to distribute tree plants. The Finance Minister remarked that it is the normal course of duty of the fisheries ministry to create and distribute fish fries and forest ministry to distribute tree plants. He raised the question how these can be included as development projects. He also mentioned jute ministry and ministry of cultural affairs in this regard. The Finance Minister said this is the reason why he had brought about 250 crore allocation away from the core development budget to the non-development budget and next year he wants to take it further. He expressed his intension to create a single budget in due course of time. He noted that in this country only the tangible part is taken as development. As an example he said textile machinery is taken as a part of development but not the chief executive officer without whom this machine remains useless. So the chief executive officer is a greater part of the development than the machinery. So there is no border line between these two.

Responding on the deficit issue the Finance Minister said that 4 per cent or 4.5 per cent deficit for a country like Bangladesh is not a big deficit and it is quite within the PRSP target. Half of the deficit is being financed from the internal resources and the rest come from outside.

In his comment on the diesel subsidy issue, the Finance Minister said if he could provide 20 per cent subsidy for electricity it was also possible for him to provide this support to diesel. But he said this was not possible and it cannot be controlled like that. Claiming himself a farmer, he said diesel is used for many purposes, from running machines for fish cultivation to irrigation, and for many other sectors. But subsidising diesel more is just not possible as it is already subsidised at the level of 11 taka per liter in Bangladesh. He claimed that in Bangladesh energy is provided at the lowest cost compared to other countries like India, Pakistan or Sri Lanka. He mentioned that in India it is 62 Bangladeshi taka per liter and in Bangladesh it is 36 taka. This reveals the amount of subsidy in it.

Drawing a conclusion to his speech, the Finance Minister said he agrees that this country will not be improved by the budget but with good governance. The governance issue is to be improved upon and this country needs to improve upon the institutions. To improve upon the institutions there is a need for dialogues between the parliamentarians and the others.

Sooner these dialogues can occur, the better it will be for the country.

Concluding Remarks by the Chair

Professor Rehman Sobhan expressed his gratitude to the Finance Minister M Saifur Rahman and all the other guests for their valuable participation in the dialogue. He concluded the session with an expression of hope that the tradition of budget discussion will continue over this and successive regimes and appreciated the cooperation of all in the process.

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Mr Hasan Mahmud
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The Daily Inqilab

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Chronology of Major Economic Events in FY2005

Date		Macroeconomic Events
2004		
July 1	□	The Bangladesh Bank directs the non-banking financial institutes to increase their paid-up capital to Tk 250 million from a level of Tk 100 million by next two years.
July 3	□	The BGMEA officials disclose that Australia will provide duty-free access of Bangladeshi readymade garments products into its market from July 1, 2003.
July 4	□	Trade officials show scepticism about the benefit of the proposed *Trade and Investment Framework Agreement* (TIFA) with the United States since the accord itself does not guarantee the much desired duty-free access for Bangladesh.
	□	The *Export Promotion Bureau* (EPB) undertakes 13 different projects worth Tk 100 million to enhance the export of Information and Communication Technology services.
July 7	□	The cabinet approves the draft anti corruption commission Bill 2003, paving the way for formation of an independent body with sweeping power to deal with corruption.
	□	The Jatiya Sangshad passes Member of Parliament (Remuneration and Allowance) (Amendment) 2003 Bill, providing an increase of allowances for members of parliament.
July 8	□	Bangladesh is ranked 139 in the *Human Development Index* (HDI) of the United Nations Development Programme (UNDP) for the year 2003. The rank is slightly better than last year when it was 145.
July 11	□	UNB reports that an official audit of 10 foreign aided projects under six ministries involves irregularities of Tk 589.6 million.
July 13	□	Chittagong Port Authority reduces port charges in order to bring dynamism in export trade of the country.
July 14	□	The cabinet approves amendment of the Insurance Act of 1938, making it mandatory for the insurance companies to seek approvals from the Chief Controller of Insurance before removing its managing director or chief executive officer.
	□	Dhaka City Corporation (DCC) unveils a Tk 7.62 billion budget for FY04 with a revenue earning target of Tk 3.05 billion.
July 15	□	The Governments of Bangladesh and India agree to begin talks on bilateral Free Trade Agreement, which will be held in October this year. The agreement is reached between Bangladeshi Foreign Minister Mr Morshed Khan MP and his Indian counterpart Mr Yaswant Sinha at the JEC Standing Committee Meeting.
July 24	□	Commerce ministry discloses that Thailand has granted tariff concession of 128 Bangladeshi export products, among them 40 items can be exported under zero-tariff.
July 27	□	Thailand proposes to form Thai-South Asian business forum in order to develop business link with South Asia, including Bangladesh.
July 28	□	In a bid to develop a full fledged secondary bond market, The Bangladesh Bank in a circulation decides to appoint primary dealers from banks and financial institutes to handle secondary transactions of treasury bills.
July 31	□	Metropolitan Chamber of Commerce and Industry (MCCI) prepares a list of 968 products for the government to use in negotiation in the proposed Free Trade Agreement with India.
August 19	□	Direct train communication linking the west part of the country with the eastern part is established. Prime Minister Khaleda Zia in a small ceremony in Rajshahi Railway station opens the link formally.

Date	Macroeconomic Events
	Commerece minister Amir Khosru Chowdhury launches the Bangladesh-Thai Chamber of Commerce and Industry in order to increase Thai-Bangladesh trade and investment.
August 18	The Cabinet decides to promote cash subsidies, which will be provided directly to the farmers in order to support the agriculture sector.
August 19	The Bangladesh Bank discloses that the remittances from abroad record a benchmark of US $3.06 billion, posing a growth of 22.43%, thanks to the series of measurements, which were taken recently in order to encourage the expatriates to send money through the formal banking sector instead of the unauthorised "hundi".
August 22	The three-day "4th TexTech 2003 International Exhibition" organised by *Conference and Exhibition Management Services* (CEMS) begins in the city.
September 6	The Cabinet Committee on Economic Affairs approves Re-procurement Guideline 2003, aiming to make country's public procurement process transparent, corruption free and attuned to the international laws. The guidelines will set the standard for procuring goods, services and building infrastructure in the country, which is now worth Tk 70 billion annually.
September 8	The *Securities & Exchange Commission* (SEC) decides on compulsory credit rating of all public limited companies (PLCs) ahead of collecting funds from the capital market through initial public offerings (IPOs). The commission also decides to restrict companies which have undisputed tax arrears to going public.
September 10	The Fifth WTO Ministerial Conference begins in Cancun, Mexico. Commerce Minister Amir Khosru Mahmud Chowdhury leads the 16 members team. For Bangladesh, the duty-free and quota-free access of agricultural and non-agricultural exports from developing and poor countries into the markets of the developed countries and the free movement of labours to developed countries are the two prioritised agendas.
September 16	The government introduces an indepth financial monitoring system in six ministries (communications, education, health, agriculture, social welfare and women & children affairs) to ensure transparency and accountability in public expenditure.
September 30	The World Bank (WB) agrees for the first time in last one decade to finance Bangladesh's fund-hungry energy sector which needs billions of dollars in investment.
October 1	At the two-day ministerial level meeting of *BangladeshIndia Joint River Commission* (JRC) held in India, Bangladesh and India sign the seven-point agreed minutes that includes the discussions on Indian river interlinking issue as well as seven common river's water sharing questions.
	The government undertakes a Tk 3.0 billion master plan to make the Foy's Lake at Chittagong a tourist spot of international standard.
October 4	Bangladesh Bank starts today same day clearance of cheques amounting to Tk 500,000 and above to help the country's business community speed up its activities.
October 5	The Bangladesh Bank takes step to clean up the loan portfolio of the Non-Banking Financial Institutions (NBFIs) by initiating a move against the defaulting directors. In a circular issued to the Executives of the NBFIs, the Bangladesh Bank gives two months time to regularise the loans to avoid removal of alleged directors.
October 7	*The Transparency International Bangladesh* (TIB) launches *Corruption Perception Index* (CPI) for 2003. Bangladesh tops the list as the most corrupted nation in the world for the third successive year with a score of just 1.3 out of 10.
October 15	The Bangladesh Bank halves the LC margin on import of 56 items to 50% in line with the IMF conditions on getting loans under *Poverty Reduction Growth Facility* (PRGF).
October 19	In order to maintain consistency with other public policies, the government decides that the duration of the country's new export and import policies should be three years (2003-2006) instead of five years period.

Date		Macroeconomic Events
October 20	☐	Talks on a Free Trade Agreement (FTA) between Bangladesh and India begin in the city with focus on removal of para-tariff and non-tariff barriers to pave the way for broader free trade.
	☐	The 14th Bangladesh Apparel and Textile Exposition (BATEXPO-2003) begins in the city.
	☐	The Bangladesh Bank launches the online trading of Treasury Bills (TBs) to foster the development of a secondary market of the government-approved securities. The new system replaces the manual system of auction of TBs, enabling the banks and financial institutions to participate in trading without sending their representatives to the Bangladesh Bank.
October 22	☐	The three-day long Bangladesh-India trade talks at the mid-official level conclude by agreeing to remove the Non-Tariff Barriers (NTB) and Para-Tariff Barriers (PTB).
October 27	☐	The government revives the move to corporatise the Bangladesh Biman after its attempt to find a strategic partner and some desperate measures to make it profitable failed.
October 29	☐	The Bangladesh Bank approves a total of 33 projects of the *Equity and Entrepreneurship Fund* (EEF). Of the 33 projects, 27 are agro-based and the remaining 6 are ICT-based projects. The total estimated cost of these projects is about Tk 5.03 billion and the EEF's contribution is Tk 1.70 billion.
October 30	☐	The government launches a microcredit programme for child labour under a project titled *Eradication of Hazarders Child Labour in Bangladesh* with a view to withdrawing the child labours from hazardous jobs.
November 2	☐	Dhaka and Colombo agree in principle to sign a comprehensive Free Trade Agreement (FTA) within a year as the first round of talks lay down the framework for "smooth negotiations" ahead.
	☐	In order to support the growth of the country's pharmaceuticals industry, the government exempts all kinds of duties on the import of 132 chemical products, which are used to make raw materials for medicine.
November 3	☐	The Asian Development Bank (ADB) approves a US$100 million long-term soft loan for the $1.815 billion Second Primary Education Development Programme (PEDP-II), which is being undertaken by the Government to improve the primary education.
November 4	☐	The Sectoral Committee Meeting of the Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Cooperation (BIMST-EC) kicks off in Dhaka. The meeting aims to devise the ways to increase investment opportunities in the region.
November 5	☐	The Government hands over the Teknaf Landport to the United Enterprises and Company Limited, becoming the country's first private operator to run a port.
	☐	The Government okays a project worth Tk 182.1 million to introduce pre-paid telephone cards by the BTTB for making overseas and inter-district phone calls both from fixed lines and mobile phone sets.
November 6	☐	The Bangladesh Bank lowers bank rate by 1 per cent to 5 per cent, aiming to help schedule banks reduce lending rates for encouraging investments in the country. Besides, the Central Bank also refixed the ratio of Statutory Liquidity Reserve (SLR) to 16 per cent from the existing 20 per cent.
November 8	☐	The Bangladesh Bank selects eight banks and one on-bank financial institution (NBFI) as primary dealers to handle secondary transaction of Treasury Bills and other government bonds.
November 10	☐	The ADB assures to provide a record $530 million worth of loans to Bangladesh for implementing projects in key sectors.
November 12	☐	The Government increases the cash incentive for exporting agro products including vegetables and fruits to promote export of these items. The incentive is now set to 25 per cent instead of previously set 15 per cent.

Date	Macroeconomic Events
November 13	The Bankers Club, an association of the top bankers of natioanlised and private commercial banks, take the decision to cut both deposit and lending rates by 1 per cent from December next.
November 16	The two-day long mid officer level talk between Bangladesh and Pakistan begins at the Ministry of Commerce aiming to create a framework agreement for negotiating the free trade deal between the two countries. During the meting, Islamabad agrees to recognise the LDC status of Bangladesh, thereby accepting its claim for S&D treatment in trade access.
November 18	The Government decides to give a 5 per cent cash incentive to the exporters of jute goods during the current fiscal to promote export.
November 29	The BOI discloses that the country woos more than US$275 million worth of FDI in the January-June period of 2003, which is more than 60 per cent higher than that of the preceding year when the country attracted a total of US$168 million.
December 01	Bangladesh and China sign two separate agreements that aim to strengthen economic and cultural ties between the two countries. Under the agreements, China will provide Tk 530 million grant to Bangladesh for strengthening economic cooperation and exchanging cultural programmes.
	The three day 6th Asia-Pacific High-Level Employers' Conference begins in the city.
December 02	The Bangladesh Bank (BB) withdraws the mandatory letter of credit (LC) margin restrictions on all imports in line with the policy of further liberalising the market. In a circular, the BB also directs all the commercial banks to set LC margins on imports on the basis of bank-client relationship.
December 03	The first-ever three-day National Agri-business Event (2003) begins at Dhaka, which is jointly organised by the Board of Investment (BOI), Ministry of Agriculture of the GoB, and South Asia Enterprise Development Facility (SEDF). The event will help to promote and facilitate agri-industries to ensure maximum value addition and to create opportunity for business networking.
December 04	Bangladesh embassy in Nepal and the Confederation of Nepalese Industries (CNI) form a joint taskforce to find out ways and means for strengthening bilateral trade and commerce between the two countries.
December 08	The Securities and Exchange Commission (SEC) withdraws the *Weighted Average Index* from Dhaka and Chittagong stock exchanges with effect from 9th December as the regulator feels that the index does not reflect the real market situation.
December 13	The National Economic Council (NEC), in a meeting, decides to double the number of beneficiaries of the old-age allowance and the amount of allowance per head. The NEC also decides that the 'Gram Sarker' will determine the eligible persons for receiving the benefit and if the 'Gram Sarker' fails to coordinate the scheme, the local government institutions at the Upazila level will take the responsibility to disburse the allowance.
December 14	The government finally allows import of used taxicabs between 1250cc and 2000cc not older than three years, in line with the Forest and Environment Ministry's directive. Besides, it also restricts import of more than four-year old automobiles for private and official use, ignoring the demand of the reconditioned vehicle importers.
December 21	The Prime Minister Khaleda Zia opens the *Dharala Bridge*, which will provide scope for trans-border trade with Indian States of Assam, Meghalya, Nagaland, Monipur, Mizoram, Tripura and Arunchal.
December 23	The Asian Development Bank (ADB) approves a $20 million loan for a livestock enterprises project aimed at income generating activities in rural areas of 20 north-western districts of Bangladesh. The loan at 1.0 per cent interest during the first eight years and 1.5 per cent interest thereafter will be distributed by *Palli Karma Sahayak Foundation* (PKSF). The rest of the total project cost of $ 55.8 million will be financed by the government.

Date	Macroeconomic Events
December 24	□ The Asian Development Bank (ADB) agrees to provide US$ 1.2 billion under the *Country Strategy and Programme* (CSP) for 2004-2006; the strategic priorities will include promotion of the private sector, good governance, gender and regional cooperation.
December 27	□ The fifth five-day long SAARC Trade Fair begins at Dhaka, which aims to expand intra-regional trade and strengthen economic ties among the seven SAARC countries. The fair is organised jointly by the Ministry of Commerce and Export Promotion Bureau (EPB).
December 28	□ The Bangladesh Bank sells the newly introduced government treasury bonds worth of TK 290 million to four commercial banks (Sonali, Agrani, Janata and Prime) through auction to formally activate the secondary market of those banks.
December 29	□ A two-day *Buyer-Seller Meet* (BSM) 2003 between Bangladesh and India begins in Dhaka. The event is organised jointly by the Federation of Indian Export Organizations (FIEO), a leading trade body in India, and the Indian High Commission in Dhaka. The BSM provides an opportunity for one-to-one interaction with a premier group of Indian businessmen.
December 30	□ The state-owned Bangladesh Telegraph and Telephone Board (BTTB) reduces its overseas call charge to TK 7.5 for each minute. The call charge is reduced for the USA and Canada and later on this service will be expanded to eight other countries, such as UK, Australia, France, Italy, Germany, Malaysia, Singapore and Hong Kong by the next three months.
December 31	□ The government slashes the interest rates on saving certificates with effect from January 1, 2004 to facilitate reduction of lending rates by the bank. The government also removes a provision in the Sanchayapatra Rules 1977 that allows securing loans granted against saving certificate pledged to the banks. The authority, however, withdraws a five per cent tax charged at sources from the profits of all saving instruments.
	□ The government issues a gazette notification postponing a 2001 notification that provided for allowing trade union (TU) activities in the country's six export processing zones (EPZs) from January 1, 2004.
2005	
January 1, 2005	□ The 10th *Dhaka International Trade Fair* (DITF) begins in the city.
January 5	□ The Association of Bankers Bangladesh (ABB) decides that the country's commercial banks will cut both deposit and lending rates this month in reference to Bangladesh Bank directive. Moreover, the decision is also made to boost the economic activities in the country through financing Small and Medium Enterprises (SMEs) at the rate of 10 per cent. Earlier the rate was 16 per cent.
January 7	□ The chief executives of the country's commercial banks at a meeting with Bangladesh Bank Governor Fakhruddin Ahmed agree to set interest rate on all kinds of export credit at 7.0 per cent to boost economic activities. The interest rates are currently ranging between 7.0 per cent and 10.0 per cent, depending on the type of export items.
January 12	□ In a major policy shift, the Cabinet Committee on Economic Affairs decides to take loans under supplier's credit arrangement for the country's investment-hungry power sector that requires $7.6 billion till 2012 to improve electricity generation and distribution.
January 13	□ The government reduces the customs duties on import of scrap vessel and MS rod following the increase in the price of rod in the local market. The government also revises the tariff values of both the products, as their actual prices are different from the tariff values.
January 15	□ The government makes a series of commitments to the IMF to expedite the fiscal and monetary reforms in the country to get the remaining five chunks of the PRGF credit from the multilateral agency. The government commits that the Rupali Bank would be ready for sale by December, trade taxes and supplemental duties would be reduced in the next budget, limits would be imposed on access by individuals to National Saving Certificates, and action plans to operationalise the strategies on NCBs would be drawn up by end-November.

Date	Macroeconomic Events
January 17	□ A high profile international business conference titled *Global Economic Governance and Challenges of Multilateralism* begins in Dhaka with a plea to start a serious dialogue between the east and the west to pave the way for shifting to a "new economic model". The conference is organised by the International Chamber of Commerce Bangladesh (ICC-B). Prime Minister of Thailand Thaksin Shinawatra presents the keynote paper in the opening session.
January 18	□ The government decides to off load its shares lying with four state-run fuel marketing companies under the Bangladesh Petroleum Corporation (BPC) in the capital market within the next six months.
January 23	□ The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) sign an agreement to form a *Joint Business Council* to boost bilateral trade between the two countries.
January 24	□ Bangladesh and Indonesia sign four agreements and memorandum of understandings (MoUs) to provide new momentum in trade, economic and cultural ties between the two countries.
	□ The government extends the contracts with the three Pre-shipment Inspection (PSI) firms by five months to allow the customs department enough time to take over the responsibilities from the next fiscal.
January 25	□ The Privatisation Commission enlists the Rupali Bank Limited for privatisation after the Finance Ministry sent a proposal in this connection late last month.
January 26	□ The government sanctions Tk 120 million as conditional loan to the Mongla Port Authority (MPA) to give golden handshake to 1,122 of its workers. The Shipping Ministry also asks the Food Ministry to ensure 40 per cent of the country's foodgrains import via the Mongla Port in a bid to inject fresh life into the ailing seaport.
January 29	□ The Asian Development Bank (ADB) approves a $550,000 technical assistance (TA) grant for Bangladesh to help prepare a financial markets governance programme (FMGP).
January 31	□ The inter-bank call money rate sky rockets to an all-time high to reach 60 per cent from a 15 per cent only a day earlier.
February 5	□ Bangladesh files a complaint with WTO over duties imposed by India on import of batteries, which is the first LDC trade dispute before the WTO. The complaint asks for consultations with India about anti-dumping duty (ADD) imposed in 2002 on lead acid batteries. Bangladesh sets out 17 reasons why it claims the measures taken by India are illegal under the WTO rules.
February 7	□ The BIMST-EC meeting begins in Phuket, Thailand where trade ministers from South and Southeast Asian Countries agree on a draft free trade deal, which will abolish import tariffs.
February 8	□ Six Asian nations agree to sign a free trade agreement (FTA) committing to open their markets by the year 2017. All five founding nations of BIMST-EC are expected to ink the draft trade deal but Bangladesh pulls-out after demanding compensation for any revenue lost as a result of dropping tariffs.
	□ The government announces 10 per cent dearness allowances for the project officials. According to a circular of the Finance Ministry, the officials of all development projects will be entitled to the allowance, with effect from July 1, 2003.
February 11	□ The National Board of Revenue (NBR) takes some special measures including setting up a VAT intelligence unit to attain the Tk 277.50 billion target of revenue collection in the current fiscal.
February 18	□ Denmark approves a grant of Tk 4.9 million to provide technical assistance to support export-oriented handcraft, apparel and home textiles enterprises.
February 19	□ The 4th Summit of the Developing Eight (D-8) concludes in Tehran with a renewed commitment to expand economic cooperation within the group. The D-8 leaders also decide to strengthen coordination on international economic matters including multilateral trade issues.

Date		Macroeconomic Events
February 22	☐	The Bangladesh Bank sends about 700 files to the Bureau of Anti-Corruption (BAC) requesting the agency to investigate unrealised export bills worth Tk 5.79 billion (579 crores).
February 25	☐	*Euro-Bangla Apparels 2005*, a programme under the Asia Invest II, is launched in Dhaka to enhance trade relations between Bangladesh and some selected European countries. The main objectives of the 18-month programme are to build up marketing capacity of small garment units of Bangladesh and increase their power for sales to EU member countries against the backdrop of the upcoming challenge in quota-free regime.
February 27	☐	The government decides to re-open three closed mills under the Bangladesh Chemical Industries Corporation (BCIC). It also decides to turn the recently closed Chittagong Chemical Complex Limited (CCCL) into a full-fledged industrial park.
March 7	☐	The Bangladesh Bank (BB) directs the banks to reduce the spread between lending and deposit rates immediately, voicing deep concern over the poor response to its advice on reducing lending rates. The instruction comes at a meeting with the chief executives of the banks held at the conference room of the central bank while BB Governor Fakhruddin Ahmed presides over the meeting.
March 12	☐	The government decides to constitute a central intelligence cell to check tax erosion at individual and institutional levels. The proposed cell would monitor and compare living expenses of individuals against their sources of income and payment of taxes.
March 13	☐	The National Board of Revenue (NBR) identifies a total of 220,000 new taxpayers after conducting a 14 month long intensive survey across the country. The NBR has already processed 100,000 new files to bring the persons under the government income tax net by the next month.
	☐	An inter-ministerial meeting cleared a key hurdle to the country's signing of the Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMSTEC) Free Trade Agreement (FTA) by middle of this year. The meeting decides that Bangladesh could sign the agreement provided that its key industrial and agricultural areas remained out of the purview of the free trade negotiations.
March 14	☐	The World Bank (WB) decides to provide credits for generation of electricity in the public sector after 15 years. The Bank would provide credit to build three new power plants two in the public sector and one in the public private joint venture, to generate 670 megawatt (mw) electricity in the country.
March 20	☐	The Board of Investment (BOI), at its first meeting outside the capital, approves 28 projects with an estimated outlay of Tk 14932.19 million from foreign and domestic investment sources. The projects include establishing an industrial park and an agro-processing complex in Chittagong, which is worth Tk 1.45 billion.
March 21	☐	The Government of Japan (GOJ) formally makes announcement for debt relief in the form of cancellation of debt, amounting to US$ 1.46 billion (Tk 83.95 billion) for Bangladesh.
March 22	☐	Bangladesh and Vietnam ink two agreements and one protocol to enhance bilateral cooperation in trade, agriculture and cultural fields. Prime Minister Khaleda Zia and Vietnamese President Tran Duc Luong led their respective countries in the talks at International Conference Centre at the Prime Minister's office.
March 23	☐	South Korea decides to allow duty-free access of Bangladeshi products under the Bangkok Agreement of 1976.
March 24	☐	The Artha Rin Adalat (Amendent) Bill 2004 is passed in the Jatiya Sangsad. The Bill has a provision to relieve thousands of poor and marginal farmers for defaulting loan less than Tk 0.5 milion (5.0 lakh).
March 25	☐	The government adopts fresh policy strategies including establishment of a trade facilitation centre in Dhaka to facilitate the country's export. Formulation of home-grown rules of origin and major reforms in the existing trade arbitration laws are also under active consideration.

Date	Macroeconomic Events
	□ Commerce Minister Amir Khosru Mahmud Chowdhury resigns from the cabinet following the criticism from within the ruling party for his alleged failure in containing the recent price hike of essentials. Home Minister Altaf Hossain Chowdhury is given the charge of the Commerce Ministry.
	□ The Ministry of Law submits the draft Trade Union Law for the enterprises in the country's Export Processing Zones (EPZs) to a high-profile committee comprising all the stakeholders. But the multilateral body, formed with representation from the government, the World Bank, US labour lobby and investors, in its meeting could not reach a consensus on a transitional period to make the law effective. The EPZ investors sought three years for the transition allowing trade unions in their enterprises after enactment of the law, but the meeting decides to shorten the time.
March 27	□ India rejects Bangladesh's demand to remove all the non-tariff barriers on its goods during the second Joint Secretary-level meet held in New Delhi. The senior trade officials of both the countries fail to agree on a common ground to withdraw the non-tariff and para tariff barriers.
March 29	□ The government decides to use railways as the primary option for transportation of petroleum from the country's principal port Chittagong to other domestic destinations.
March 31	□ The government slashes the lending rate on agro-credit further from 10 per cent to 8.0 per cent to galvanise the country's rural economic activities. The new rate on agro-credit will come into effect on April 14 to encourage the farmers to cultivate their lands through purchasing seeds and other agro inputs.
April 1	□ A secretary-level committee finalises the Industrial Policy 2004, envisaging creation of special economic zones in the country and continuing tax holiday for new industries for another five years. The five member committee finalises the new policy, which also sets new definition of heavy, medium and small industries.
April 3	□ The government assigns a high-profile National Coordination Council (NCC) to prepare a report within a short time as to how it would tackle the quota-free onslaught on its garment export. The NCC will suggest the ways the RMG sector can contain the damages on its export market and also steer the biggest export earner of the country to a prosperous future.
April 5	□ The foundation stone of Bangladesh-Myanmar Friendship Highway is laid at Ramu - 15 kilometers off the tourist town of Cox's Bazar.
April 9	□ The Ministry of Finance initiates some tough measures to streamline and discipline the release and use of funds against projects under the Annual Development Programme (ADP). The government in a recent circular set May 15 as the deadline to submit self explanatory proposals to the Finance Division to release the fourth instalment of the fund sanctioned against development projects under the ADP for the current fiscal. The finance division would release funds by May 31 next after completing all the formalities.
April 12	□ The government decides to provide subsidy up to 50 per cent to different agricultural sub-sectors in the next budget to help farmers produce more at less cost.
April 22	□ Multilateral donor agencies assure Bangladesh of extended budget financing for the fiscal 2004-05 and support to withstand possible losses following the phasing out of Multi-Fiber Arrangement (MFA) after 2004. They would also help Bangladesh qualify for United States Millennium Challenge Account (MCA) to have augmented assistance for poverty-reduction programmes, power-sector development, financial-sector reform and education.
April 25	□ The government drastically reduces interest rates of local and foreign loans it lends to its sector corporations, autonomous and semi-autonomous bodies through a fresh set of lending and re-lending terms. The Finance Division in a circular announces the new terms, which brought the interest rate on local currency loan to 5.0 per cent from the existing 8.0-9.0 per cent and interest on foreign currency to 6.0 per cent from the existing 9.0 per cent.

Date	Macroeconomic Events
	□ The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) introduces the *Bangladesh Council of Arbitration* (BCA) to ensure speedy settlement of commercial disputes. The BCA, first of its kind in Bangladesh, is introduced to resolve commercial disputes through a simple, harmonious, cost-effective and speedy arbitration process.
April 29	□ Country's two ports decide to increase berthing facilities, introduce night-time banking and office facilities, build more shades, raise efficiency in staffing and un-staffing facilities to help the garment exporters face the post Multi Fiber Arrangement (MFA) regime. □ The Bangladesh Bank (BB) introduces a re-financing scheme worth Tk 1.0 billion (100 crore) for the development of small and medium enterprises (SMEs) across the country. The central bank issues a circular in this connection and instructs the banks and the financial institutions to sanction loans under the scheme, which will come into effect from May 2 next. Under the scheme, small entrepreneurs can avail themselves of credit facilities ranging between Tk 0.2 million and Tk 5.0 million from the commercial banks and financial institutions (FIs).
May 2	□ Germany agrees to provide a grant of 40.6 million euro equivalent to Tk 278 crore for the development of energy and infrastructure under two agreements. The funds are envisaged to be used for a power transmission line from Baghabari to Bogra and a project to support renewable energies.
May 4	□ Bangladesh is re-elected as the member of three subsidiary bodies of the Economic and Social Council (ECOSOC) for a four-year term (2005-2008) in elections held during the ECOSOC Organisational Session in New York. The subsidiary bodies are the Commission for Population and Development, the Commission for Social Development and the UN Human Settlements Programme (UN-HABITAT).
May 6	□ Three-day European Sea Food Exposition ends in Brussels, Belgium where Bangladeshi frozen food exporters participated and received spot orders worth US$17 million from different overseas buyers.
May 7	□ A three-day meeting between Finance Ministry and the IMF ends in Dhaka with the consensus to increase revenue collection of the government. The meeting emphasides the importance of sustaining development activities and accelerating poverty reduction efforts. It also focuses on the progress in restructuring the nationalised commercial banks.
May 8	□ The task force on Value Added Tax (VAT) starts its drive at Chittagong to bring unregistered shops and service-houses under the VAT net and check its expansion. □ Prime Minister Khaleda Zia inaugurates a three-day Bangladesh Development Forum (BDF) meeting at the Sonargaon Hotel in Dhaka to review the pledges of the government made at the past two BDF meets. Governmental Officials, the delegates from 32 countries and donor agencies participate at the meeting. The (BDF) meeting dominates by discussion on non-economic issues like formation of the much-talked-about anti-corruption commission, law and order, and good governance. Development partners at the BDF meeting say that dysfunctional politics, politically linked violence, growing crimes and corruptions are holding back the nation's growth.
May 10	□ The Cabinet approves the draft of Tobacco Control Law 2004 seeking to ban smoking in open places and in public transport. The Tobacco Control Law proposes restriction on the sale, distribution and consumption and ban on advertisement of tobacco products in public places and in print and electronic media. □ The Cabinet approves the draft of National Women Development Policy, aimed at establishing women's rights and ensuring their security in all spheres of life. □ The three day BDF meeting ends at the Sonargaon Hotel in Dhaka. The three day meeting discusses on several issues like policy and programmes to deliver the Poverty Reduction Strategy Paper and Millennium Development Goals, good governance, government-NGO partnership, health and education, trade and investment climate, infrastructure for growth

Date		Macroeconomic Events
		and development and aid governance. Donors say that they are committed to pump in $2.0 billion a year to implement the country's ambitious Poverty Reduction Strategy Paper (PRSP), provided the government improves law and order, curbs corruption and takes measures to end confrontational politics. Donors reiterate that there will not be any rollout of normal aid-flow in case the overall situation does not improve.
May 11	□	The Asian Development Bank (ADB) assures that it will provide funds to set up two power generation plants, each having the capacity of producing 450 megawatt at Sirajganj and Meghnaghat in Siddhirganj. The ADB also shows interest to provide financial assistance to the private entrepreneurs for installing power transmission line of Power Grid Company, Bangladesh (PGCB) from Ashuganj to Sylhet.
	□	The Ministry of Finance decides that the power and seed sub-sectors under agriculture will now get 20 per cent and 25 per cent subsidy respectively. Subsidies in both the sub sectors will be five per cent higher from the existing rates.
May 13	□	The Petrobangla approves the Unocal's Bibiyana gas field development plan. Under the Bibiyana development plan, the Unocal will refurbish two existing wells and drill 13 new wells. In phase-1 of the plan, the American company will also set up two glycol plants, each having a capacity of 150-MMCFD, and two more in phase-2, and also construct 30 inch-dia-40-kilometre gas-selling pipeline and 6-inch-dia 40 km condensate selling pipeline.
May 15	□	The Cabinet Committee on Law and Order agrees in principle to raise the Dhaka Metropolitan Police (DMP) stations from 22 to 50 to cope with the crime situation. The Committee also agrees to recruit an additional 19277 personnel for 565 police stations across the country in order to raise police-people ratio to 1: 1070 from the existing ratio 1:1300, the lowest in the world.
May 16	□	Trading of four more listed companies comes under the central depository system (CDS) in the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE). The companies are the Progoti Insurance Limited, The Pioneer Insurance Limited, the Southeast Bank Ltd and the Dhaka Bank Ltd.
May 18	□	Prime Minister Khaleda Zia opens the Lalan Shah Bridge (1.8 km), the country's second largest bridge over the Padma River at the Pakshey-Bheramara point, ushering in a new horizon in road communications between the country's south-western and north-western regions. The bridge is built at a cost of Tk 10.65 billion and will ease the communications and goods transportation directly from Chittagong to Mongla port via Dhaka. It will also help make trade easier with India and Nepal through Mongla port. The bridge is built parallel to the Hardinge Bridge with a credit of Tk 8.20 billion from the Japan Bank for International Cooperation (JBIC). TK 2.45 billion is provided by the Government of Bangladesh.
	□	Under the Danida Private Sector Programme (PSD), Denmark provides TK 16.7 million as grant for training and technical assistance and loan for purchase of equipment to support setting up of an engineering facility to manufacture spare parts for the pharmaceutical industry in the country.
May 20	□	An investor's conference is held in Singapore to project the investment opportunities in Bangladesh. Finance Minister M Saifur Rahman inaugurates the conference where the Executive Chairman of the Board of Investment (BOI) Mahmudur Rahman and Executive Director of Center for Policy Dialogue Debapriya Bhattacharya are the main speakers. The conference focuses on labour-intensive and medium-sized industries such as IT, electronics, plastic and agro-processing industries in Bangladesh and highlights that such industries have excellent growth potentials at home as well as for export to other countries following opening of markets.
	□	An agreement is signed between the state-owned Bangladesh Railway (BR) and the LG Industrial Systems Ltd of the Republic of Korea to computerise the signaling and interlocking system of 22 railway stations of the Dhaka-Sylhet route. Under the agreement,

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	the Korean company will implement the project within 24 months from the date of receipt of the letter of credit by the contractor. The cost of the project is TK 800 million, which will be entirely financed by the Bangladesh Government.
	□ A two-day 15th annual general meeting of the Association of Shippers' Councils of Bangladesh, India, Pakistan and Sri Lanka (Ascobips) begins at Dhaka. The meeting is organised by the Shippers' Council of Bangladesh (SCB). A number of representatives from shippers' councils of four SAARC countries attend the meeting.
May 22	□ The Bangladesh Bank decides to float government bonds for the public through the capital market to develop the secondary bond market and improve liquidity in the market. Bonds of five-year and ten-year terms, treasury bonds and different development bonds for specific projects are in the list for floatation in the capital market.
	□ Production from the Bangladesh Petroleum Exploration and Production Company Limited (BAPEX)'s second gas field at Fenchuganj begins its experimental operation.
May 23	□ The Cabinet approves the 'EPZ Labour Organization and Industrial Relations Act 2004' that allows Trade Union (TU) in the country's export processing zones.
May 26	□ An interministerial meeting approves the PostMFA Action Programme (PMAP), which will be undertaken by various ministries. The meeting discusses various aspects of the PMAP to protect the RMG sector from possible adverse impact of the post-MFA. Under the Programme, the government will implement eight projects worth US$ 40 million to face challenges of the quota-free regime. The projects are: The Skill and Quality Development Programme (SQDP), Displaced Workers Rehabilitation Programme (DWRP), Small Enterprise Capacity Enhancement Programme (SECEP), Technical Capacity Development of SMEs (TCD), Support of Primary Textile Sector (SPTS), Support to Handloom Sector (SHS), Support to Forward Linkage Industries (SFLI) and Support to New Market Opportunities (SNMO).
May 29	□ The Executive Committee of National Economic Council (ECNEC) finalises the proposed TK 228 billion Annual Development Programme (ADP) for the fiscal year 2004-05 with special focus on poverty reduction. The NEC additionally allocates Tk 800 crore from the revenue budget for the ongoing small-scale development projects. Fifty three per cent of the new ADP will be supported by local resources and forty seven per cent by foreign aid.
May 30	□ In a major development in the country's capital market, Chittagong Stock Exchange (CSE) formally launches Internet Trading System (ITS), enabling people to make online share transactions from anywhere in the world.
June 4	□ The World Bank (WB) approves $15.5 million (1.55 crore) for increasing coverage and improving the quality of power supply in the country. Of the total, $8.4 million will be provided as a grant and the remaining amount as an interest-free loan. The WB financing will support the Power Sector Development Technical Assistance Project designed to address some of the fundamental weaknesses in the country's power system.
June 6	□ The Bangladesh Bank (BB) enforces a middle rate (mid-rate) system in the fixation of lending rates by the banks replacing the existing band system. The central bank in its circular says that the measure is undertaken to facilitate the borrowers through ensuring accountability in fixing the lending rates.
	□ The government decides to import onion and dates through the state-run Trading Corporation of Bangladesh (TCB) to keep their prices stable during the upcoming Ramadan. The decision is taken during the first meeting of a national taskforce, constituted to keep the prices of essentials stable and at tolerable limits.
June 7	□ The Cabinet decides to sell gasoline other than petroleum, jet fuel, and kerosene at the international marker price.
June 8	□ The three-day Japan Trade Show 2004 begins in Dhaka.

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June 9	☐	The World Bank (WB) approves today a $250 million interest-free credit to support Bangladesh's enterprises and the banking reform project. The 'Enterprise Growth and Bank Modernisation Project' will support the reform of the country's nationalised commercial banks - Rupali Bank, Agrani Bank, Janata Bank and Sonali Bank. It will also encourage the development of small enterprises while strengthening institutions like the Board of Investment, the Privatisation Commission and the Bangladesh Export Processing Zones Authority.
	☐	The ADB agrees to provide $350,000 as grant to help Bangladesh monitor and evaluate its poverty reduction programmes. Financed by the UK government, the grant will be available from the ADB's Poverty Reduction Cooperation Fund. The purpose of the grant is to strengthen Bangladesh's National Poverty Focal Point (NPFP), which was established last year at the Planning Commission.
	☐	The Waste Water Treatment Plant starts its operation. The plant has been set up by the BASF Bangladesh Ltd, a subsidiary of the BASF Aktiengesellschaft of Germany.
June 10	☐	Finance Minister M Saifur Rahman presents the Budget for FY2004-05 at the Parliament. He proposes Tk 572.48 billion national budget, aiming to attain an ambitious 19 per cent growth in tax revenue to manage finances for a larger development budget, with major thrusts on agriculture, social sectors and infrastructure. The budget outlay includes Tk 305.18 billion as revenue expenditure, Tk 220 billion as the annual development programme (ADP) and Tk 26.90 billion as non-development capital expenditure. The remaining amount will be spent in areas, such as food account operations, structural adjustment, employment generation schemes and non-ADP development programmes.
June 12	☐	The Government decides to enhance the gas tariff from July 1, 2004 to fulfil the conditions of the World Bank. The gas tariff will be increased by 5.77 per cent on an average and it will be implemented in two phases; in the first phase, it will increase by 2.85 per cent.
June 17	☐	The three-day Bangladesh Trade Show ends in Toronto, Canada. During the event, Bangladeshi exporters fetched spot orders worth $5.5 million and potential orders amounting to $ 9.5 million. Almost all the participating companies receive orders during the event.
June 22	☐	The World Bank approves financial support to the tune of $20 million for Bangladesh to carry out a project on economic reforms to improve its investment climate, enhance government effectiveness, and improve service delivery to the poor. The Government of Bangladesh will contribute $5.0 million dollars to the $25 million project.
June 23	☐	The World Bank agrees to provide Bangladesh US$265.5 million as credit and grant for two separate projects. Of the total amount, $250 million (Tk 15 billion) will be available for the "Enterprise Growth and Bank Modernisation Project (EGBMP)", while another $15.5 million (Tk 930 million) will be provided for implementing the "Power Sector Development Technical Assistance Project (PSDTAP)". Both the credits are repayable in 40 years, including a 10-year grace period, with a 0.75 per cent service charge per annum.
June 30	☐	The Swedish International Development Cooperation Agency (SIDA) sign an agreement with the Government of Bangladesh to provide Tk 1.75 billion (175 crore) as grant under the Second Primary Education Development Programme (PEDP-II) project.
	☐	The Budget for FY2004-05 is passed in the Jatiya Sangsad.
July 2	☐	The Prime Minister's Office (PMO) decides in principle to award a part of Barapukuria Coal Mine to Indian giant TATA on a build, own and operate (BOO) basis.
July 4	☐	London-based Asia Energy Corporation (AEC) prepares a 30-year open pit coal mining plan for Phulbari Project that would require relocating around 50,000 people of about 100 villages and a part of Phulbari town. This project will raise government earning by $200 million a year.

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	☐ The Anti-Corruption Commission (ACC) agrees to take technical assistance from Asian Development Bank (ADB) for supporting its core functions and capacity building.
	☐ India's business conglomerate TATA Group primarily accepts the government proposed alternative land in Bheramara upazila under Kushtia district for its 4.20 lakh tons capacity steel plant.
July 7	☐ South Korean conglomerate Luxon Global Company signs a Memorandum of Understanding (MoU) with the government to invest US$1 billion in coal mining, power plant, fertiliser plant, gas transmission and infrastructure development sectors in Bangladesh.
	☐ The second-round negotiations between the government and the TATA for its $2.5 billion investment proposal ends in positive outcomes on plant sites, mining technology and power utilisation. TATA's proposal includes fertiliser, steel and power plants and coal exploration.
July 11	☐ Finance and Planning Minister M Saifur Rahman states that the government plans to invest $500 million for restructuring the railway in view of the proposed investments of TATA Group, and also to revitalise the Chittagong port, against the backdrop of challenges facing state-owned Bangladesh Railway (BR).
	☐ The government takes up an integrated rural infrastructure development project titled "*Second Rural Infrastructure Improvement Project*" (RIIP-2) to be implemented in six years from 2006 at a cost of between $270 million and $280 million. This will be financed jointly by ADB, DFID, KfW, GTZ and the GoB.
July 12	☐ The government revises the policy guidelines for foreign borrowing in private sector to lessen the pressure on the country's foreign exchange reserve.
July 13	☐ Work on implementation of the Tk 500 crore Chittagong Hill Tracts Rural Development Project (CHTRDP), financed by the ADB, begins in July. Guidelines for the project are approved at a meeting of the CHTRDP Regional Coordination Committee.
July 16	☐ Canada designates Bangladesh as the only focus country in Asia for development assistance as CIDA plans to increase its annual aid sharply up to $80 million from the current $52 million.
	☐ Bangladesh becomes the third largest recipient of the World Bank's soft loan after India and Vietnam with the country receiving US$600 million credit in fiscal 2004-05.
July 18	☐ Malaysian construction company Azimat Consortium proposes to invest over $900 million to build 270 kilometer long Dhaka-Chittagong expressway on build, operate and transfer (BOT) basis.
	☐ The Islamic Development Bank is to provide the Bangladesh Petroleum Corporation with $1.1 billion in loan for the import of fuel over the next one year. The energy and mineral resources secretary, AMM Nasir Uddin, and the head of the bank's import trade financing operation, Iqbal Azad, sign an agreement on it.
July 19	☐ The government raises the price of octane by Tk 3 and petrol by Tk 1 (standing price Tk38 and Tk36 respectively) a liter, keeping the diesel and kerosene prices unchanged. Octane and petrol constitute 10 per cent of the petroleum products consumed in the country.
	☐ At a meeting held with the leaders of Chittagong Chamber of Commerce and Industry (CCCI), Taiwan Investment Delegation leader Chin Ling Yang mentions that Taiwanese businessmen and investors are interested to invest in multilateral sectors including electrical equipment, plastic and rubber products, light engineering and machinery items and footwear in Bangladesh.
July 20	☐ The visiting trade mission of Thailand, under the banner of *"Thai-Bangladesh Business Council"*, identifies three most prospective areas for Thai investment in Bangladesh. These include horticulture, fruit processing and halal meat.

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July 23	□ The World Bank (WB) identifies four major risk factors in the financial state of Bangladesh that may adversely affect the country's fiscal sustainability: lack of fiscal and financial reforms, hike in public sector wage, high interest rates and extensive depreciation of real exchange rate, and a poor economic growth.
	□ The WB Vice-President for South Asia Praful C Patel assures Bangladesh of the multilateral donor agency's continued assistance in implementing the programmes under the Poverty Reduction Strategy Paper (PRSP).
July 26	□ The planning and finance ministries are to jointly review the annual development programme (ADP) on a monthly basis instead of a quarterly basis. This was decided at a meeting at the Planning Ministry with Finance and Planning Minister.
	□ The government forms a National Council for Industrial Development (NCID) headed by the Prime Minister with an objective to facilitate and ensure the growth of industries in the country by attracting local and foreign investments. The industries minister is made vice-chairman of the council and his ministry the secretariat of the council.
July 28	□ The WB prepares an assistance strategy to identify and prioritise reforms and investments in major water-related sectors, ranging from water supply and sanitation, agriculture, fisheries and water resources management to inland water transport.
July 30	□ ECNEC at a meeting approves eight projects involving Tk 1,713 crore, including one to resolve the long-felt water crisis in the densely populated capital. Under this project, water will be fetched from two major rivers.
August 02	□ India reaffirms its position on the imposition of such non-tariff barriers as testing and standards requirements, labeling, and counterveiling duty on Bangladeshi products, as the third meeting of the joint working group on trade ends in the capital.
August 04	□ The WB puts before the government a proposal to form a special pool of 1,200 to 1,300 bureaucrats, incorporating qualified professionals and managers from the private sector. The WB also suggests a separate pay scale, code of conduct and promotion mechanism for the special service pool, as part of its plan for Bangladesh's public administration reforms.
August 06	□ In his meeting with Finance Minister M Saifur Rahman, the Indian External Affairs Minister Natwar Singh proposes resumption of talks on the Myanmar- India-Bangladesh tri-nation gas pipeline, and lift ban on yarn import from India through land port.
August 07	□ The Cabinet Committee on Economic Affairs approves an amendment to the government's procurement regulation aiming at quick procurement of food grains. The committee approves four other proposals including procurement of 100,000 tons of wheat and 50,000 tons of rice. The committee also approves the proposal for disinvestment of the Sylhet Pulp and Paper Mills and Bangladesh Cold Storage in Khulna.
	□ The government lifts the ban on import of rice and sugar through the land ports to ease the supplies of the two essentials with a view to keeping their market prices stable. The National Board of Revenue (NBR) decides to withdraw restriction on the import of sugar through the Benapole, Darshana, Hilli, and Sonamasjid land ports.
August 10	□ The government decides to appoint five consultants for fixing its stance on proposed \$2.5 billion TATA investment plan.
August 13	□ Finance Ministry releases Tk 100 crore cash incentive for knitwear exporters.
	□ The Securities and Exchange Commission (SEC) plans to set up an institute to issue licences to brokers and dealers and train officials engaged in the market. The institute will be responsible for issuing accreditation to brokers, dealers and other stakeholders.
August 14	□ Indian industrial giant TATA shows interest to invest in Bangladesh's tourism sector at a meeting with State Minister for Civil Aviation and Tourism Mir Mohammad Nasiruddin.

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August 16	□ ECNEC approves eight development projects with an outlay of Tk 998 crore, including Tk 449 crore in project aid.
	□ At a meeting of the ECNEC, the government decides to implement the Chittagong Port Trade Facilitation Project with loans from the ADB.
August 19	□ To offset the impact of quota phase-out which was completed on December 31, 2004, the government plans to seek fresh market for Bangladeshi goods, particularly readymade garment in some 29 exclusive destinations, including the unexplored South American countries.
August 22	□ The SEC blacklists three merchant banks for their alleged involvement in applying for primary shares through fake beneficiary owners' accounts.
August 23	□ The Bangladesh Bank (BB) cuts down allowable limit for auto car loan to Tk 20 lakh including insurance from previous highest limit of Tk 50 lakh to check credit flow to luxurious consumer durables. This was expected to increase fund flow to small enterprises and housing.
August 24	□ Bangladesh and Myanmar concludes the final round of negotiations towards an agreement on the avoidance of double taxation in Dhaka agreeing on such critical issues as dividend, interest, royalties, profit from capital and incomes of student that fall under the purview of the proposed agreement.
August 25	□ The BB decides to raise the statutory liquidity ratio (SLR) against deposit by 2 percentage points and cash reserve requirement (CRR) by 0.5 percentage points with a view to reduce inflation and ease pressure on the foreign currency reserve. This will require banks to keep 18 per cent of its total deposit in reserve (SLR) instead of the present 16 per cent including 5 per cent of the deposit kept in cash with the central bank (CRR) in place of the present 4.5 per cent from October 1.
August 28	□ Hong Kong and Sri Lanka sign an agreement with the Bangladesh Export Processing Zones Authority (BEPZA) to jointly establish a garments manufacturing factory in the Dhaka Export Processing Zone (DEPZ) involving US$ 6.8 million.
August 29	□ The cabinet division approves the organogram of Anti-Corruption Commission (ACC) with a staff of 500 people to run the commission.
	□ The ADB provides a loan of $4.3 million under the Financial Market Governance Improvement Technical Assistance Loan programme for improving governance and capacity of the capital market and insurance industry. The objective of the support is to raise the investor confidence level.
	□ The WB will provide a special fund for the development of the country's infrastructure. BB will manage the fund and disburse money among entrepreneurs through commercial banks for the development of port, power and telecommunications network.
30 August	□ Seven state-owned jute mills in Khulna region begin preparation to go into full swing production after a pause of seven months.
	□ In its 10th and concluding meeting, the Committee of Experts (COE) comprising trade officials from SAARC member countries meets in Kathmandu to finalise the agenda for operation alising the South Asia Free Trade Area (SAFTA). The agenda include sensitive lists, rules of origin, a revenue compensation mechanism for LDCs and identification of areas of technical assistance for the LDCs.
31 August	□ The government initiates a process to offload a major chunk of its stakes in all the state-owned enterprises (SOEs) and directs the profitable SOEs to float their shares on the stock market within the next month. In an interministertial meeting, Finance Minister M Saifur Rahman addresses the ministries concerned to plan how to make the SOEs in oil, gas, telephone, power, fertiliser, bank and insurance sectors ready for public subscription within the next two months.

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	□ The Power Development Board signs an agreement with a Chinese company, the China National Electric Wire and Cable Import Export Corporation, for extension and rehabilitation of 27 sub-stations and installation of a new one in the Chittagong region under a Tk 104 crore project in two years.
	□ The chairman of the Middle Eastern corporate giant Abu Dhabi Group, Sheikh Nahiyan Mabarak Al Nahiyan, arrives in Dhaka on a two-day visit to discuss the proposal for a $1 billion investment plan in Bangladesh. The possible sectors of investment are tourism, telecommunication and pharmaceutical sectors.
	□ ECNEC approves seven development projects with an outlay of Tk 2,935 crore to gear up the rural infrastructure development and strengthen the power supply network. Five out of the seven projects will be funded by the government's own resources, while Denmark and China will provide Tk 1,157 crore in project aid.
	□ The government decides to reward the country's top 201 value added tax payers in recognition of their contributions to the exchequer during 2004-2005 fiscal year.
September 01	□ The ADB is to provide financial assistance for the development of the railway sector provided the government corporatises the rail department and grants autonomy to its day-to-day affairs. The newly appointed Country Director Hua du informs the Communications Minister Nazmul Huda that the ADB is preparing a five-year-long plan of action for providing development support in the transport sector of Bangladesh. The ADB also expresses its willingness to provide 200 CNG buses to state-owned Bangladesh Road Transport Corporation (BRTC).
	□ The Board of Investment (BoI) and the Abu Dhabi Group signs a Memorandum of Understanding (MoU) to proceed with the US$ 1.0 billion investment proposal in the country.
September 02	□ A six-member IMF mission arrives in Dhaka to review progress on conditions set by the lending agency before releasing yet another installment of credit under Poverty Reduction Growth Facility (PRGF). The mission is led by the IMF Advisor for the Asia-Pacific Tomas R Rumbaugh.
	□ Oil prices come down from record highs above $70 after the United States temporarily eases environmental fuel regulations and offers to loan crude to refiners to prevent shortages after Hurricane Katrina rips through the Gulf of Mexico.
September 03	□ BB prepares a comprehensive guideline for the early warning system (EWS) to streamline its supervision (introduced in 2004) on banks facing problems in any area of the CAMEL rating that measures banks' capital adequacy, assets quality, management efficiency, earnings power and liquidity position.
September 04	□ The government raises the per-liter price of octane by Tk 7, of petrol by Tk 6 and of diesel and kerosene by Tk 4 to adjust the rates with the international market. The price of octane rises to Tk 45 from Tk 38, petrol to Tk 42 from Tk 36, and diesel and kerosene to Tk 30 from Tk 26.
	□ The visiting IMF mission is to review progress of the revenue-sector reform programmes. This will include strengthening of the NBR with adequate and skilled manpower and modern technology.
	□ Japan is to provide financial assistance to two health projects in Bangladesh: Tk 46 crore for the project related to health, nutrition and population programme, and Tk 7.7 crores related to promote decentralised and community participatory approaches for family planning and mother and child health.
September 05	□ The government declares a two-day weekly holiday, to be effective from September 9, to cushion the effects of increased energy price on the country's economy.

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	□ According to the proposed Micro-Credit Regulatory Authority Act 2005, micro-finance institutions will not be able to make any investment without taking permission from a high-powered regulatory authority, which will be headed by the governor of the Bangladesh Bank.
	□ During the meeting of Finance Minister M Saifur Rahman with the visiting Indian Petroleum and Natural Gas Minister Mani Shankar Aiyar, Bangladesh proposes forming two committees -- one for the proposed tri-nation gas pipeline and the other for trade issues. Dhaka also proposes to keep the option of taking gas if and when it requires from the pipeline to India from Myanmar through Bangladesh when it is set up.
	□ The executive body of the National Environment Committee emphasises formulating a 20-year master plan involving Tk 60,000 crore to save the capital from environmental pollution. The meeting also recommends formation of a high-powered committee comprising officials from the ministries and departments concerned to monitor and recommend environment related measures.
September 06	□ BB relaxes its guidelines for foreign exchange transaction to ease pressure on the ongoing foreign dollar crisis. Commercial banks will no longer require BB's approval to buy cheques from foreign embassies or international organisations or foreign nationals employed in Bangladesh.
September 09	□ ADB Country Director Hua Du assures the Agriculture Minister M K Anwar that the ADB is ready to provide assistance for advanced research and agro-business expansion in Bangladesh. Bangladesh has sought ADB's support in the areas of research, farmers' training, expansion of quality seed supply and regaining soil fertility.
September 11	□ Foreign exchange reserve comes down to $2.73 billion after paying off the import bills of the Asian Clearing Union (ACU). The previous week the reserve was about $3 billion.
	□ The OPEC Fund for International Development (OPECFID) is to provide Bangladesh $15 million to implement a project titled *"Middle Scale Town Coordination Flood Protection-2nd Phase"*. A loan agreement to this effect has been signed at the OPEC office in Vienna of Austria.
September 12	□ A global business survey, *"Doing Business in 2006: Creating Jobs"* covering 155 countries, carried out by the WB and International Finance Corporation (IFC), reveals that the cost to start a business in Bangladesh is the highest in the South Asian region; however, among the seven South Asian countries Bangladesh fares better than India in the process and time required to start a business.
September 15	□ The government makes provisions for launching small capital banks to extend microcredit facilities to the villages across the country under the Micro-credit Regulatory Authority (MCRA) Act.
September 18	□ An investment centre, Local Enterprise Investment Centre (LEIC), is launched in Dhaka for the development of Bangladesh's private sector, especially the small and medium enterprises (SMEs). The centre will provide local SMEs with financial and professional support to get easy access to capital, innovation, new technologies and business practices through establishing partnership with foreign or large local enterprises.
	□ Morgan Stanley, the US-based global investment bank, shows interest to invest over $1 billion in power, gas, coal and infrastructure sectors of Bangladesh and will send a fact-finding mission to Bangladesh within a month in this regard.
September 21	□ Bangladesh and India signs an agreed minutes after a two-day Joint Rivers Commission (JRC) meeting, pledging to hold ministerial-level water talks every six months with high hopes to advance the Teesta water sharing talks further at the next meeting in New Delhi.
	□ Bangladesh is to get 4.73 million Danish Kroner, equivalent to Tk 5.2 crore, as part of the Danida Private Sector Development (PSD) Programme from Denmark. The support, to be provided as grants, will be used for training and technical assistance and as loans for equipment to support establishment of local production of safety syringes.

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September 23	□	The WB President Dr Paul Wolfowitz calls for further improvement of governance for faster poverty reduction and economic growth in Bangladesh. During a meeting with the Finance Minister M Saifur Rahman in Washington, Wolfowitz informs the Country Assistance Strategy (CAS) for Bangladesh, which was being jointly developed by WB, ADB, Japan and British Department for International Development (DFID), was to be processed for approval in December this year.
September 24	□	In a two-day annual summit of the board of governors of the WB and IMF in Washington, WB official observes that corruption could turn out to be a major factor in deciding their assistance to Bangladesh.
September 25	□	The Dhaka Chamber of Commerce and Industry (DCCI) launches a national economic vision styled "Vision 2021" to achieve US$ 1000 per capita income by 2021. The DCCI plans to urge major political parties to work together towards this Vision.
	□	Dhaka and Yangon agrees to activate three existing agreements on shipping, account trade and road linkage to boost trade between the two next-door neighbours. Following request from Bangladesh, Myanmar authorities agree in principle to relax restriction on entry of Bangladeshi businessmen.
	□	A special vulnerable group feeding (VGF) programme begins across the country as part of the government's plan to keep price of rice stable and help the destitute during Ramadan. About 4.5 lakh tons of rice will be distributed under the programme. The government deploys some 40,000 army personnel to ensure smooth distribution of the rice. Under the programme, 1,000 destitute people in each union will get VGF cards.
September 26	□	The energy ministry assigns Petrobangla to investigate Canadian company Niko's gas pipeline scam.
	□	Jute diversification promotion agencies of Bangladesh and India have joined hands to promote rural small entrepreneurs in jute-based industries to expand usage of jute and create employment opportunities in the sector. Rural entrepreneurs in sectors such as handloom and cottage industries as well as microcredit clients of NGOs will be brought under the Dutch-aided project. Of the total project cost of $3.05 million, the Bangladesh component amounts to about $13 million while Indian portion is about $12 million.
September 29	□	Finance and Planning Minister M Saifur Rahman discloses on his arrival from the USA that the government is going to enact a Public Procurement Act within a very short time to make the state procurement process transparent.
September 30	□	The government finalises a plan on offloading its part of the shares in 21 companies, including eight SOEs. The objective of the plan is to bring momentum in the country's capital market.
October 02	□	Asia Energy Corporation submits to the government its feasibility study along with a plan to develop a $2 billion open-pit coal mine at Phulbari in Dinajpur from the next year. Development of this mine will require the company to relocate 40,000 people belonging to 9,000 households in the mining area. This will be done in different phases over a 30-year lifespan of the mine. The company will compensate the affected people.
	□	TATA Group enters the "crucial" third round of negotiations with the government to settle a number of important issues fiscal incentive for TATA's investment, gas security and fixation of gas price for TATA's plants, tariff for purchase of electricity from TATA's power plant and the method of coal mining in Barapukuria relating to the group's $3 billion investment initiative.
October 03	□	The 5-day Bangladesh Single Country Fair in Kathmandu concludes with spot orders of US$ 1.3 million for a variety of Bangladeshi products displayed in the fair.
	□	A three-day "Pre-Hong Kong International Civil Society Forum 2005 for Advancing LDC Interests in Sixth WTO Ministerial" begins in Dhaka. The Forum is being organised under

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	the initiative of the Centre for Policy Dialogue (CPD) in collaboration with eight international NGOs.
October 04	☐ The government and the TATA Group agree on several issues concerning tax and duty structure and land acquisition as the third round negotiations continued for the third consecutive day for TATA's $ 2.5 billion investment plan. NBR officials inform the TATA representatives about the government's decision of not providing tax holiday facility to the group for more than six years for its proposed fertiliser and steel plants, and 15 years for the power plant.
	☐ The government projects 6.5 per cent GDP growth and an inflation rate of 5.5 per cent on point to point basis in the PRSP for the current fiscal year.
	☐ The government enacts Tax Ombudsman Act in the budget session of the Parliament. Tax ombudsman is going to be appointed after Eid-ul-Fitr under a new law. Finance and Planning Minister M Saifur Rahman says this after a meeting of the Cabinet Committee on Public Purchases at the Cabinet division.
	☐ The ambassador and permanent representative to the United Nations, Iftekhar Ahmed Chowdhury, welcomes the adoption by the UNICEF executive board of the country programme for Bangladesh for the years 2006-10, amounting to $280 million.
October 05	☐ The country's capital market watchdog, the SEC, prepares an action plan aiming to quicken the offloading of the government shares in SOEs to increase supply of stocks in the country's bourses. The SEC will shortly submit the plan to the ministry of finance.
October 07	☐ Bangladesh and Saudi Arabia conclude final negotiation on double taxation avoidance reaching consensus on some 29 issues including in such areas as shipping and airline business, dividend and royalty. Bangladeshis working in Saudi Arabia will not have to pay taxes if the annual income of an individual does not cross US$ 6,000. In the case of shipping business, 50 per cent tax will go to Bangladesh while the rest 50 per cent to Saudi Arabia.
October 09	☐ The government proposes the TATA Group to offload a part of its share in industrial projects in Bangladesh to public and brand its products for TATA Bangladesh in international market.
	☐ The government decides to review the foreign aided projects of the ADP in the backdrop of recent higher import cost and abnormal fuel price hike in the international markets.
	☐ The government formally hands over the operations of four land ports to private operators under Build-Operate-Transfer (BOT) arrangement for a period of 25 years to boost cross border trade.
October 10	☐ BIMSTEC trade negotiation committee (TNC) meeting in Dhaka to finalise a draft agreement on trade in goods among the seven South and Southeast Asian member-nations. This was the eighth meeting of the Committee.
October 11	☐ BB issues a circular fixing policy guidelines for the dealer banks on disbursement of subsidies among the exporters of agriculture and agro-processed products. BB asks the authorised dealers, the foreign exchange branches of the commercial banks, to follow the guidelines till June 30, 2006. The government will provide 20 to 30 per cent export subsidy for 60 agro-products including vegetables, fruits betel leaf and betel nut.
	☐ The WB provides financial assistance worth Tk 35 crore to the government for implementing a pilot project titled *"Monga Mitigation Initiative"* to improve immediate income earnings of the monga (crisis) affected farmers of four districts including Kurigram, Gaibandha, Rangpur and Lalmonirhat.
	☐ NBR makes a move to ensure better coordination among the income tax and the VAT wings of the Large Taxpayers' Unit to boost its revenue collection, in line with the ongoing reforms in the tax administration as prescribed by the IMF.

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	☐ Trade experts of the BIMSTEC concentrate their discussions on anti-dumping and safeguard measures. The BIMSTEC-FTA is to be operationalised by the middle of next year.
October 12	☐ The government decides to place two projects -- on electricity supply to 16 towns and the construction of Mymensingh Bypass -- under investigation of the ACC for over expenditure of Tk 280 crore and other irregularities. The decision is taken by the ECNEC at a meeting held recently.
	☐ ECNEC approves seven development projects involving Tk 1,781 crore. Of the projects, four will be implemented utilising the government's own fund while ADB, Japan and Denmark will provide Tk 322 crore financial assistance for financing three other schemes.
	☐ The government, at a taskforce meeting on the market situation, decides to increase ongoing trading of essentials through the Trading Corporation of Bangladesh (TCB) with a view to reign in spiraling prices. The meeting decides to increase the manpower and selling points for these purposes from next week. This is expected to be convenient for the buyers.
	☐ The government approves the request for proposals (RFP) and the terms of reference (TOR) for conducting techno-feasibility study on developing a deep-sea port in Bangladesh.
October 13	☐ The government in its PRSP projects the creation of about one crore new jobs through various programmes it would undertake in three years. The PRSP envisages 91.6 lakh new jobs, raising the total number of jobs to 5.81 crore by the end of fiscal year (FY) 08.
	☐ China will not sign any textile agreement that hurts its textile industry, the Commerce Ministry says in its first reaction to the breakdown of the latest round of talks with the United States. The two sides walk away from the talks after the morning session without an agreement or even a date for another round. The talks are aimed at reaching a comprehensive agreement to regulate Chinese textile shipments, which soars since global quotas are scrapped on January 1.
	☐ The BB drafts a policy guideline to facilitate the merger and acquisition among the country's commercial banks. A committee will finalise this.
October 14	☐ The cabinet sub-committee on the draft procurement act wants further scrutiny of some clauses and sub-clauses before sending the draft of the much-talked-about act to the cabinet for approval at the second meeting of the sub-committee. Both Finance minister Saifur Rahman and the WB country director Christine Wallich have emphasised on the approval of the procurement act.
October 15	☐ The eighth meeting of the BIMSTEC Trade Negotiation Committee ends with agreement on an institutional arrangement to monitor the trade agreement of the regional cooperation and to keep the member countries' negative lists of commodities as brief as possible.
October 16	☐ The NEC approves the PRSP entitled *"Unlocking the Potential: National Strategy for Accelerated Poverty Reduction"* at the eighth meeting of the council. The meeting was presided over by Prime Minister Khaleda Zia at the NEC conference room in the capital.
October 17	☐ The TATA Group expresses concern over the recent government decision on gas rationing system, but softens its position on the fiscal incentive issues. It raises the gas rationing system issue to strengthen its demand of gas guarantee for 25 years for both steel and fertiliser projects.
	☐ The BB is going to introduce *"marking to market system"* to bring dynamism in the secondary bond market to raise funds, which refers to setting or reconciling changes in the value of futures contracts on a daily basis.
October 18	☐ UK Department for International Development (DFID) signs a MoU with the GoB for Bangladesh public service capacity building programme of 13.655 million pound (Tk 157 crore) over 7 years.
	☐ The government decides to set up five independent power producer (IPP) plants, 50MW

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		each, and to ask private sponsors to install the plants within the next 6-7 months to solve the ongoing power crisis.
October 19	☐	The government decides to ban import of chicks from four European countries -- Turkey, Greece, Romania and Russia -- where bird flu breaks out recently.
October 20	☐	Bangladesh will approach China, Thailand and Myanmar for proposing an amendment to the Asian Highway route going through its territory on its behalf in the working group meeting of Economic and Social Commission for Asia and the Pacific (ESCAP). An interministerial meeting at the communication ministry decides that the government will solicit the three friendly nations, which ratifie the Asian Highway agreement, to propose declaring the Dhaka-Yangon route via Teknaf as the number one Asian Highway route.
	☐	The BB asks the non-banking financial institutions (NBFIs) to implement guidelines on managing their risks. Three focus groups of the central bank identified four core risk areas which include credit risk, asset and liability risks, internal control and compliance risks and information technology (IT) security risk.
October 22	☐	The government pledges to get the draft public procurement act approved by the cabinet by October and undertake efforts to collect arrears of public utility agencies. GoB agrees to these conditions for securing $200 million in loans under the World Bank's development support credit III scheme.
October 23	☐	ECNEC approves 14 new development projects involving Tk 3,314 crore. Seven of the projects will be implemented by utilising government's own funds while the WB, ADB and Japan will provide Tk 1,147 crore in project assistance for the remaining seven at a meeting held in the NEC conference room of the Planning Commission.
October 24	☐	The Power Division seeks $150 million from the WB for hiring barge- and trailer-mounted power plants and for renovating some existing plants to add around 1,000 megawatts of power to the national grid in six months' to one year's time.
October 25	☐	BB withholds activities of the equity and entrepreneurship fund amid allegations of gross irregularities in approving projects and disbursing fund.
	☐	At a workshop on *"Analysis of Export Policy 2003-06 and Import policy Order 2003-06,"* Secretary of the commerce ministry, Faruk Ahmed Siddiqui observes that cash subsidy should not continue for an unlimited period. The government will review the impact of cash subsidy on exports and may bring changes in the form of other incentives to promote exports.
October 27	☐	The ADB is to lend a total of 230 million dollars to Bangladesh to expand the country's natural gas infrastructure and delivery system, and to construct four gas transmission pipelines totaling 353 km to transport about 360 million cubic feet of natural gas per day to the less developed western region of Bangladesh.
	☐	The government is considering introducing new laws to offer special investment incentives to big foreign investors such as India's TATA Group and United Arab Emirates' Dhabi Group and to formulate a fresh law to provide investment security for large-scale investments.
	☐	The energy and mineral resources adviser, Mahmudur Rahman, states that the government will reduce the domestic price of fuel if it slips down to $50 per barrel in the international market.
October 30	☐	London-based Asia Energy PLC's Joint Managing Director David Lenigas notes that they expect an agreement with the Bangladesh government by the end of this year for developing Phulbari coalmine with an investment of US$ 2 billion.
October 31	☐	The ADB proposes to lend $1.8 billion for 15 projects over three years from 2006 under its Country Strategy and Program (CSP) for 2006-2010. Half of the fund will be from the bank's concessional lending instrument, the Asian Development Fund, supported by a technical assistance grant programme amounting to about $13.8 million.

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	☐	A budget analysis unit is going to be established in the Jatiya Sangsad (JS) to ensure effective role of the lawmakers in the process of passing the national budgets under a joint project of Bangladesh Parliament and UNDP titled *"Strengthening Parliamentary Democracy"* (SPD).
	☐	The amount of income tax paid with self assessed returns rises significantly in the 2005-06 fiscal as about Tk 228 crore is paid till the last date for submission of the returns.
November 01	☐	Ministries will have to work out a performance indicator under the medium term budget framework (MTBF) to promote transparency and accountability as the future allocations are to be made on the basis of that indicator. The Finance Division sends a circular to 10 ministries asking them to prepare the performance indicator and their respective budget for the next three years.
November 02	☐	The Asia-Pacific Trade Agreement (APTA) is signed in Beijing to facilitate closer business ties and investment among member states. The existing Bangkok Agreement has been formally been transformed into APTA through this. Commerce Minister Altaf Hossain Choudhury signs the agreement on behalf of Bangladesh, while the commerce ministers of China, India, Sri Lanka, South Korea and Laos sign the accord at the first meeting of the APTA council of ministers.
	☐	The Power Division seeks $150 million from the ADB for renting mobile power plants on an emergency basis, a week after it seeks the same amount from the WB.
	☐	The cabinet approves three draft agreements to be signed at the SAARC summit scheduled to be held in Dhaka on November 12-13, including agreements on establishment of a SAARC arbitration council, avoidance of double taxation, and mutual administrative assistance in customs operations.
	☐	The BB seeks assistance from the South Asia Enterprise Development Facility (SEDF) for capacity building of the officials of non-banking financial institutions to ensure compliance of its core risk management guidelines. The central bank also circulates the guidelines to the NBFIs with the objective to improve risk management, and establish minimum standards for segregation of duties and responsibilities.
	☐	The government approves the draft Public Procurement Act 2005 that aims at ensuring transparency in government purchase at a regular cabinet meeting.
November 07	☐	The WB cancels loans worth Tk 6.8 crore against three projects in health and local government sectors on grounds of corruption and asks the government to refund the money already spent against these loans. A WB press release also demands punishment of officials involved in the corruption.
	☐	The ADB aims to help alleviate rural poverty in Bangladesh through a new US$42.5 million loan for an Agribusiness Development Project to stimulate commercial activities in the farming sector. The project will provide a $36 million credit line that will allow about 28,000 small-scale agribusinesses throughout the country's rural areas to access loans ranging to $5,000 from reputable and experienced NGOs and wholesale banks to promote agribusiness investment and expansion.
	☐	Two members of a European Union inspection team arrive in Dhaka to look into the prevailing standards of Bangladesh shrimp industry.
	☐	In a bid to make the country's monetary strategy transparent, Bangladesh decides to issue regular monetary policy statements as well as policy reviews on a half-yearly basis.
November 08	☐	The government decides to conduct an internal investigation into the alleged irregularities in the tender process in three projects after the WB announces withdrawal of funds amounting to Tk 6.8 crore from the projects.
November 09	☐	The SAARC standing committee sits in Dhaka to finalise the draft of the four conventions to be signed during the forthcoming summit. This deals with a proposal seeking empowerment

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	of the secretariat of the SAARC and is expected to give more authority to its secretary general for smooth SAARC functioning.
November 10	☐ India decides to grant duty-free access to Bangladeshi ceramic and dairy products, and to remove some specific duties on 204 out of 271 tariff lines in textiles and garments under SAFTA.
	☐ The government forms a five-member cabinet committee with LGRD and cooperatives minister Abdul Mannan Bhuiyan at the helm to review the proposed public procurement act, 2005.
	☐ The Japanese and the Bangladesh government sign an agreement concerning Japan's grant aid worth about Tk 400 million (40 crore) for portable steel bridges.
November 12	☐ Leaders of seven South Asian countries begin a two-day summit in Dhaka to ratify plans to reduce trade barriers starting from January and to promote economic development in the region which is hope to half the world's poor.
November 13	☐ The WB decides to defer tabling the issue of clearing the $200 million third tranche of its Development Support Credit (DSC) to Bangladesh at its board meeting since the cabinet is yet to approve the draft Public Procurement Law (PPL).
	☐ SAARC members sign three major agreements, all for facilitating intra-regional trade, as the seven South Asian countries are going to launch a free trade area next year.
	☐ The SEC disposes of more investors' complaints against listed companies and brokers/dealers in the last fiscal year compared to the previous year. In the fiscal year 2004-05, the SEC disposes 48.57 per cent of the total complaints while the figure is 19.78 per cent in 2003-04. On the other hand, the number of complaints also reduces to 105 in the last fiscal from 182 in 2003-04.
	☐ Pakistani Prime Minister Shaukat Aziz says his country would like to enter into a Free Trade Agreement (FTA) with Bangladesh.
	☐ The government contemplates to add a new system to import procedure, technically called *"carriage paid to"*. This will allow importers to bring goods from foreign countries paying entire freight charges in advance and to open letters of credits or prepare import bills mentioning the value of goods and shipment charges.
November 14	☐ A three-day meeting with the development partners begins to review the financing and implementation process of the PRSP.
	☐ The NBR steps up its hunt, and launches several drives recently to track down the black money holders. The Central Intelligence Cell of NBR conducts a number of searches including investigating personal accounts and suspicious monetary transactions to noose illegal money holders on its list.
	☐ The government is to undertake a project, costing about Tk 90 crore, for increasing surveillance and strengthening emergency preparedness for Avian Influenza. The fisheries and livestock ministry informs the Economic Relations Division about the need for such a project and asks it to select a donor for financing it.
November 15	☐ The meeting between the donors and the government on the PRSP focuses on corruption, rise of militancy, procurement law and governance. Prime Minister Khaleda Zia addresses the inaugural session at Hotel Sonargaon. Donors emphasise on immediate passage of procurement law which was expected to help prevent misuse of the development fund.
	☐ Donors inform the government if it fails to eliminate corruption and violence, and to bring transparency in governance and improve it, it would be difficult for them to continue assisting Bangladesh. This was stated at the opening day of the three-day Poverty Reduction Strategy (PRS) Forum in the city.
November 16	☐ Donors ask the government to chalk out a road map for PRSP implementation up to the next

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	general election and propose developing a joint government-donor mechanism for monitoring and evaluation.
	□ The government and the ADB are expected to sign a $3 million loan deal in December to finance a project that aims to improve governance and enhance capacity of the capital market and insurance industry.
November 17	□ At the three-day PRSP Implementation Forum Meeting (PIFM) in Dhaka, donors tell the government that they want to see immediate trial and publicity of some serious corruption cases to make people realise that graft would be dealt with strictly. The government and the development partners formulate an 11-point action plan for implementing the PRSP for the next 12 months.
	□ BB tightens the large loan rules asking the commercial banks to submit statement on big borrowers on monthly basis instead of quarterly basis. This was to be implemented with immediate effect.
November 21	□ According to the WB's annual "Global Economic Prospects" (GEP) report for 2006 remittance inflow helps Bangladesh to reduce its poverty by six per cent.
November 23	□ The IMF calls upon the government to go for another round of price hike in fuel, gas, electricity and fertiliser to ease an increasing pressure on the budget and foreign exchange reserve. This was made at a wrap-up meeting on the $75 million worth fifth installment of the Poverty Reduction Growth Facility (PRGF) and a $25 million second tranche of Trade Integration Mechanism (TIM) loan.
November 24	□ The IMF calls upon the government to further tighten its monetary policy, limit non-concessional borrowing and reduce public expenditure in order to ease inflation and the pressure on foreign exchange reserve. The IMF advises the government to expedite trade liberalisation and the reforms in tax administration and nationalized commercial banks (NCBs).
November 26	□ The government permits Bangladesh Association of International Recruiting Agencies (BAIRA) to send trained female domestic workers to all the Middle Eastern countries on an experimental basis for six months under a set of conditions regarding pre and post migration management.
	□ French trade commissioners working in South Asia urges Bangladeshi entrepreneurs to join hands with medium size French companies to reap benefits of technology transfer in potential areas such as telecommunications, information and communication technology (ICT), energy, textiles and agro-processing. The trade officials are in Dhaka for the first time to attend their yearly meeting on the sidelines of "French Days 2005".
November 28	□ The pending fourth round of negotiations between the government and TATA Group is deferred to the third week of December to allow a breathing space for completing the ongoing studies on the Indian conglomerate's $3 billion investment initiative.
November 29	□ Top executives of TATA assure the recent rise of militancy in Bangladesh will not discourage them to go ahead with the planned $2.5 billion investment as terrorism is now a global problem.
December 01	□ In a major effort to promote regional trade, the seven South Asian countries finalise the agreement on Free Trade Area, which is to come into effect from January 1.
December 02	□ The WB approves the $200 million third tranche of Development Support Credit (DSC) to Bangladesh, which is deferred following the cabinet's foot-dragging in clearing a draft Public Procurement Law, a major conditionality for the loan.
December 03	□ The WB asks the government to implement a 10-point action plan and sets a deadline. This includes suspension of Rupali Bank's share trading to expedite the reforms of nationalised commercial banks (NCBs).

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December 05	□ Microsoft will train over 10,000 teachers and 200,000 students in information technology in Bangladesh in next three years and has already donated $100,000 to this end. A MoU to this effect is signed during a 12-hour visit by Microsoft Chairman and Chief Architect Bill Gates to Bangladesh.
	□ The NBR plans to introduce uniform taxpayers' identification system to curtail tax evasion, forming a technical committee comprising information technology experts.
December 07	□ The cabinet committee on the government purchase approves five proposals, including procurement of 50,000 tons of urea fertiliser, addendum of consultant services for coordinated strategic transport plan for Dhaka city, tender for construction of main building of National Institute of Neuroscience at Sher-e-Bangla Nagar, amendment to consultancy contract for implementation of pre- metering pilot project with the German grant in Chittagong and increasing power generation capacity of Sumit Power Limited under the private sector at Savar.
December 08	□ In a bid to encourage more local and foreign investors, the government considers developing special economic zones (SEZs), which will accommodate both export-oriented and non-export oriented industrial units.
	□ BB agrees in principle to provide a $150-million fund for two power plants in Bangladesh on the condition that contractors will be appointed for operation and maintenance of the plants for six years.
	□ BB is to take some special measures to augment the inflow of remittance by expediting the transfer process and reducing the cost involved under a British government-assisted three-year scheme that the central bank will start implementing from January 2006.
	□ ADB is to lend $3 million for a project to improve governance and enhance capacity of the capital market and insurance sector.
December 11	□ The UK DFID is to give Bangladesh a grant of £57.5 million to provide the poor with low cost electricity in rural areas and arrange hassle free transfer of remittance with less charge.
	□ Bangladesh is to receive US$10 million as mixed credit from Norwegian Agency for Development for developing the country's power sector. An agreement to this effect is signed between the governments of Bangladesh and Norway at a function at the Economic Relations Division (ERD) of the Planning Commission.
December 12	□ The WB expresses its interest to provide financial and infrastructure supports to Bangladesh in enhancing the security of judges and court premises.
	□ China grants zero tariff access to 84 Bangladeshi products under the Asia Pacific Trade Agreement with effect from January 1, 2006.
December 13	□ ADB offers to help develop South Asia's transport and energy infrastructure with Bangladesh playing a pivotal role as a sub-regional hub to assist in programmes for stepping up regional economic cooperation.
	□ Prime Minister Khaleda Zia, at the inaugural ceremony of the second Bangladesh Knitwear Exposition 2005 at Dhaka Sheraton hotel, announces that the government will allow knitwear manufacturers to import yarn from India through Benapole land port.
	□ The sixth ministerial conference of the World Trade Organisation (WTO) starts at Hong Kong.
December 15	□ Bangladesh signs a loan agreement with International Development Association (IDA), the lending window of the WB Group, to receive US$ 200 million under the third phase of Development Support Credit (DSC).
	□ The UNDP will invest Tk 300 crore in the next four years for the development of the CHT. Under a joint programme on *'Promotion of Development and Confidence Building in the Chittagong*

Date		Macroeconomic Events
		Hill Tracts", the government and the UNDP in cooperation with the donor partners will implement the project.
December 17	☐	BB makes lending risk analysis mandatory for all lending equivalent to Tk 1 crore and above for both fresh and renewal cases, giving the banks the authority to fix the interest rates and other conditions based on risk factors.
December 18	☐	The foreign ministers of the seven-member BIMSTEC arrive in Dhaka to attend the eighth ministerial meeting.
	☐	Bangladesh is to receive 220 million Danish Kroner (about Tk 2,404.31 million) as grant from Denmark for Human Rights and Good Governance (HRGG) Programme Phase-II under an agreement signed in Dhaka.
December 19	☐	The 8th Ministerial Meeting of the BIMSTEC, attended by the foreign ministers of Bangladesh, Bhutan, India, Myanmar, Nepal, Thailand and Sri Lanka, reaffirms their commitment to create a suitable environment for seven new areas of cooperation. These areas are: poverty alleviation, agriculture, cultural cooperation, terrorism and transnational crimes, environment and disaster management, public health and people-to-people contacts. The commitment includes making the agreement on trade in goods effective from July 1, 2006.
	☐	The Danish government grants Tk 5.2 crore under its Private Sector Development Programme for establishing an export-oriented production unit of elastic knitwear garments.
December 20	☐	ADB is to provide more than Tk 5.0 billion (500 crore) equivalent to about 77.7 million US dollars for installing two new power plants with a total generation capacity of 240 mw at Siddhirganj by 2008. The rest of the total project cost estimated at 120 million US dollar, will be provided by the government.
	☐	Bangladesh is to receive about Tk 2.0 billion (Tk 200 crore) equivalent to US$ 30 million from the United Nations Fund of Population Assistance (UNFPA) over the next five years beginning in January 2006.
December 21	☐	BB issues revised guidelines for loan classification under consumer and small financing to minimise lending risks. The banks will now have to classify eight categories, instead of four, under the aforesaid two types of loans to identify good and bad borrowers. These categories are: superior, good, acceptable, marginal, special mention, sub-standard, doubtful, and bad and loss.
December 22	☐	The NBR plans to establish a separate audit cell with the aim to bring its entire revenue auditing system under one roof.
December 23	☐	Bangladesh decides to shut down its information communication technology (ICT) business promotional centre in Silicon Valley, California after failing to achieve desired outcomes from this initiative over the last two and a half years.
December 24	☐	The government in association with the World Food Programme (WFP) is to devise a medium-term "country programme" with the basic objective of reducing poverty through minimising the food insecurity. The programme aims to help attain the objectives of the country's PRS and the Millennium Development Goals (MDGs).
December 26	☐	The government initiates a three-year action plan to increase production of spices towards import substitution. Minister for Agriculture MK Anwar announces this at a launching ceremony.
	☐	The government initiates a project, "National Agricultural Technology Development Project", to strengthen research and extension activities of the agricultural sector. The WB is to provide necessary financial support for the initiative, which is expected to boost the country's food production.

Date		Macroeconomic Events
	□	The cabinet ratifies the SAFTA to pave the way for enforcement of the treaty by January 2006.
	□	The cabinet forms a committee, headed by Health Minister Khandaker Mosharraf Hossain, to review energy ministry's policy on carrying out seismic survey for the purpose of inviting third round bidding for deep-sea hydrocarbon exploration.
December 27	□	A National Negotiating Multi-stakeholders Committee is to be formed shortly to extract benefits from the recently concluded WTO Hong Kong Ministerial. Commerce Minister Altaf Hossain Choudhury states this at a dialogue on "WTO Hong Kong Ministerial: Lessons for Bangladesh" organised jointly by the Centre for Sustainable Development (CFSD) and FBCCI at the Press Institute of Bangladesh (PIB) in Dhaka.
December 28	□	The government decides to disburse Tk 660 million to fertiliser importers out of the total outstanding subsidy worth Tk 970 million for the previous fiscal. The decision is taken at an interministerial meeting held at the NEC auditorium chaired by Finance Minister M Saifur Rahman.
December 29	□	Sixteen more state owned enterprises (SOEs) are to be handed over to private sector in the remaining six months of FY2005-06. Privatisation Commission (PC) Chairman Enam Ahmed Chowdhury mentions that the ongoing privatisation process is expected to keep pace next year.
	□	BB issues a new circular stating cash transactions amounting to Tk 0.50 million that was earlier considered as suspicious transaction will be considered as normal. BB asks banks operating limited number of branches to submit reports on CTR reports from January next. Large banks that operate a good number of branches across the country, but do not have online banking system have been given 3 months time to develop online banking system and to submit CTR reports.
	□	The government is to set up 19 working groups drawing representatives from public and private sectors and development partners to monitor the implementation process of the anti-poverty strategy.

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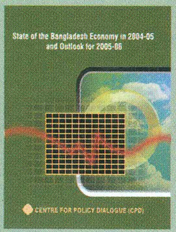

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